

POLICY ON LEVY OF PENAL CHARGE FOR CORPORATE & INVESTMENT BANK,
COMMERCIAL BANK & TRADE LOANS

OWNER:
CB, CCB & TTS HEAD

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TABLE OF CONTENTS

| | | | |
|-----------------------|---|-----------|----|
| OWNER: | | 1 | |
| | CIB, CCB & TTS HEAD | 1 | |
| ISSUE DATE: | | 1 | |
| | FEBRUARY 2018 | 1 | |
| VERSION: | | 1 | |
| | 1.1 1 | | |
| REVISION DATE: | | 1 | |
| | JUNE 2024 | 1 | |
| 1 | OVERVIEW | 3 | |
| 1.1 | Objective | | 3 |
| 1.2 | Scope And Target Audience | | 3 |
| 1.3 | Effective Date | | 3 |
| 1.4 | Retired/ Related Policies | | 4 |
| 1.5 | Exception process | | 4 |
| 1.6 | Board Approval/Board Reporting | | 4 |
| 2 | POLICY | 5 | |
| 2.1 | General Principles | | 5 |
| 2.2 | Product Level Penal Charges | | 6 |
| | Corporate bank, CRE Financing and Commercial Bank – Corporate loans (Working capital, term loan, cash credit) | | 6 |
| | Trade Loans | | 8 |
| | Corporate TRADE LOANS | | 8 |
| 2.3 | Governance and Monitoring | | 10 |
| 3 | APPENDIX A - REGULATORY GUIDANCE | 11 | |

1 OVERVIEW

1.1 OBJECTIVE

Reserve Bank of India issued guidelines on **Fair Lending Practice - Penal Charges in Loan Accounts (DoR.MCS.REC.28/01.01.001/2023-24)** on 18th August 2023, 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.

Further, Reserve Bank of India issued FAQ on Fair Lending Practice – Penal Charges on Loan Accounts on 15 January 2024 (<https://rbi.org.in/Scripts/FAQView.aspx?Id=162>)

1.2 SCOPE AND TARGET AUDIENCE

The guidelines apply to Corporate loans, Trade Loans, Letter of Credit (LC) and Bank Guarantees (BG) extended by Corporate and Investment Bank, TTS, Commercial Bank and Markets/ Commercial Real Estate (CRE) Financing in India and 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) Bank Guarantees (BG) Non fund based facilities (as sub-limits of loans)

1.3 EFFECTIVE DATE

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 above.

1.4 RETIRED/ RELATED POLICIES

These guidelines will operate in conjunction with the other Citi policies on pricing and customer disclosures.

1.5 EXCEPTION PROCESS

Any changes/ exception to this Policy must be approved by respective Business/Product Head and Compliance Head

1.6 BOARD APPROVAL/BOARD REPORTING

The policy has been approved by the CCC of Citibank NA, India.

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 (income) will be recognized in the Profit and Loss account on an accrual basis, except in the case of charges levied on non-performing assets, which is recognized as income on receipt basis in accordance with RBI Master Circular - [RBI/2022-23/17 DOR.STR.REC.5/21.04.048/2022-23 dated April 1, 2022](#) and amendments thereto. Further, Penal charges, along with interest and principal to be included for SMA reporting
- Penal charges are levied primarily to act as deterrent against breach of terms of facility and on account of enhanced credit risk experienced & incremental credit / operating costs incurred.
- 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.
- The quantum and reason for penal charges as documented in this policy shall be clearly disclosed to the customers in the loan agreement and sanction letter, as applicable, in addition to being displayed on Banks website under Fees & Charges. Any change in Banks policy (on account of change in regulation or otherwise) will be communicated to the borrower and the same will be applicable from the date of issue of such revised policy by the bank.
- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- On case to case basis, genuine difficulties of customers which led to such delay in payment / irregularity (*e.g. natural calamity, etc.*) should be considered with regard to levy of penal charges.

- The applicable Penal charges should be clearly stated in the Facility Agreement and Sanction letter or Term sheet of the client.
- Bank will not utilize CCOD limit / any other loans of Citibank, to recover Penal Charges

2.2 PRODUCT LEVEL PENAL CHARGES

CORPORATE BANK, CRE FINANCING AND COMMERCIAL BANK – CORPORATE LOANS (WORKING CAPITAL, TERM LOAN, CASH CREDIT)

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 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

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. Any changes to this rate in the policy will be approved by the Product/Business Head.

Penal charge charged due to overdue / delay / default in repayment of loans & Pre-payment penalty waiver decision is purely basis the relationship we have on our client. The following factors will be considered:

1. Operational difficulties of the borrower
2. Relationship with the borrower basis vintage
3. Relationship basis client priority
4. Relationship basis other cross sell opportunities on the client

Grid applicable for penal charge levied below the standard rate of 2%

| Rate of penal interest | Approvals required (BCMA) | Approvals required (CCB) |
|--------------------------|---|--|
| 1% to 2% | Region Head of the respective coverage vertical (LCB/FIG/GSG/PS) with a CC to Corporate Banking Head | Region Head / Industry Head with a CC to respective NSH / Segment head |
| Less than 1% but not NIL | Business Unit head of the respective coverage vertical (LCB/FIG/GSG/PS) with a CC to Corporate Banking Head | NSH / Segment head with a CC to CCB Head |
| NIL Penalty | Corporate Banking Head | CCB Head |

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. However for charging less than 1% per annum, the India CRE Head's concurrence would be required along with notification to the respective Coverage Unit RM.

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. It will also be displayed on Bank's website under Interest rates and Service Charges. There shall be a one time communication sent to the clients vide a letter which shall be sent to the registered email Id's/ address of the client.

Penal charged (normal as well as penal on overdue/ default/ delay in repayment) on NPA accounts can be waived off basis approval from Corporate Banking Head / Commercial Banking Head

TRADE LOANS

CORPORATE 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 devolvement, 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.

Waiver of penal charges due to overdue / delay / default in repayment, crystallization of post-shipment loans, prepayment of loans, devolvement of LCs/BGs, default in sanctioned terms & conditions, decision is purely basis the bank's relationship with the client and need to be approved per the approval grid considering the following factors:

1. Operational difficulties of the borrower
2. Relationship with the borrower basis vintage
3. Relationship basis client priority
4. Relationship basis other cross sell opportunities on the client
5. Delay in export realization from the overseas importer due to unforeseen circumstances

Approval grid for penal charges below the standard rate of 2%

| Rate of penal charges | Approvals required |
|------------------------------|---|
| 1% to 2% | Product Manager with Cc to Trade Product Head |
| Less than 1% but not NIL | Trade Product Head with CC to the TTS Business Head |
| NIL Penalty | Treasury & Trade Solutions Head |

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. It will also be displayed on Bank's website under Interest rates and Service Charges. There shall be a one time communication sent to the clients vide a letter which shall be sent to the registered email Id's/ address of the client.

Penal charges on overdue/ default/ delay in repayment) on NPA accounts can be waived off basis approval from Treasury & Trade Solutions Head, & BCMA / CCB / FI Head

2.3 GOVERNANCE AND MONITORING

Adherence to Policy will be ensured by respective business units. This will be monitored by Operations as part of their checklist and through the concurrent audit process. Businesses will maintain a record of penal charges levied and waived, if any.

3 APPENDIX A - REGULATORY GUIDANCE

The Master Directions on Interest Rate on Advances stipulates that Banks should formulate a Board approved policy for charging penal charges on advances which shall be fair and transparent. The rate of penal charges shall be decided after taking into account incentive to service the debt and due regard to genuine difficulties of customers.

The above directive also mentions that no penal interest should be charged by banks for loans under **priority sector** up to Rs 25,000 and banks are free to levy penal interest for loans exceeding this amount. (Ref: RBI Circular on Charging of Penal Interest by Banks on Priority Sector Loans, Aug 17, 2001)

Further, under the **Master Direction issued on Relief Measures by Banks in Areas Affected by Natural Calamities, 2017**, mention that banks are expected to take a sympathetic view of the difficulties of the borrowers and extend a concessional treatment to calamity-affected people. Accordingly, banks may not levy any penal interest and consider waiving penal interest, if any, already charged in regard to the loans converted / rescheduled

For accounts under the **Scheme for Sustainable Structuring of Stressed Assets** issued by RBI on June 13, 2016, it is further advised that banks may waive accrued penal interest, if any, as per their own policy or include the accrued interest in the aggregate exposure of banks for determining the eligibility of an account under S4A. It further mentions that where the accrued penal interest is included in the aggregate exposure of banks for determining the eligibility of an account under S4A, the same cannot be waived.