PENAL CHARGE POLICY

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1 OVERVIEW

1.1 Objective

Reserve Bank of India issued guidelines on **Responsible Business Conduct Directions – Chapter VIII D. Penal Charges in Loan Accounts and E. Pre-payment Charges on Loans** (DOR.MCS.REC.No.89/01-01-032/2025-26) on 28th November 2025, This policy is to put in place governing principles in determination of penal charges for loans, Letters of Credit, Bank Guarantees and advances. Penal charges are levied with an intended objective to drive credit discipline in the conduct of the account.

These guidelines are applicable for all the fresh loans facility/agreement which are executed/ renewed from January 1, 2024.

In case of existing Loan facility/agreements the switchover to new penal charges regime shall be ensured within 30 days of next review or renewal date or six months from the effective date of this circular whichever is earlier, this shall be communicated to the clients vide a letter which shall be sent to the registered email Id's/ address of the client. This will be applicable to all the products as covered in section 1.2 below.

1.2 Scope and Target Audience

The guidelines would apply to the following products:

1) Working Capital loans
2) Term loans
3) Cash credit facilities
4) Pre-shipment loans
5) Post-shipment loans
6) Domestic Trade Finance
7) Factoring
8) Letter of Credit (LC)
9) Other Non-fund based facilities

2 POLICY

2.1 GENERAL PRINCIPLES

- Penal charges for the purpose of this Policy represents charges over and above normal interest rates/ fees, levied for default by the borrower in complying with the terms on which credit facilities were sanctioned. The term ‘default’ covers delays in repayment of loan, LC/BG devolvement, irregularity in the conduct of the account or non-compliance with material terms of the sanction of the facility.

- Penal charges will be in addition to the Break costs incurred by the bank due to prepayment of any loan facility will be levied to customers in case of pre-payment.

- Bank will not utilize CCOD limit / any other loans of Citibank, to recover Penal Charges

- Additional / fresh penal charges will not be levied on the earlier outstanding amount of penal charges.

- For MSME loans disbursed to “Small” and “Micro” enterprises as per this circular, no pre-payment penalty/ break costs incurred by the bank will be charged for fixed rate loans of value INR 50 lakhs and below.
- For all floating rate loans granted for business purposes to proprietors and MSEs, with or without co-obligant(s), a bank shall not levy any pre-payment charges.

- In case of dual/ special rate (combination of fixed and floating rate) loans, the floating rate applicability will depend on whether the loan is on floating rate at the time of pre-payment.

- The bank shall not levy any charges/ fees retrospectively at the time of pre-payment of loans, which were waived off earlier by the bank.

2.2 PRODUCT LEVEL PENAL CHARGES

CORPORATE LOANS

Corporate and Investment Bank offers following categories of loans:

1. Working Capital loans
2. Term loans
3. Cash Credit facilities

Penal Charges are levied for overdue / delay / default in repayments, prepayment of loans, default in sanctioned/ material terms & conditions. The material terms and conditions are as follows but are not limited to the following :

1. Prepayment in part or full of any loan facility granted which is not in concurrence with agreed terms and conditions under the facility agreement or is agreed under the facility agreement to attract penal charges

2. Overdue / default/ delay in repayment of any principal, interest, fees, charges under the facility agreement

3. Non-Financial Default includes breach of any other obligation(s) / covenant(s) with respect to the facility agreement

Bank shall not levy any charges where pre-payment is effected at the instance of the bank.

The penal charges will be computed as:

(i) On account of prepayment the Penal charges may be charged subject to prepayment made within a mutually agreed lock in period (if any) and which would be disclosed to the borrower as well as documented as part of the facility agreement

(ii) Up to 2% per annum on the prepaid amount in case of loan prepayment (for the period computed as difference between the date of prepayment to the maturity date or next reset date whichever is earlier). However, in respect of Facilities with floating rate interest, no such charges will be payable if a prepayment of such Facility is made on an Interest Reset Date.

(iii) Up to 2% per annum on the outstanding amount of the loan at the time of overdue / default (financial and non-financial)/ delay in repayment (for the period during which the loan stays in default)

In addition to the above charges, the Borrower shall also be liable for all costs, charges and expenses which the Bank may pay or incur in any way resulting from the default.

For CRE Financing loans (including funded or non-fund based sub-limit facilities provided), the penal charges on breach of key terms up to 2% per annum maybe charged and up to 2% per annum of prepayment penal charges may be charged.

This penal charge will be communicated through the Facility agreement or Sanction letter or term sheet to the client at the time of renewal of the facility.

In case of cash credit/ overdraft facilities, no pre-payment charges shall be applicable if the borrower intimates the bank of his/ her/ its intention not to renew the facility before the period as stipulated in the loan agreement, provided that the facility gets closed on the due date.

TRADE LOANS

Treasury and Trade Solution (Trade) offers following categories of loans & advances:

1. Pre-shipment loans
2. Post-shipment loans
3. Domestic Trade Finance
4. Factoring
5. Letters of Credit
6. Bank Guarantees

Penal charges are levied for overdue / default / delay in repayments, prepayment of loans, LC/ BG development, default in sanctioned terms & conditions. There shall be no capitalization of penal charges i.e., no further interest computed on such charges.

As per FAQ issued by RBI vide circular issued on January 15, 2024, the prescribed instructions on penal charges are not applicable in case of rupee/ foreign currency export credit and other foreign currency loans. Hence, Export Pre and Post Shipment Loans denominated in INR and FCY have been descoped from this policy.

The penal charges will be computed as:

(i) 2% per annum on the prepaid amount in case of loan prepayment; (for the period computed as difference between the date of prepayment to the maturity date or next reset date whichever is earlier).

(ii) 2% per annum on the outstanding amount of the loan/ LC and BG at the time of overdue / default/ delay in repayment. (for the period during which the loan, LC, BG stays in default)

In addition to this rate, the Borrower shall also be liable for all costs, charges and expenses which the Bank may pay or incur in any way resulting from the default. Any deviation/exception to this rate will be approved by the Product Head /Business Head.

Further, any break costs as determined by the bank due to prepayment of any loan facility will be levied to customers in case of a pre-payment. However, in respect of facilities with floating rate interest, no such breakage cost will be payable if prepayment is made on an Interest Reset Date.

The penal charge will be communicated through the Facility agreement or Sanction letter or term sheet to the client at the time of renewal of the facility. It will also be displayed on Bank's website under Interest rates and Service Charges.