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Reserve Bank of India (Small Finance Banks - Concentration Risk Management) Directions, 2025

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Introduction

The concentration of a bank's exposures to a single borrower or a group borrower poses significant risks. The Reserve Bank of India (RBI), recognizing the imperative of robust risk management, therefore introduced prudential exposure limits in March 1989. These limits restricted banks' exposures to individual borrower and group borrowers to a certain percentage of capital funds, laying the foundation for mitigating concentration risk on assets side of their balance sheets. Cognizant of the concentration risk on the liability side of the balance sheet, the RBI introduced Prudential Limits for Inter-Bank Liabilities in 2007 further strengthening its comprehensive approach on concentration risk management. In addition to the prudential measures on concentrations to counterparties, and recognizing the need for sectoral diversification, the RBI has also mandated regulatory exposure limits for capital market exposures and advised banks to establish their own sector-specific thresholds for other sectors.

Accordingly, in exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

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

2. These Directions shall come into effect immediately upon issuance.

B. Applicability

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

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them in the ensuing paragraphs.

(1) "**Aggregate Sanctioned Credit Limit**" or "**ASCL**" means the aggregate of the fund-based credit limits sanctioned or outstanding, whichever is higher, to a borrower by the banking system. ASCL would also include unlisted privately placed debt with the banking system.

Provided that ECB and Trade Credit raised from overseas branches of an Indian bank will count towards ASCL.

Explanation: A borrower is free to raise its funding needs from any source at any level and will not have any restriction on tapping the market mechanism for its funding needs before it reaches the ASCL.

(2) "**Banking system**" means all banks in India, including RRBs and co-operative banks and branches of Indian banks abroad.

(3) **"Capital Funds for exposure norms**" shall comprise Tier I and Tier II capital as defined in the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025, and as per the published accounts as on March 31 of the previous year. However, the infusion of capital under Tier I and Tier II, either through domestic or overseas issue, after the published balance sheet date will also be taken into account for determining the exposure ceiling. Other accretions to capital funds by way of quarterly profits, etc., would not be eligible to be reckoned for determining the exposure ceiling. Banks are also prohibited from taking exposure in excess of the ceiling in anticipation of infusion of capital at a future date.

(4) "**Exposure**" shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding as the exposure. The credit exposure, investment exposure and exposure for derivative products shall be reckoned as under:

(i) "**Credit Exposure**" comprises all types of funded and non-funded credit limits, and facilities extended by way of equipment leasing, hire purchase finance and factoring services.

(ii) "**Investment Exposure**" comprises the investments in shares and debentures of companies, PSU bonds, and Commercial Papers (CPs).

Explanation:

(a) A bank's investment in debentures / bonds / security receipts / pass-through certificates (PTCs) issued by a Securitisation Company (SC) / Reconstruction

Company (RC) as compensation consequent upon sale of financial assets shall constitute exposure on the SC / RC.

(b) The investment made by a bank in bonds and debentures of corporates which are guaranteed by an RBI Regulated Entoty shall be governed by the Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025.

(iii) "**Credit Exposure of Derivative Products**" is the credit exposure arising on account of the interest rate and foreign exchange derivative transactions and gold. For the purpose of exposure norms, a bank shall compute its credit exposure of derivative products using the 'Current Exposure Method', as prescribed in the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

(5) **"Group"**

(i) For the purpose of exposures other than intragroup exposures, Group shall have the following definition.

(a) The concept of 'Group' and the task of identification of the borrowers belonging to specific industrial groups is left to the perception of the bank/financial institution. The bank / financial institution is generally aware of the basic constitution of its clientele for the purpose of regulating its exposure to risk assets. The group to which a particular borrowing unit belongs, may, therefore, be decided by it on the basis of the relevant information available with it, the guiding principle being commonality of management and effective control. In so far as public sector undertakings are concerned, only single borrower exposure limit would be applicable.

(b) In the case of a split in the group, if the split is formalised the splinter groups will be regarded as separate groups. If a bank and financial institution has doubts about the bona fides of the split, a reference may be made to RBI for its final view in the matter to preclude the possibility of a split being engineered in order to prevent coverage under the Group Approach.

(ii) For the purpose of intragroup transactions and exposures, 'Group' shall have the following definition:

(a) "**Group**" may be defined as an arrangement involving two or more entities related to each other through any of the following relationships (subsidiary, associate, joint venture and related party as defined in the applicable accounting standards) and a 'group entity' as any entity involved in this arrangement.

Explanation: Entities defined under Group for a Small Finance Bank shall be subject to the Licensing Conditions and other regulatory restrictions on them.

(b) **Entities considered under the definition of 'Group Entities'**

i. Subsidiary – Parent.
ii. Associate.
iii. Joint Venture.
iv. Related Party (including structures such as SPV / SIV / conduits based upon the actual ownership / control / significant influence / beneficial interest).
v. Direct or indirect ownership of 20 per cent or more interest in the voting power of the enterprise. If exercise of voting power is restricted by statutory / regulatory provisions or other arrangements, then the actual ownership will be the determining factor.
vi. Common brand name.
vii. Promoters of bank (Promoters and Promoter Group as defined in the Reserve Bank of India (Small Finance Banks – Licensing) Guidelines, 2025).
viii. Non-Operative Financial Holding Company (NOFHC) of bank.
ix. An entity which has any of the first six relations, as above, with the promoters / NOFHC and their step-down entities.

(c) **Entities Exempted from the Definition of 'Group Entities'**

i. As the ownership of Public Sector Banks (PSBs) lies with the Government of India, all PSBs could be treated as group entities. However, the Government being a sovereign, its role as promoter and owner of the PSBs would not cause these entities to be treated as group entities. The other relationships as defined in the paragraphs 4(5)(ii)(a) and 4(5)(ii)(b) may, however, be applicable for identifying entities of each public sector banking group separately.
ii. Entities that are promoted by a financial sector intermediary including a bank to undertake financial market infrastructure activities would not be treated as group entities. Such institutions could be depositories, exchanges, clearing and settlement agencies, etc. that are supervised and regulated by the

respective financial sector regulators. Exposures of a bank to these entities shall be subject to the extant exposure limits stipulated by the RBI.

(6) "**Market instruments**" shall include bonds, debentures, redeemable preference shares and any other non-credit liability, other than equity.

(7) "**Net worth**" shall comprise Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets. No general or specific provisions should be included in computation of net worth. Infusion of capital through equity shares, either through domestic issues or overseas floats after the published balance sheet date, may also be taken into account for determining the ceiling on exposure to capital market. Banks should obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the RBI (Department of Supervision) before reckoning the additions, as stated above.

(8) "**Normally Permitted Lending Limit**" **or** "**NPLL**" means 50 per cent of the incremental funds raised by the specified borrower over and above its ASCL as on the reference date, in the financial years (FYs) succeeding the FY in which the reference date falls. For this purpose, any funds raised by way of equity shall be deemed to be part of incremental funds raised by the specified borrower (from outside the banking system) in the given year.

Provided that where a specified borrower has already raised funds by way of market instruments and the amount outstanding in respect of such instruments as on the reference date is 15 per cent or more of ASCL on that date, the NPLL will mean 60 per cent of the incremental funds raised by the specified borrower over and above its ASCL as on the reference date, in the financial years (FYs) succeeding the FY in which the reference date falls.

Explanation: If a borrower becomes a 'specified borrower' during the last quarter of the FY 2016-17, say on March 31, 2017, then the disincentive mechanism will be applicable from April 1, 2017, for any borrowing from the banking system beyond the NPLL.

(9) "**Qualifying Central Counterparty**" or "**QCCP**" is an entity that is licensed to operate as a central counterparty (CCP), including a license granted by way of confirming

an exemption, and is permitted by the appropriate regulator / overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator / overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

(10) “**Reference date**” means the date on which a borrower becomes a ‘specified borrower’.

(11) “**Specified borrower**” means a borrower having an ASCL of more than ₹10,000 crore at any time.

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

Chapter II - Role of the Board

6. A list of the Board approved policies / limits to be formulated / set by the bank as well as reviews to be carried out by / put up to the Board are given below, with the details outlined in the ensuing paragraphs.

(1) **Board-approved policies and limits**

(i) Policy to determine the size of the exposure to NABARD.

(ii) Limits for aggregate commitments to specific sectors, e.g. textiles, jute, tea, etc., so that the exposures are evenly spread over various sectors. These limits could be fixed by the banks having regard to the performance of different sectors and the risks perceived.

(iii) Limits in respect of various sub-segments under consumer credit, particularly limits for unsecured consumer credit exposures.

(iv) Policy for fixing intra-day exposure limits to the capital markets.

(v) Limits for outstanding lending transactions in the call / notice / term money market within the exposure limits prescribed for single / group obligors.

(vi) Policy on monitoring and management of intra-group transactions and exposures (ITEs).

(vii) Internal Ceiling, within the regulatory prescribed ceilings, for capital market exposure.

(viii) Country exposure limits in relation to the bank's regulatory capital (Tier I + Tier II) with sub-limits, if considered necessary for products, branches, maturity, etc.

(ix) Regional exposure limits for country groups, at the discretion of its Board.

(2) Review by / reporting to the Board - The following reviews and reporting shall be put up / made to the Board:

(i) Material ITEs.

(ii) Dealings with group entities inconsistent with benchmarks set for third party / non-group entities.

(iii) An annual review of the implementation of exposure management measures before the end of June.

(iv) The limits towards specific, at periodicity as necessary.

Chapter III - Enhancing Credit Supply for Large Borrowers through Market Mechanism

A. Scope of application

7. The instructions provide a framework for addressing the concentration risk in the banking system arising from exposures to a single counterparty. The bank shall exercise due diligence while deciding the normally permitted lending limits for a single borrower to ensure that borrowers do not circumvent the aggregate sanctioned credit limit criteria by borrowing through dummy / fictitious group companies.

B. Prudential Measures

8. Incremental exposure of the banking system to a specified borrower beyond NPLL shall be deemed to carry higher risk, which shall be recognised by way of additional provisioning and higher risk weights as under.

(1) Additional provisions of three percentage points over and above the applicable provision on the incremental exposure of the banking system in excess of NPLL, which shall be distributed in proportion to each bank's funded exposure to the specified borrower.

(2) Additional Risk weight of 75 percentage points over and above the applicable risk weight for the exposure to the specified borrower. The resultant additional risk weighted exposure, in terms of risk weighted assets (RWA), shall be distributed in proportion to each bank's funded exposure to the specified borrower.

Note: For the purpose of determining exposure beyond NPLL, subscription by the banking system to market instruments shall be included.

Explanation: Additional risk weight on incremental exposure merely on account of a borrower being classified as a specified borrower, should not normally result in change in credit rating.

9. Restructured accounts, where cut off ASCL is achieved / likely to be achieved due to additional finance extended under a restructuring scheme, in terms of the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025, should not be subjected to disincentive mechanism for the incremental exposure.

Chapter IV - Exposure Norms

A. Exposure limits

A.1 Exposure limits for single and group obligors, and loan portfolio

10. A bank's credit and investment exposure to a single and group obligor shall not be higher than 10 per cent and 15 per cent of its capital funds, respectively.

11. Additionally, the bank shall ensure that at least 50 per cent of its loan portfolio should constitute loans and advances of up to ₹ 25 lakh on an ongoing basis. For assessing compliance with this requirement, the entire loan portfolio of the bank, as on the date of commencement of operations, would be considered and not just the fresh loans disbursed after the commencement of operations. Further, the criteria of upper limit of ₹ 25 lakh shall be borrower wise.

Note: The terms 'borrower' and 'obligor' have been used interchangeably in these Directions.

A.2 Exposures to and among certain specific counterparties

A.2.1 Exposures to Central Counterparties

12. A bank's exposures to QCCPs related to clearing activities shall be exempted from the exposure ceiling of 10 per cent of its capital funds applicable to single obligor. Clearing exposure would include trade exposure and default fund exposure as defined in the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025. Other exposures to QCCPs such as loans, credit lines, investments in the capital of CCP, liquidity facilities, etc. will continue to be within the existing exposure ceiling of 10 per cent of capital funds to a single obligor.

13. A bank's exposure to non-QCCPs shall be subject to the exposure ceiling of 10 per cent of its capital funds applicable to single obligor.

A.2.2 Exposures to NBFCs

A.2.2.1 Exposure to an NBFC excluding gold loan company

14. A bank's loan size and investment exposure to a single NBFC and group NBFC obligor shall not be higher than 10 per cent and 15 per cent of its capital funds, respectively.

A.2.2.2 Exposure to an NBFC predominantly engaged in lending against collateral of gold jewellery

15. A bank's exposure to a single NBFC which is predominantly engaged in lending against collateral of gold jewellery (hereafter referred to as 'gold loans') i.e. such loans comprising 50 per cent or more of its financial assets, shall not exceed 7.5 per cent of the bank's capital funds.

A.3 Lending under Consortium Arrangements

16. The exposure limits shall also be applicable to lending under Consortium / Multiple Banking / Syndication Arrangements.

A.4 Bills discounted under Letter of Credit (LC)

17. In cases where the bills discounting / purchasing / negotiating bank and LC issuing bank are different entities, bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve'), will be treated as an exposure on the LC issuing bank and not on the third party / borrower. 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 should be taken on the third party / borrower and not on the LC issuing bank. In the case of negotiations 'under reserve', the exposure should be treated as on the borrower.

A.5 Exemptions

A.5.1 Food credit

18. Borrowers, to whom limits are allocated directly by the Reserve Bank for food credit, will be exempt from the ceiling.

A.5.2 Guarantee by the Government of India

19. The ceilings on single / group exposure limit would not be applicable where principal and interest are fully guaranteed by the Government of India.

A.5.3 Loans against Own Term Deposits

20. Loans and advances (both funded and non-funded facilities) granted against the security of a bank's own term deposits should not be reckoned for computing the exposure to the extent that the bank has a specific lien on such deposits.

A.5.4 Exposure on NABARD

21. The ceiling on single / group borrower exposure limit will not be applicable to exposure assumed by a bank on NABARD. The bank is free to determine the size of the exposure to NABARD as per the policy framed by its Board of Directors. However, there shall not be any exemption from the prohibitions relating to investments in unrated non-SLR securities prescribed in terms of the Reserve Bank of India (Small Finance Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025.

B. Exposure to Industry and certain Sectors

B.1 Internal Exposure Limits

B.1.1 Fixing of Sectoral Limits

22. In addition to limiting exposures to a single or group borrowers, a bank shall consider fixing internal limits for aggregate commitments to specific sectors, e.g. textiles, jute, tea, etc. to ensure diversified sectoral exposure. These sectoral limits shall be fixed based on the bank's assessment of sectoral performance and associated risk perceptions. The bank shall review and revise these limits periodically, as deemed appropriate.

23. A bank shall have Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Board as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee.

24. All top-up loans extended by a bank against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

B.1.2 Exposure to NBFC Sector

25. A bank may also consider fixing internal limits for its aggregate exposure to all NBFCs put together.

26. The bank should have an internal sub-limit on its aggregate exposures to all NBFCs, having gold loans to the extent of 50 per cent or more of their total financial assets, taken together. This sub-limit should be within the internal limit, where fixed by the bank for its aggregate exposure to all NBFCs put together as mentioned in paragraph 25.

B.1.3 Exposure to Real Estate

27. A bank shall be guided by the Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025.

B.1.4 Bank's Exposure to Capital Markets – Rationalisation of Norms

B.1.4.1 Components of Capital Market Exposure (CME)

28. A bank's capital market exposures shall include both its direct exposures and indirect exposures. The aggregate exposure (both fund and non-fund based) of the bank to capital markets in all forms shall include the following:

(1) a bank's direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;

(2) advances by a bank against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;

(3) advances by a bank for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;

(4) advances by a bank for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds/convertible debentures / units of equity oriented mutual funds does not fully cover the advances;

(5) secured and unsecured advances by a bank to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;

(6) loans sanctioned by a bank to corporates against the security of shares / bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;

(7) bridge loans to companies by a bank against expected equity flows / issues;

(8) underwriting commitments taken up by the bank in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;

(9) financing by a bank to stockbrokers for margin trading;

(10) a bank's all exposures to Alternate Investment Funds ; and

(11) Irrevocable Payment Commitments issued by a custodian bank in favour of stock exchanges.

B.1.4.2 Limits on a bank's Exposure to Capital Markets

B.1.4.2.1 Statutory limit on shareholding in companies

29. In terms of Section 19(2) of the Banking Regulation Act, 1949, no banking company shall hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 per cent of the paid-up share capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less, except as provided in sub-section (1) of Section 19 of the Act. Shares held in demat form should also be included for the purpose of determining the exposure limit. This is an aggregate holding limit for each company. A bank shall strictly adhere to these statutory provisions while granting any advance against shares, underwriting any issue of shares, or acquiring any shares on investment account or even in lieu of debt of any company.

B.1.4.2.2 Regulatory Limit

B.1.4.2.2.1 Solo Basis

30. The aggregate exposure of a bank to the capital markets in all forms (both fund based, and non-fund based) shall not exceed 40 per cent of its net worth, as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to Alternate Investment Funds (AIFs) shall not exceed 20 per cent of its net worth.

B.1.4.2.2.2 Consolidated Basis

31. The aggregate exposure of a consolidated bank to capital markets (both fund based and non-fund based) shall not exceed 40 per cent of its consolidated net worth as on March 31 of the previous year. Within this overall ceiling, the aggregate direct exposure by way of the consolidated bank's investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to AIFs should not exceed 20 per cent of its consolidated net worth.

Explanation: For the purpose of application of prudential norms on a group-wise basis, a 'consolidated bank' is defined as a group of entities, which include a licensed bank, which may or may not have subsidiaries.

32. The above-mentioned ceilings (paragraphs 30 and 31) are the maximum permissible and a bank's Board of Directors is free to adopt a lower ceiling for the bank, keeping in view its overall risk profile and corporate strategy. A bank shall adhere the ceilings on an ongoing basis.

33. As indicated in the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025, the acquisition of shares due to conversion of debt to equity during a restructuring process, as permitted in the *Master Direction ibid*, will be exempted from regulatory ceilings / restrictions on Capital Market Exposures, investment in Para-Banking activities and intra-group exposure. However, these will require reporting to RBI (DoS, CO every month along with the regular DSB Return on Asset Quality) and disclosure by banks in the Notes to Accounts in Annual Financial Statements. Nonetheless, banks shall comply with the provisions of Section 19(2) of the Banking Regulation Act, 1949.

B.1.4.3 Items excluded from Capital Market Exposure of a bank

34. The following items should be excluded from the aggregate exposure ceiling of 40 per cent of net worth and direct investment exposure ceiling of 20 per cent of net worth (wherever applicable):

(1) A bank's investments in own subsidiaries, joint ventures, sponsored RRBs and investments in shares and convertible debentures, convertible bonds issued by institutions forming crucial financial infrastructure such as National Securities Depository Ltd. (NSDL), Central Depository Services (India) Ltd. (CDSL), NSE Clearing Limited (National Clearing), National Stock Exchange (NSE), Clearing Corporation of India Ltd., (CCIL), a credit information company which has obtained Certificate of Registration from RBI and of which the bank is a member, Multi Commodity Exchange of India Ltd. (MCX), National Commodity and Derivatives Exchange Ltd. (NCDEX), Indian Commodity Exchange Limited (ICEX), National Commodities Management Services Ltd. (NCML), National Payments Corporation of India (NPCI) and Bombay Stock Exchange (BSE) and other All India Financial Institutions as given in **Annex II**. After listing, the exposures in excess of the original investment (i.e. prior to listing) shall form part of the CME.

(2) Tier I and Tier II debt instruments issued by other banks.

(3) Investment in Certificate of Deposits (CDs) of other banks.

(4) Investment by a bank in Preference Shares.

(5) Investment by a bank in non-convertible debentures and non-convertible bonds.

(6) Investment by a bank in units of Mutual Funds under schemes where the corpus is invested exclusively in debt instruments.

(7) Shares acquired by a bank as a result of conversion of debt / overdue interest into equity under the Reserve Bank of India (Small Finance Banks – Resolution of Stressed Assets) Directions, 2025.

(8) Term loans sanctioned by a bank to Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries under the refinance scheme of EXIM Bank.

(9) A bank may exclude its own underwriting commitments, as also the underwriting commitments of its subsidiaries, through the book running process, for the purpose of arriving at the CME of the solo bank as well as the consolidated bank.

(10) Promoters shares in the SPV of an infrastructure project pledged to the lending bank for infrastructure project lending.

(11) A bank's exposure to brokers under the currency derivates segment.

B.1.4.4 Computation of exposure

35. For computing the exposure to the capital markets, loans / advances sanctioned and guarantees issued for capital market operations shall be reckoned with reference to sanctioned limits or outstanding, whichever is higher. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, a bank shall reckon the outstanding as the exposure.

36. The bank's direct investment in shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds shall be calculated at its cost price.

37. **Issue of Irrevocable Payment Commitments (IPCs):** Only a custodian bank, who has a clause in the Agreement with clients giving the bank an inalienable right over the securities to be received as pay out in any settlement, shall be permitted to issue IPCs in favour of Stock Exchange. This requirement applies to all IPCs issued by a custodian bank irrespective of the client on whose behalf the IPC has been issued. However, this clause

will not be insisted upon if the transactions are pre-funded i.e., either clear INR funds are available in the customer's account or, in case of FX deals, the bank's nostro account has been credited before the issuance of the IPC.

38. The computation of CME for T+2 rolling settlement (T being the Trade day) and T+1 settlement for equities cycle shall be as follows:

(1) T+2 settlement cycle

(i) The maximum intraday risk to the custodian bank issuing IPCs shall be reckoned as CME at 50 per cent, on the assumption of downward price movement of the equities bought by FIIs / Mutual Funds on the two successive days from the trade date (T) i.e., on T+1 and T+2, of 20 per cent each with an additional margin of 10 per cent for further downward movement.

(ii) The potential risk on T+1 shall be reckoned at 50 per cent of the settlement amount and this amount shall be reckoned as CME at the end of T+1 if margin payment / early pay in does not come in.

(iii) In case there is early pay in on T+1 (i.e., end of day (EOD) as per Indian Time), there will be no CME. Thus, funds received after EOD as per Indian Time, will not be reckoned as early pay-in on T+1. CME shall be computed accordingly.

(iv) In case margin is paid in cash on T+1, the CME would be reckoned at 50 per cent of settlement price minus the margin paid. In case margin is paid on T+1 by way of permitted securities to FIIs / Mutual Funds, the CME would be reckoned at 50 per cent of settlement price minus the margin paid plus haircut prescribed by the Exchange on the securities tendered towards margin payment.

(v) The IPC shall be treated as a financial guarantee and a Credit Conversion Factor (CCF) as applicable in terms of the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025, shall be applied. However, capital shall be maintained only on exposure which is reckoned as CME because the rest of the exposure is deemed to have been covered by cash / securities which are admissible risk mitigants. Thus, capital shall be maintained on the amount taken for CME and the risk weight thereon shall be in terms of the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025. As the nature of IPC remains the same irrespective of the client for whom / on whose behalf the IPC has been issued, the measures prescribed for IPCs will be applicable to all IPCs issued by a custodian bank.

(2) T+1 settlement cycle

(i) The maximum intraday risk to the custodian banks issuing IPCs would be reckoned as Capital Market Exposure (CME) at 30 per cent of the settlement amount. This is based on the assumption of 20 per cent downward price movement of the equities on T+1, with an additional margin of 10 per cent for further downward movement of price.

(ii) In case margin is paid in cash, the exposure will stand reduced by the amount of margin paid. In case margin is paid by way of permitted securities to Mutual Funds / Foreign Portfolio Investors, the exposure will stand reduced by the amount of margin after adjusting for haircut as prescribed by the Exchange on the permitted securities accepted as margin.

(iii) Under T+1 settlement cycle, the exposure shall normally be for intraday. However, in case any exposure remains outstanding at the end of T+1 Indian Standard Time, capital will have to be maintained on the outstanding capital market exposure in terms of the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025, as amended from time to time.

(iv) The underlying exposures of a bank to its counterparties, emanating from the intraday CME, will be subject to exposure limits prescribed in these Directions.

Explanation: If a client opts for margin funding and funds the margin on T+1 but has excess balance in his account at End of Day (EOD), setting off this balance against the IPC issued for the purpose of computation of CME is permitted only if the custodian banks have an inalienable right / right to set-off over this balance. Mere availability of funds in customer's account is not sufficient condition for setting off against liability of the IPC issued.

B.1.4.5 Intra-day Exposures

39. The bank shall put in place a Board-approved policy for fixing intra-day exposure limits to the capital markets and establish an appropriate system for ongoing monitoring of such limits.

B.1.4.6 Enhancement in limits

40. A bank having sound internal controls and robust risk management systems can approach the RBI for higher limits together with details thereof.

B.1.4.7 Exposure to Indian Joint Ventures / Wholly-owned Subsidiaries Abroad and Overseas Step-down Subsidiaries of Indian Corporates

41. A bank is allowed to extend credit / non-credit facilities (viz. letters of credit and guarantees) to Indian Joint Ventures / Wholly-owned Subsidiaries abroad and step-down subsidiaries which are wholly owned by the overseas subsidiaries of Indian Corporates. The bank is also permitted to provide at its discretion, buyer's credit / acceptance finance to overseas parties for facilitating export of goods & services from India. The above exposure will, however, be subject to a limit of 20 per cent of the bank's unimpaired capital funds (Tier I and Tier II capital) and would be subject to the conditions laid down in this regard in the Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025.

C. Financing of equities and investments in shares

42. The regulatory restrictions prescribed in the Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025 shall continue to apply on

(1) advances against shares to individuals;
(2) financing of Initial Public Offerings (IPOs);
(3) bank finance to assist employees to buy shares of their own companies;
(4) advances against shares to Stock Brokers & Market Makers;
(5) bank financing to individuals against shares to joint holders or third party beneficiaries;
(6) advances against units of mutual funds;
(7) bank loans for financing promoters' contributions; and
(8) margin trading.

C.1 Cross holding of capital among banks / Financial Institutions

43. A bank shall be guided by the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

C.2 Prudential Regulation for Banks' Investments

44. A bank shall be guided by the Reserve Bank of India (Small Finance Banks – Undertaking of Financial Services) Directions, 2025 in respect of its investments.

D. 'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.

D.1 ‘Safety Net' Schemes

45. A bank or its subsidiary shall not offer ‘Safety Net’ or any such facilities, which would entail commitments to buy the securities from the investors at a pre-determined price during a stipulated period, irrespective of the prevailing market price.

D.2 Provision of buy back facilities

46. If a bank or its subsidiary provides a buy back arrangement to small investors subscribing to new issues, such an arrangement shall not provide commitments to buy the securities at pre-determined prices. Prices should be determined from time to time, keeping in view the prevailing stock market prices for the securities. Commitments should also be limited to a moderate proportion of the total issue in terms of the amount and should not exceed 25 per cent of the owned funds of the bank / its subsidiary. These commitments shall also be subject to the overall exposure limits which have been or may be prescribed from time to time.

Chapter V - Prudential Limits on Intra-Group Transactions and Exposure

47. Exposure should include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments) as detailed in paragraph 4(4) of these Directions. However, exposure on account of equity and other regulatory capital instruments should be excluded while computing exposure to group entities.

48. A bank shall adhere to the following intra-group exposure limits:

(1) Single Group Entity Exposure

(i) five per cent of Paid-up Capital and Reserves in case of non-financial companies (e.g., entities undertaking non-financial activities to provide support (IT services, back-office support, etc.) to financial entities of the group) and unregulated financial services companies; and

(ii) 10 per cent of Paid-up Capital and Reserves in case of regulated financial services companies.

(2) Aggregate Group Exposure

(i) 10 per cent of Paid-up Capital and Reserves in case of all non-financial companies and unregulated financial services companies taken together; and

(ii) 20 per cent of Paid-up Capital and Reserves in case of the group i.e. all group entities (financial and non-financial) taken together.

A. Intra-group Exposures Exempted from the Prudential Limits

49. The following intra-group exposures would be excluded from the stipulated limits:

(1) A bank's exposure to other banks / financial institutions in the group in form of equity and other capital instruments are exempted from the limits stipulated in paragraph 48. However, the instructions issued vide the Reserve Bank of India (Small Finance Banks – Undertaking of Financial Services) Directions, 2025 and the Reserve Bank of India (Small Finance Banks – Prudential Norms on Capital Adequacy) Directions, 2025, shall continue to apply on such exposure, subject to the prohibitions stipulated at paragraph 50.

(2) Inter-bank exposures among banks in the group operating in India. However, prudential limits in respect of outstanding borrowing transactions in call / notice money market for a bank shall continue to be governed by Master Direction - Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2021. For outstanding lending

transactions in the call / notice / term money market, the limits shall be decided by the bank with the approval of its Board within the exposure limits prescribed for single / group obligors.

(3) Letters of Comfort issued by parent bank in favour of overseas group entities to meet regulatory requirements.

(4) Acquisition of shares due to conversion of debt to equity during a restructuring process subject to compliance with the provisions of Section 19(2) of the Banking Regulation Act, 1949.

B. Prohibited Exposures

50. Wherever a bank has been set-up under a NOFHC structure,

(1) The bank cannot take any credit or investments (including investments in the equity / debt capital instruments) exposure on NOFHC, its Promoters / Promoter Group entities or individuals associated with the Promoter Group.

(2) The bank cannot invest in the equity / debt capital instruments of any financial entities under the NOFHC.

C. Monitoring and Management of Intra-Group Transactions and Exposures (ITEs)

51. A bank shall put in place a Board-approved comprehensive policy on monitoring and management of ITEs. The policy should lay down effective systems and processes to identify, assess and report risk concentrations and material ITEs. While framing such policy, the Board shall take into consideration the risks posed to the bank on a standalone basis as a result of such intra-group activities and ensure that exposure to group entities are appropriately captured in measures of the bank’s exposures to group entities.

52. The policy should be reviewed at least annually. The policy should, at a minimum, include:

(1) System of regular review and reporting of material ITEs to the Board for facilitating clear understanding of the ITEs undertaken and the risks, if any, emanating there-from;

(2) A requirement that the bank should address risks arising from ITEs as strictly as it would address its risk exposures to a third party / non-group entity;

(3) Requirement that terms and conditions and credit standards of intra-group transactions are substantially the same, as those prevailing at the time for comparable transactions with or involving third party / non-group entities;

(4) The policy should specify the methodology to be followed for transfer pricing mechanism which could be applied to ensure the compliance of the arm's length principle;

(5) Procedures for resolving any conflict of interest arising from intra-group transactions and exposures;

(6) Requirements relating to the transparency of third-party dealings associated with group entities. As a general rule, the bank should not undertake third-party dealings with the purpose of supporting the business of group entities unless they are carried out at arm's length and in accordance with transfer pricing policy;

(7) The bank's material intra-group transactions (both fund-based and non-fund based) should be examined by its internal auditors and the same should be checked by statutory auditors on a sample basis to ascertain that intra-group transactions undertaken:

   (i) comply with arm's length principle,
   (ii) are not detrimental to the bank's interests,
   (iii) are not meant for transferring the low quality or lowly rated assets,
   (iv) are not a conduit for inappropriate transfer of capital / income to group entities, and
   (v) if resulting in breach of intra-group exposure norms, are promptly reported to the RBI in terms of paragraph 60(4) and

(8) Mechanism to ensure that ITEs do not lead to violation / circumvention of any regulatory, statutory or taxation laws.

53. Where the terms and conditions applying to a bank's dealings with group entities are inconsistent with the benchmarks set for the similarly rated third party / non-group entities as required under paragraph 52(3), they shall be put up to the Board by the sanctioning authority with justifications. The same may be made available to the RBI at the time of inspection or whenever required.

54. A bank shall not enter into cross-default clauses whereby a default by a group entity on an obligation (whether financial or otherwise) is deemed to trigger a default of the bank on its obligations.

55. The bank should not buy / sell low quality asset (i.e., asset overdue / out of order or classified as NPA by the bank or by RBI or a restructured asset whose terms have been renegotiated or compromised due to the deteriorating financial condition of the borrower) from / to group entities except when they are done in accordance with the extant instructions of RBI, such as sale of Non-Performing Assets (NPAs) to Asset Reconstruction Companies, etc. Further, a low-quality asset should not be accepted as collateral for a loan or extension of credit to, or guarantee, acceptance, or letter of credit issued on behalf of the group entity. The bank shall also ensure that the transactions in low-quality assets with group entities, whether regulated or unregulated, are not done for the purpose of hiding losses or window dressing of balance sheets.

56. The bank shall ensure that it has adequate systems and controls in place for identifying, monitoring, managing and reviewing exposures arising from ITEs. The RBI may require a bank to put in place additional internal controls and a more robust risk monitoring, managing, reporting and review mechanism on ITEs.

D. Arrangements for Providing Support within the Group

57. A bank may provide support to its group entities so long as such support is undertaken in accordance with the prudential requirements set out in above paragraphs in relation to the policies governing bank's dealings with group entities. Further, the bank should take ample and cautious measures to avoid giving any impression of its direct or indirect support to group entities unless there are formal legal arrangements in place providing for such support.

58. While assessing funding needs (especially under stressed situations), the bank should account for any funding or liquidity commitment provided to group entities (e.g. in the form of explicit guarantees or funding lines to be drawn in times of need) and prepare for any withdrawal of funding against those commitments by group entities. The bank shall be guided by the Reserve Bank of India (Small Finance Banks – Asset Liability Management) Directions, 2025. It should also analyse how the liquidity positions of group entities may affect its own liquidity, either through direct financial impact or through contagion when those entities are faced with liquidity crunch. Where there is reliance on

funding support among group entities, it should take into account legal, regulatory or other limitations that may restrict group entities access to liquidity from it and vice versa in case of need.

59. The bank should establish internal limits on intra-group liquidity support to mitigate the risk of contagion from other group entities when these entities are under liquidity stress. It may put in place group-wide contingency funding plans, liquidity cushions and diversified funding to help group entities when liquidity problems in the group arise in line with the guidelines referred to in paragraph 58.

E. Reporting

60. A bank shall submit the following data / information to the RBI (DOS, CO) in the format and at the frequency prescribed by the DoS.

(1) The bank shall prepare and submit a list of the group entities. The list shall include all group entities established and operating in India and those overseas entities with which it has material transactions (threshold for ‘material’ transaction would be ₹10 crore for fund-based transactions and ₹25 crore for non-fund based transaction) during last three financial years. Any exclusion and / or inclusion of group entities should be reported at the earliest.

(2) The bank shall submit the details of intra-group support arrangements / agreements (e.g. a specific guarantee of the obligations of an entity in the group or a letter of comfort).

(3) The bank shall operate within the stipulated limits on an ongoing basis and report its intra-group exposures.

(4) If the intra-group exposures, either at the single entity level or at the aggregate level, exceed the prudential limits, the same should be reported at the earliest as also in the prescribed returns along with the reasons for breach of limits. In such situations, the bank cannot undertake any further intra-group exposure (at the entity or aggregate level, as the case may be) until it is brought down within the limit. Further, the bank, on satisfactory grounds, may be allowed an appropriate timeline within which it should comply with the stipulated limits. Failure to comply with the intra-group exposure limit within the given timeline would result in deduction of excess exposure amount from Common Equity Tier 1 (CET1) capital of bank until the limits are restored (If the limits are breached on account of mark-to-market values of derivatives position, the excess exposure would not be deducted from CET1 capital for a period of three months from

the date of breach, Further, in case of a foreign bank, proprietary derivative transactions with parent and its overseas branches should also be taken into account while computing exposure). The frequent breaches may also lead to imposition of penalties on the bank by the RBI.

Chapter VI - Management of Country Risk Exposure

61. A bank shall refer to the Reserve Bank of India (Small Finance Banks – Credit Risk Management) Directions, 2025 for detailed instructions on Country Risk Management,

Exposure limits

62. The Board of a bank shall set country exposure limits in relation to the bank's regulatory capital (Tier I + Tier II) with sub-limits, if considered necessary for products, branches, maturity etc. The basis for setting the limits for the country / category shall be left to the discretion of the banks' Boards. The country exposure limits set by the Board shall be reviewed periodically, and in any case, at least once a year.

63. Exposure limit for any country shall not exceed its regulatory capital, except in the case of insignificant risk category. In respect of foreign banks, the regulatory capital shall be the capital (Tier I + Tier II) held in their Indian books.

Explanation: The country risk ratings for this purpose are covered in the Reserve Bank of India (Small Finance Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

64. A bank may also set up regional exposure limits for country groups, at the discretion of its Board. The Board shall decide on the basis for grouping of countries and also lay down the guidelines regarding all aspects of such regional exposure limits.

65. Reserve Bank may, if it becomes necessary, prescribe a prudential aggregate country exposure limit for the higher risk categories.

Exposure Values

66. Banks should reckon both funded and non-funded exposures from their domestic as well as foreign branches while identifying, measuring, monitoring and controlling country risks. In the case of foreign banks operating in India, the scope would be confined to their branches in India. An illustrative list of funded and non-funded exposures is furnished below:

Funded Exposures	**Non Funded Exposures**
• Cash balances • Bank balances	• Letters of Credit • Committed lines of credit

• Deposit placements • Investments • Loans and advances • Trade credits/receivables • Overdraft in Vostro Account • Remittances honoured under drawing arrangement • Other monetary assets	• Guarantees • Performance bonds, bid bonds, warranties. • Confirmation of LCs issued by foreign banks. • Commitments undertaken against the counter-guarantees of foreign banks.

67. Banks should take into account indirect country risk where its net funded exposure to a country is one per cent or more of its total assets. The bank is required to reckon such country risk exposures for measuring, monitoring and controlling with that country risk. For example, exposures to a domestic commercial borrower with a large economic dependence on a certain country may be considered as subject to indirect country risk. Indirect exposures may be reckoned at 50 % of the exposure for the purpose of these guidelines.

68. Exposures should be computed on a net basis i.e., gross exposure 'minus' collaterals, guarantees, insurance etc. Netting may be permitted for cash collaterals, bank guarantees and credit insurance available in/ issued by countries in a lower risk category than the country on which exposure is assumed.

Chapter VII - Prudential Limits for Inter-Bank Liabilities (IBL)

69. The regulatory instructions on prudential limits for inter-bank liabilities are covered in Reserve Bank of India (Small Finance Banks – Asset Liability Management) Directions, 2025.

Chapter VIII - Repeal and other provisions

A. Repeal and saving

70. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Concentration Risk Management applicable to Small Finance Banks stand repealed, as communicated vide circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

71. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

(1) any right, obligation or liability acquired, accrued, or incurred thereunder;
(2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
(3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

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

C. Interpretations

73. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Vaibhav Chaturvedi)
Chief General Manager

Annex - I

List of All-India Financial Institutions

[Investment in equity / convertible bonds / convertible debentures by banks - List of FIs whose instruments are exempted from Capital Market Exposure ceiling]

1. IFCI Ltd.
2. Tourism Finance Corporation of India Ltd. (TFCI)
3. IFCI Venture Capital Funds Ltd. (IFCI Venture)
4. Technology Development and Information Company of India Ltd. (TDICI)
5. National Housing Bank (NHB)
6. Small Industries Development Bank of India (SIDBI)
7. National Bank for Agriculture and Rural Development (NABARD)
8. Export Import Bank of India (EXIM Bank)
9. Life Insurance Corporation of India (LIC)
10. General Insurance Corporation of India (GIC)