भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2025-26/XX

DOR.CRE.REC.No……../2025-26 DD-MM-YY

Reserve Bank of India (Rural Co-operative Banks - Lending to Related Parties) Directions, 2025 – Draft for Comments

I. Preliminary 2
A. Introduction 2
B. Powers Exercised, Short Title and Commencement 2
C. Scope of Application 2
D. Definitions 3
II. Statutory Prohibitions and Regulatory Restrictions 6
E. Statutory Prohibitions for Banks 6
F. Regulatory Restrictions 7
III. General Principles on Lending to Related Parties 8
G. Provisions in the Credit Policy 8
H. Materiality Threshold 8
I. Recusal of Interested Parties 9
J. Monitoring of Loans to Related Parties 9
K. Role of Statutory Auditor 9
L. Declaration of Loans 10
M. Reporting to Supervisors 10
N. Disclosures 10
O. Penalty 10
Appendix 1 – Reporting to Supervisors 12

विनियमन विभाग, केंद्रीय कार्यालय, केंद्रीय कार्यालय भवन, 12वीं/ 13वीं मंज़िल, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400001
टेलीफोन/ Tel No: 22661602, 22601000 फैक्स/ Fax No: 022-2270 5691
Department of Regulation, Central Office, Central Office Building, 12th/ 13th Floor, Shahid Bhagat Singh Marg, Fort, Mumbai – 400001

हिंदी आसान हैं, इसका प्रयोग बढ़ाइए

I. Preliminary

A. Introduction

1. Lending to counterparties who are related or connected to the lending bank either through ownership stake in the bank or through their ability to control and influence the lending decisions may prove to be detrimental to the interests of the bank and other stakeholders. Globally, there are regulations on such related party lending and transactions which might create a conflict of interest or moral hazard for the banks.

2. Banking Regulation Act, 1949 places explicit statutory restrictions on lending by Cooperative banks to their directors as well as entities in which directors have interests. As related parties can be many entities other than what is covered under extant statutory restrictions, direct or indirect lending to such related parties remain a regulatory concern. Thus, it is imperative to put in place a comprehensive regulatory guideline to address such concerns.

3. Accordingly, these Directions have been set out to lay down the regulatory guidelines on related party lending for all Rural Co-operative Banks (hereinafter called a bank or banks or an RCB or RCBs).

B. Powers Exercised, Short Title and Commencement

4. The Reserve Bank being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified. These Directions have been issued by the Reserve Bank in exercise of powers conferred to it under Sections 20, 21, 35A and 56 of the Banking Regulation Act, 1949.

5. These Directions shall be called the Reserve Bank of India (Rural Co-operative Banks – Lending to Related Parties) Directions, 2025, and shall come into effect from April 1, 2026.

C. Scope of Application

6. These Directions shall apply to all Rural Co-operative Banks (RCBs), i.e., State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) (hereinafter referred to as a bank or banks), with regard to lending by them to a ‘related party’ and also to any contract or arrangement entered into by an RCB with a ‘related party’.

7. **Application to prior loans** – With a view to ensuring non-disruptive implementation of these Directions, banks are permitted to let their existing related party transactions which are not in conformity with these Directions as on the date of issuance of the Directions to run-off till maturity, or one year from the date of issue of these Directions, whichever is earlier. However, banks are precluded from renewing such loans/ limits after their expiry or enhancing the limits sanctioned prior to the date of these Directions, unless they are in compliance with these Directions.

D. Definitions

8. In these Directions, unless the context otherwise requires, the following definitions shall apply:

   a) 'Contract or arrangement' shall have the same meaning as specified in Section 188(1)(a) to (g) of the Companies Act, 2013.

   b) 'Control' shall have the same meaning as assigned to it under Section 2(27) of the Companies Act, 2013.

   c) 'Director of a bank' shall have the same meaning as defined in Explanation (b) to Section 20 of the Banking Regulation Act 1949 and would include a nominee director.

   d) 'Entity' shall mean a 'person' other than an individual and a Hindu Undivided Family.

   e) 'Group entity' of a bank shall have the same meaning as assigned to it under extant regulatory guidelines, or applicable accounting standards.

   f) 'Key Managerial Personnel (KMP)' of a bank shall have the same meaning as defined in Section 2(51) of the Companies Act, 2013.

   g) 'Lending' means extending funded or/ and non-fund-based credit facilities to related parties.

   h) 'Person' shall have the same meaning as assigned to it under Clause 23 of Section 3 of Part I of Insolvency and Bankruptcy Code (IBC), 2016.

   i) 'Promoter' shall have the same meaning as assigned to it under Section 2(69) of the Companies Act, 2013.

j) 'Related Party' shall mean a related person as defined at para 8(k), or an entity, in relation to the related person, as defined hereinafter:

i) an entity, where a related person or a relative of the related person is a partner, manager, KMP, director or a promoter; or

ii) an entity, where a related person or a relative of the related person is a shareholder with more than ten per cent of paid-up equity share capital[1] or holds paid-up equity share capital of Rupees five crore, whichever is less; or

iii) an entity, where a related person or a relative of the related person is having control, whether singly or jointly with another person; or

iv) an entity, where a related person or a relative of the related person controls more than twenty per cent of voting rights on account of ownership or through a voting agreement or through any other arrangement; or

v) an entity, where a related person or a relative of the related person has the power to nominate a director to its Board; or

vi) an entity, which is accustomed to act on the advice, direction, or instruction of a related person or a relative of the related person; or

vii) an entity, where a related person or a relative of the related person is a guarantor or a surety; or

viii) an entity in the form a private trust, where a related person or a relative of the related person is a trustee or an author or a beneficiary.

ix) any entity which is related to the related person as a subsidiary or a parent company or a holding company or an associate or a joint venture.

k) 'Related Person' with respect to a bank shall mean a person, and the relatives[2] of such a person, where the person:

i) is either a director or a KMP of the bank; or

ii) owns more than five per cent of paid-up equity share capital of the bank or can, either singly or jointly, exercise more than five per cent of the voting rights of

[1] As shown in the Balance Sheet of the entity.

[2] The term 'Relative' is in reference to a natural person.

the bank on account of either ownership or voting agreement or through shareholders' agreement or through any other arrangement; or

iii) can, through an agreement with the bank, nominate a director to its Board; or

iv) is either singly or jointly, in control of the bank; or

v) is a group entity of the bank; or

l) ''Relative' with regard to a natural person shall have the same meaning as defined in Clause (77) of Section 2 of the Companies Act, 2013 and rules framed therein.

m) 'Senior officer' means any officer in middle/ senior management level designated as "senior officer" as per the bank's policy on lending to related parties.

n) 'Substantial interest' shall have the same meaning assigned to it under Clause (ne) of Section 5 of the Banking Regulation Act, 1949.

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, rules/ regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

II. Statutory Prohibitions and Regulatory Restrictions

E. Statutory Prohibitions for Banks

9. In terms of Section 20(1)(b) of the Banking Regulation Act, 1949, read with Section 56 of the Act *ibid,* banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of:
   a) any of its directors;
   b) any firm in which any of its directors is interested as partner, manager, employee or guarantor;
   c) any company [not being a subsidiary of the banking company or a company registered under Section 8 of the Companies Act, 2013, or a Government company] of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest; or
   d) any individual in respect of whom any of its directors is a partner or a guarantor.

10. In exercise of the powers conferred by clause (a) of the Explanation under sub-section 4 of Section 20 of the Banking Regulation Act, 1949, the following explanations are provided:
   a) Provisions of paragraph 9 above would not apply in the following cases:
      (i) Advances granted or commitment made by a bank to a company where a director of the bank has substantial interest, provided that the advance was granted, or commitment was made, prior to the appointment of the said director on the Board of the bank. However, the bank is precluded from renewing such loan on or after its contracted maturity or renewal date or enhance the limit or change the terms of the loan before its maturity. Alternatively, the director must relinquish the directorship of either the bank or the company.
      (ii) Advances to a public trust, where a trustee is also a director of the lending bank.
      (iii) Loans and advances to a director against government securities, life insurance policies or fixed deposit, where loan-to-value is not in excess of 100 per cent of the realisable value of such securities.

(iv) Such personal loans[3] and advances to an employee director, which the employee director would have been eligible to borrow as an employee.

(v) Personal loans[4] and advances, excluding loans for investments in financial assets, to Chairman/ MD/ CEO/ director of the RCB, subject to applicable prudential limits/LTV ratios as the case may be.

(vi) Non-Fund Based (NFB) facility to a director or his/her related party, provided that all such facilities shall be fully secured by cash collateral of equivalent or higher value.

11. For the purposes of Section 20 of the Banking Regulation Act, co-operative entities, being distinct legal structures governed by their own statutes, shall not be construed as either a 'company' or a 'firm'.

F. Regulatory Restrictions

12. RCBs shall not undertake any lending transaction with firms and companies in which relatives of directors are interested.

Restriction on guarantees/ sureties

13. Section 20(1)(b) of the Banking Regulation Act, 1949 prohibits banks from entering into any commitment for granting any loans or advances to or on behalf of an entity or an individual where a director is a guarantor.

14. RCBs shall be prohibited from accepting directors, their relatives, or any related parties, including firms and companies in which they have an interest, as guarantors or sureties in respect of any fund-based or non-fund-based credit facility

[3] Personal loans as defined under Banking Statistics (Harmonised Definitions).
[4] Personal loans as defined under Banking Statistics (Harmonised Definitions).

III. General Principles on Lending to Related Parties

This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties, wherever allowed.

G. Provisions in the Credit Policy

15. The Board shall have the overall responsibility of ensuring that suitable mechanisms are put in place for implementation of the policy on lending to related parties by the RCB.

16. The credit policy (hereinafter called the policy) of a bank, as required in terms of the extant directions, shall contain specific provisions relating to 'lending to related parties' in accordance with the provisions of these Directions. The policy shall prescribe, *inter alia,* additional safeguards to address the risks emanating from lending to related parties.

17. The policy shall also have specific provisions for lending to senior officers of the bank and their relatives.

18. Further, the policy shall:

    a) as a part of the whistleblowing mechanism, encourage employees to communicate confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical, or questionable loans to related parties; and

    b) eliminate *quid pro quo* arrangements, if any.

19. The policy shall specify aggregate limits for loans towards related parties. Within this aggregate limit, there shall be sub-limits for loans to a single related party and a group of related parties. These limits shall be well within the extant prudential exposure limits prescribed by the Reserve Bank.

H. Materiality Threshold

20. Loans to related parties, which are not prohibited or restricted in terms of provisions of Chapter II of these Directions, can be extended by the banks in terms of their credit policy. Such loans, including personal loans to directors as mentioned at clauses (iii),

(iv), (v), (vi) para 10(a), shall be subject to a materiality threshold as per the credit policy, which shall not be higher than ₹1 crore.

21. Materiality thresholds may vary for different categories of loan to related parties and borrowers as per the bank's policy.

22. All loans above the prescribed materiality threshold shall be sanctioned by Board of the bank.

I. Recusal of Interested Parties

23. Directors, or KMP, whether a member of the Committee or not, with a direct or indirect interest in loans to related parties shall recuse themselves from deliberations and decision-making processes involving sanction, disbursal and management of loans to related parties, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc.

J. Monitoring of Loans to Related Parties

24. Bank shall put in place suitable mechanism for recording and periodically updating the list of related parties. Periodic reviews shall be conducted at quarterly or shorter intervals by internal auditors to check, *inter alia*, whether guidelines and procedures in relation to such loans are being strictly adhered to or not.

25. Any deviation from the policy relating to lending to related parties shall be reported to the Audit Committee of the Board.

26. Any product, entity or structure formed with the objective of circumventing these Directions through various means, such as reciprocal lending or quid pro quo arrangements, and identified as such by the auditors of the bank or by the supervisory authority and investigating agencies shall always be treated as lending to related party.

K. Role of Statutory Auditor

27. Statutory auditors shall examine representative samples of loans to related parties of the bank with a view to satisfying themselves that the processes and procedures laid down in these Directions have been complied with. All exposures to related parties

which are group entities of the bank shall invariably be examined by the statutory auditor.

L. Declaration of Loans

28. Directors, and KMP shall give an annual declaration about all loans availed by them and their associated entities from the respective banks.

M. Reporting to Supervisors

29. Banks shall report to the NABARD on a semi-annual basis:

a) Details of loans sanctioned and contracts awarded to, and arrangements made with related parties in the format provided in Appendix 1; and

b) any non-compliance with instructions contained in these Directions.

N. Disclosures

30. Banks shall also disclose the information on loans to related parties and details of contract and arrangement with them in their notes to financial statements. At a minimum, the information shall include following information for the last two years:

a) the aggregate value of outstanding loans to related parties;

b) the outstanding loans to related parties as a proportion of total credit exposure;

c) the aggregate value of outstanding loans to related parties which are categorized as Non-performing assets (NPAs);

d) the outstanding loans to related parties which are categorized as NPAs as a proportion of total non-performing loans; and amount of provisions held in respect of loans to related parties and

e) Top 10 exposures to related parties, where exposure shall include loans and advances, non-fund-based facilities, and values of contracts and arrangements with the related party.

O. Penalty

31. Any non-compliance with and circumvention of these Directions shall result in imposition of penalty as deemed appropriate by the Reserve Bank. These penalties may include imposition of monetary penalty, requirement of full provisioning, directions

to conduct staff accountability exercises, forensic audits, restrictions and other supervisory and enforcement actions as deemed fit.

(Vaibhav Chaturvedi)
Chief General Manager

Appendix 1 – Reporting to Supervisors

Name of lending Institution: _____

Statement of Loans to related parties as at _____

Name of Related party	Relationship with Bank	Purpose of loan	Date of approval (DDMMYY)	Type of Exposure (Fund / Non-Fund based)	Amount Sanctioned (In ₹ crore)	Amount Outstanding (In ₹ crore)	Rate of Interest (%)	Remaining term to maturity (days)	Collateral		Credit Rating		Classification of Account (Standard/ / NPA)	Remarks (Account Restructured/ Terms changed)	Exception Reports by Internal Auditors
									Value	Last valuation date	Internal	External			
Total Related party loans															
Total Related party loans as %															

of total loans															
Total Related party exposure as % of total Exposure															

Note- Banks shall report total exposure to related parties which shall include loans and advances, non-fund-based facilities and investments.

Statement of Contracts and Arrangements to related parties as at _____					
Name of Related party	Relationship with bank	Date of approval	Nature of contract/ arrangement	Value of contract/ Arrangement	Important Terms & Conditions (in brief)