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RESERVE BANK OF INDIA

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Reserve Bank of India (All India Financial Institutions – Credit Risk Management)
Directions, 2025

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Introduction

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

Accordingly, in exercise of the powers conferred by section 45L of the Reserve Bank of India Act, 1934 and all other provisions / laws enabling the Reserve Bank of India (hereinafter called the Reserve Bank) in this regard, Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby issues these Directions hereinafter specified.

Chapter I - Preliminary

A. Short title and Commencement

1. These Directions shall be called the Reserve Bank of India (All India Financial Institutions – Credit Risk Management) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to All India Financial Institutions ((hereinafter collectively referred to as 'AIFIs' and individually as an 'AIFI') viz. Export Import Bank of India ('EXIM Bank'), National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), and National Bank for Financing Infrastructure and Development (NaBFID).



C. Definitions

4. (1) In these Directions, unless the context otherwise requires,
- (i) 'Bank Guarantee' shall mean financial and performance guarantees issued by banks on behalf of their clients. A financial guarantee assures payment of money in the event of non-fulfilment of contractual obligations by the client. A performance guarantee provides assurance of compensation if there is delayed or inadequate performance on a contract. A deferred payment guarantee assures payment of instalments due to a supplier of goods.
 - (ii) 'Bills Purchased and Discounted' shall mean negotiable instruments that give the holder the right to receive stated fixed sums on demand or at a fixed or determinable future time. When a bank negotiates a bill payable on demand (sight bill) and provides funds to the holder, at a fee/ interest, the facility is referred to as bill purchase. When a bank negotiates bill payable after a usance i.e., at a fixed or determinable future time (usance bill) and provides funds to the holder, at a discount, the facility is referred to as bill discounting. Bills purchased and discounted can be Inland Bills and Foreign Bills. Inland Bills are Bills of Exchange drawn in India and paid in India to a person in India.
 - (iii) 'Letter of Credit (LC)' shall mean any arrangement how so ever named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation. An LC confirmed by a bank based and operating in another country is payable by the confirming bank.
 - (iv) 'Relative' shall include:
 - Spouse
 - Father
 - Mother (including step-mother)
 - Son (including step-son)
 - Son's Wife
 - Daughter (including step-daughter)
 - Daughter's Husband



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

(v) The term 'substantial interest' shall mean:

- a. in relation to a company, means the holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together, in the shares thereof, the amount paid-up on which exceeds ₹5 lakh or 10 per cent of the paid-up capital of the company, whichever is less;
- b. in relation to a firm, means the beneficial interest held therein by an individual or his spouse or minor child, whether singly or taken together, which represents more than 10 per cent of the total capital subscribed by all the partners of the said firm;

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



Chapter II - Board Approved Policies

5. An AIFI shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, inter-alia, cover aspects related to connected lending, legal entity identifier (LEI), filing of security interest, and restrictions on revolving credit facilities. The afore-mentioned specific aspects and other areas of concern which need to be addressed in such policies are also detailed in the relevant paragraphs of these Directions.



Chapter III - Connected Lending by all-India Financial Institutions (AIFIs)

A. Credit facilities to the Directors

6. In order to obviate the possibility of conflict of interest in the lending operations of the AIFIs, it has been decided in consultation with the Government of India that, with immediate effect, the An AIFI shall not:
- (1) grant any loan or advance on the security of its own shares; or
 - (2) enter into any commitment for granting any loan or advance to or on behalf of:
 - (i) any of its Directors, or
 - (ii) any firm in which any of its Directors is interested as Partner, Manager, Employee or Guarantor, or
 - (iii) any company (not being a subsidiary of the AIFI 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 AIFI is a Director, Managing Agent, Manager, Employee or Guarantor or in which he holds substantial interest, or
 - (iv) any individual in respect of whom any of its Directors is a Partner or a Guarantor.
7. For the purpose of this chapter, the term 'loans and advances' shall not include the transactions listed in paragraph 8 below. However, purchase or discount of bills from Directors and their concerns which are in the nature of clean accommodation would be reckoned as 'loans and advances' for the purpose of this chapter. For seeking the approval of Reserve Bank, as envisaged at sub-paragraphs 8 (3) and 8(4) below, the AIFI should make an application in PRAVAAH to the Reserve Bank.
8. The following transactions shall not be included in the term 'loans and advances'



for the purpose of restrictions in terms of this Chapter.

- (1) loans or advances to the AFC India Ltd.
- (2) such loans or advances made by an AIFI to any of its directors (who immediately prior to becoming a director, was an employee of the AIFI) in his capacity as an employee of that AIFI and on the same terms and conditions as would have been applicable to him as an employee of that AIFI, if he had not become a director of the AIFI.
- (3) such loans or advances granted by an AIFI to its Chairman and Chief Executive Officer, who was not an employee of the AIFI 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 the prior approval of RBI and on such terms and conditions as may be stipulated by it.
- (4) such loans or advances granted by a AIFI to its whole time director, for the purpose of purchasing a car, personal computer, furniture or constructing / acquiring a house for his personal use and Festival Advance, with the prior approval of RBI and on such terms and conditions as may be stipulated by it.
- (5) 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 LCs and issue of guarantees, purchase of debentures from third parties, etc.

B. Non-fund facilities on behalf of the Directors

9. As regards extending guarantees and establishing Letters of Credit (LCs) on behalf of an AIFI's own Directors, it is pertinent to note that in the event of default by the principal debtor in discharging his liability and consequently, the AIFI being called upon to honour its obligations under the guarantee or LC, the relationship between the AIFI and the Director could become one of a creditor and a debtor. Further, it



is possible that the Directors could borrow from a third party against the guarantee given by the AIFI. Such transactions may defeat the very purpose of the restrictions imposed on 'connected lending', if the AIFI does not take appropriate steps to ensure that the liabilities thereunder do not devolve upon them.

10. An AIFI shall, therefore, ensure while extending non-fund based facilities, such as guarantees, LCs, acceptances, etc., on behalf of Directors and the companies / firms in which the Directors are interested, that:

(1) adequate and effective arrangements have been made to the satisfaction of the AIFI that the commitments would be met by the applicants for guarantees, openers of LCs or acceptors, out of their own resources;

(2) the AIFI will not be called upon to grant any loan or advance to meet the liability consequent upon the invocation of guarantee or devolvement of L/Cs; and

(3) no liability would devolve on it on account of LCs / acceptances.

In case, the contingencies as at sub-paragraphs 10(2) and (3) above arise, the AIFI will be deemed to be a party to the violation of the provisions of this Chapter.

C. Loans and advances to relatives of the AIFI's Directors or to the Directors of other AIFIs / banks and their relatives

11. (1) Without prior approval of the Board or without the knowledge of the Board, no loans or advances should be granted, except to the extent permitted in the guidelines in the following paragraphs, to the undernoted categories of counterparties:

i) relatives of the AIFI's Chairman / Managing Director or other Directors;

ii) Directors (including Chairman/Managing Director) of other AIFIs and banks and their relatives;

iii) Directors of Scheduled Co-operative Banks and their relatives;



- iv) Directors of subsidiaries / trustees of mutual funds/ trustees of venture capital funds set up by the financing AIFIs or other AIFIs and banks, and their relatives.

(2) In order to obviate the possibility of development of reciprocal arrangements amongst the AIFIs / banks for extending credit and non-funded facilities, as also for awarding contracts, to each other's Directors, their relatives, etc., the following guidelines should be adopted:

i) Unless sanctioned by the Board of Directors / Management Committee, the AIFIs should not grant loans and advances, aggregating ₹ 25 lakhs and above, to:-

- a) Directors (including the Chairman/Managing Director) of other FIs and banks (including Directors of Scheduled Co-operative Banks, Directors of subsidiaries / trustees of mutual funds / trustees of venture capital funds);
- b) any firm in which any of the Directors of other FIs and banks (including Directors of Scheduled Co-operative Banks, Directors of subsidiaries / trustees of mutual funds / trustees of venture capital funds) is interested as a partner or guarantor; and
- c) any company in which any of the Directors of other FIs and banks (including Directors of Scheduled Co-operative Banks, Directors of subsidiaries / trustees of mutual funds / trustees of venture capital funds) holds 'substantial interest' or is interested as a Director or as a guarantor.

ii) Unless sanctioned by the Board of Directors / Management Committee, the AIFIs should also not grant loans and advances aggregating ₹ 25 lakhs and above to -

- a) any relatives of the AIFI's Chairman /Managing Director or other Directors;
- b) any relatives of the Chairman / Managing Director or other Directors of other FIs and banks (including Directors of Scheduled Co-operative Banks, Directors of subsidiaries / trustees of mutual funds / trustees of venture capital funds);
- c) any firm in which any of the relatives as mentioned at (a) & (b) above is interested



as a partner or guarantor; and

- d) any company in which any of the relatives as mentioned at (a) & (b) above holds 'substantial interest' or is interested as a Director or as a guarantor.

The scope of the term 'relative' shall be as defined in paragraph 4(iv) above while the term 'other FIs' would mean any Public Financial Institution specified by the Government of India in terms of Section 4-A of the Companies Act, 1956.

(3) The proposals for credit facilities of an amount less than ₹25 lakh to these borrowers may be sanctioned by the appropriate authority in the financing AIFI under the powers vested in such authority, but the matter should be reported to the Board.

D. Loans and advances to Officers of FIs or to their relatives

12. The following guidelines should be followed by the AIFIs with reference to the extension of credit facilities to the officers and their relatives:

- (1) 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 himself or his relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to the Senior Officers of the financing AIFI should be reported to the Board.
- (2) Proposals for credit facilities to the relatives of Senior Officers of the AIFI 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 -
- (i) any firm in which any of the relatives of any Senior Officer of the financing AIFI holds substantial interest, or is interested as a partner or guarantor; or
- (ii) any company in which any of the relatives of any Senior Officer of the financing AIFI holds substantial interest, or is interested as a director or as a guarantor, such transactions should also be reported to the Board.



The scope of the term 'relative' shall be as defined paragraph 4(1)(iv) of these Directions. The term 'substantial interest' for the purpose of these instructions shall have the same meaning as defined in paragraph 4(1)(v) of these Directions. The term 'Senior Officer' will refer to any officer of the AIFI in senior management level in a grade equivalent to Grade IV and above in a nationalised bank. Credit facility will not include loans and advances such as housing loans, car advances, consumption loans, etc. granted to an officer of the AIFI under any scheme applicable generally to officers.

- (3) In the case of consortium arrangements, the above norms relating to grant of credit facilities to relatives of Senior Officers of the AIFI will apply to the relatives of Senior Officers of all the participating banks and other AIFIs.

E. Remission of the liabilities of the borrowers

13. No loan or advance referred to at paragraph 7 above, or any part thereof or any liability of the aforesaid categories of borrowers on account of the non-funded facilities availed of by him from the AIFIs, shall be remitted without the prior approval of Reserve Bank and any remission without such approval shall be void and of no effect.

F. Interpretation

14. If any question arises whether any transaction constitutes a 'loan or advance' for the purpose of these instructions, it shall be referred to the Reserve Bank, whose decision thereon shall be final.

G. Non-participation of the interested Directors in the proceedings

15. The Chairman /Managing Director or other Director who is directly or indirectly concerned or interested in any proposal should disclose the nature of his interest to the Board or the Committee (as the case may be) when any such proposal is discussed. He should not be present in the meeting unless his presence is required by the other Directors for the purpose of eliciting information in which case the Director, so required to be present, shall not vote on any such proposal.



H. Award of contracts by the FIs

16. The above norms relating to grant of loans and advances will equally apply to awarding of contracts.
17. AIFIs are advised to evolve appropriate operating procedures and information system for ascertaining the interest of their own Directors as also the interest of the Directors of other AIFIs and banks for the purpose of implementing these instructions and for monitoring ongoing compliance therewith.



Chapter IV - Legal Entity Identifier (LEI) for Borrowers

18. The Legal Entity Identifier (LEI) code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20 -digit unique code to identify parties to financial transactions worldwide.
19. It is advised that AIFIs shall ensure that non-individual borrowers with aggregate exposure of ₹5 crore and above from banks (Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks, and Primary (Urban) Co-operative Banks) and Financial Institutions (All India Financial Institutions and NBFCs (including HFCs)) obtain LEI codes

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

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

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

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

21. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support



the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

22. The rules, procedure and documentation requirements maybe ascertained from [LEIIL](#).
23. After obtaining LEI code, an AIFI shall also ensure that borrowers renew the codes as per GLEIF guidelines.



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

24. The Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), a Government Company licensed under section 8 of the Companies Act 2013 has been incorporated for the purpose of operating and maintaining the Central Registry under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).
25. It is to be noted that initially transactions relating to securitization and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions, as defined under the SARFAESI Act, are to be registered in the Central Registry. The records maintained by the Central Registry shall be available for search by any lender or any other person desirous of dealing with the property. Availability of such records would prevent frauds involving multiple lending against the security of same property as well as fraudulent sale of property without disclosing the security interest over such property. It may be noted that under the provisions of Section 23 of the SARFAESI Act, every transaction of security interest is required to be filed with the Registry.
26. The Government of India has issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:
- (1) Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.
 - (2) Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.
 - (3) Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature.
 - (4) Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof by an agreement or



instrument other than mortgage.

27. An AIFI is advised to file the charges relating to all current transactions with CERSAI on an ongoing basis.



Chapter VI – Working Capital Finance and Revolving Facility

A. Working Capital Finance

28. An AIFI shall not be permitted to extend working capital finance, unless specifically permitted by the Reserve Bank.

Provided that the AIFI shall be permitted to extend working capital when banks are not in a position to meet the credit requirements of the counterparty concerned on account of temporary liquidity constraints.

Provided further that in case of a counterparty whose working capital is financed under multiple banking arrangement (MBAs), the AIFI shall obtain an auditor's certificate indicating the extent of funds already borrowed, before considering the request for further working capital finance.

B. Revolving Underwriting Facility

29. An AIFI shall not be permitted to extend revolving underwriting facility to Short Term Floating Rate Notes / Bonds or Debentures issued by companies.



Chapter VII – Repeal and other provisions

A. Repeal and saving

30. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Credit Risk Management as applicable to All India Financial Institutions stands repealed, as communicated *vide* [circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025](#). The Directions, instructions and guidelines already repealed shall continue to remain repealed.
31. 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

32. 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

33. 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