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RESERVE BANK OF INDIA

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Reserve Bank of India (Commercial Banks - Lending to Related Parties)

Directions, 2025 – Draft for Comments

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

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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 banks to their directors as well as entities in which directors have interests. In addition, various regulations have been issued over the years governing lending by banks to relatives of directors; to directors of other banks and their relatives; to senior officers and their relatives and associated entities of such persons. As related parties can be many entities other than what is covered under extant statutory or regulatory restrictions, direct or indirect lending to such related parties remain a regulatory concern. Accordingly, the extant guidelines have been reviewed.
3. These Directions have been set out to lay down the revised regulatory guidelines for all commercial banks, comprehensively addressing the above concerns in a harmonised manner. These Directions also have the objectives of ensuring prudence while allowing operational flexibility to banks when they lend to their related parties.

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, and 35A of the Banking Regulation Act, 1949.
5. These Directions shall be called the Reserve Bank of India (Commercial 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 Commercial Banks (excluding Small Finance Banks, Regional Rural Banks, Local Area Banks and Payments Banks) (hereinafter referred to as a bank or banks); with regard to lending by such a bank to a 'related party' and any contract or arrangement entered into by the bank with a 'related party':

Provided further that such related party transactions of a bank with a group entity of it, shall continue to be guided in terms of the ['Guidelines on Management of Intra-Group Transactions and Exposures' dated February 11, 2014](#).

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) 'Committee on lending to related parties' shall mean a committee established by the Board of the bank specifically to deal with lending to related parties.
 - b) 'Contract or arrangement' shall have the same meaning as specified in Section 188(1)(a) to (g) of the Companies Act, 2013.
 - c) 'Control' shall have the same meaning as assigned to it under Section 2(27) of the Companies Act, 2013.
 - d) '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 and an independent director.
 - e) 'Entity' shall mean a 'person' other than an individual and a Hindu Undivided Family.

- f) 'Group entity' of a bank shall have the same meaning as assigned to it under extant regulatory guidelines, or applicable accounting standards.
- g) 'Key Managerial Personnel (KMP)' of a bank shall have the same meaning as defined in Section 2(51) of the Companies Act, 2013.
- h) 'Lending' means extending funded or/ and non-fund-based credit facilities to related parties.
- i) '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.
- j) 'Promoter' shall have the same meaning as assigned to it under Section 2(69) of the Companies Act, 2013.
- k) 'Related Party' shall mean a related person as defined at para 8 (I), 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 capital¹ 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

¹ As shown in the Balance Sheet of the entity.

- 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.

Provided that Government of India/ State Government-owned or controlled entities shall not be treated as related parties to a government-owned bank just by virtue of the fact that the Government has the common ownership or control of such entities.

- l) 'Related Person' with respect to a bank shall mean a person, and the relatives² of such a person, where the person:
 - i) is either a promoter, or 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 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
 - vi) is a director (excluding independent directors) of other commercial banks, AIFIs, scheduled cooperative banks, subsidiaries of commercial banks; as also trustees of mutual funds and alternate investment funds established by such regulated entities.
- m) '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.
- n) '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.

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

- o) '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, 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 loans³ and advances to an employee director, which the employee director would have been eligible to borrow as an employee.
 - (v) Personal loans⁴ and advances, excluding loans for investments in financial assets, to Chairman/ MD/ CEO/ director of the banking company, 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.
 - (vii) Line of credit/ overdraft facility extended by settlement bankers to a qualifying central counterparty (QCCP) which is licensed to operate as a 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.
 - (viii) Loans or advances by a promoter banking company to a Deemed Government Company, promoted by it under Sections 139(5) and 139(7) of the Companies Act, 2013 and where the accounts of the company are audited by Comptroller & Auditor General of India (CAG).
- b) A foreign bank branch in India should not lend to a firm / company in India, if a director in the foreign bank's Board abroad has (i) an interest⁵ in the firm / company or (ii) if the company is a subsidiary of any Indian / foreign parent in which the director is interested.

F. Regulatory Restrictions

11. Provisions of paragraph 9 shall also apply to grant of loans and advances to spouse and minor/ dependent children of the directors of banks. However, banks may grant loan or advance to or **on behalf of** spouses of their directors in cases where the spouse

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

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

⁵ In terms of Section 20 of the Banking Regulation Act, 1949, a director would be considered to have interest in a company if he is a director / managing agent / manager / employee or guarantor in the concerned company and would be considered to have interest in a firm if he is a partner / manager / employee or guarantor in the concerned firm.

has his/ her own independent source of income arising out of his/ her employment or profession and the facility so granted is based on standard procedures and norms for assessing the creditworthiness of the borrower. Such facility should be extended on commercial terms.

12. In addition to the restrictions placed on a bank's loans and advances to its directors and the companies in which its directors are interested under Section 20 of the Banking Regulation Act, 1949, a bank shall also be precluded from having any exposure (including investments in the equity/ debt capital instruments) to its promoters; shareholders with shareholding of 10 per cent or more in the paid-up equity capital of the bank; relatives of such promoters/shareholders as also the entities in which they have substantial interest.

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.

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

14. 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 bank.
15. 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.
16. The policy shall also have specific provisions for lending to senior officers of the bank and their relatives.
17. 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.
18. 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

19. 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), and (vi), of paragraph 10(a), shall be subject to a materiality threshold as per the credit policy, which shall not be higher than the following ceilings:

Asset Size in ₹ crore	Materiality Threshold Ceilings
> 10,00,000	₹50 crore
≥ 1,00,000 to up to 10,00,000	₹10 crore
Less than 100,000	₹5 crore

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

21. All loans above the prescribed materiality threshold shall be sanctioned by Board of the bank. However, a bank at its discretion, may delegate the above powers of lending beyond the materiality threshold to a Committee of the Board (hereafter called Committee). As regards loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them.

I. Recusal of Interested Parties

22. 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

23. 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.

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

25. 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

26. 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

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

M. Others

28. In addition to the provisions of these Directions on lending to related parties, listed banks shall continue to comply with the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

IV. Supervisory Reporting, Disclosures, Penalty and Repeal

N. Reporting to Supervisors

29. Banks shall report to the Reserve Bank of India, through DAKSH portal 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.

O. 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 Special Mention Accounts (SMAs) and Non-Performing Assets (NPAs);
- d) the outstanding loans to related parties which are categorized as SMAs and NPAs as a proportion of total SMAs and NPAs, respectively; and amount of provisions held in respect of loans to related parties;
- e) Top 10 exposures to related parties, where exposure shall include loans and advances, non-fund-based facilities, investments and positive Mark-To-Market (MTM) values of derivative and values of contracts and arrangements with the related party.

P. 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.

Q. Repeal

32. The list of circulars/ guidelines/ parts of Master Circulars that will be repealed on issuance of these Directions is given in Appendix 2.

(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/ SMA/ NPA)	Remarks (Account Restructured/ Terms changed)	Exception Report by Internal Auditors
									Value	Last valuation date	Internal	External			
Total Related party loans															
Total Related party loans as %															

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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, investments and positive MTM values of derivatives.

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)

Appendix 2 – Repealed Circulars

Sl. No	Circular Number	Date of Issue	Subject	Repealed
1	DBOD.No.Leg. 33/C.233 69	February 01, 1969	General Order	Wholly
2	DBOD.No.Leg. 39/C.233 69	February 01, 1969	The Banking Regulation Act, 1949, as amended by the Banking Laws (Amended) Act, 1968	Wholly
3	DBOD.No.Leg. 417/C.235C 74	October 24, 1974	General Order	Wholly
4	DBOD.No.Leg. 195/C.235 75	April 29, 1975	General Order	Wholly
5	DBOD.No.Leg.BC. 35/C.235 75	April 30, 1975	Section 20 of the Banking Regulation Act, 1949 General Order	Wholly
6	DBOD.No.Leg. 320/C.235C 78	July 25, 1978	General Order	Wholly
7	DBOD.No.GC.BC. 34/C.408C(59) S 84	April 12, 1984	Guidelines in regard to Grant of Loans & Advances and Award of Contracts to Directors of Banks and their Relatives	Wholly
8	DBOD.No.GC.BC. 21/C.408C(59) S 85	February 28, 1985	Advance to Officers and the Relatives of Senior Officers of Banks	Wholly
9	DBOD.No.Leg.BC. 77/C.235C 85	July 05, 1985	Section 20 of the Banking Regulation Act, 1949	Wholly
1	DBOD.No.GC.BC. 25/C.408C(59) S 86	March 03, 1986	Grant of Loans & Advances and Award of Contracts to Directors of Banks and their Relatives	Wholly
1	DBOD.No.FSC.BC. 28/24.01.001/ 94	March 09, 1994	Directors/Trustees of Subsidiaries/Mutual Funds of Banks Borrowing Arrangements with Sponsor Banks	Wholly
1	DBOD.No.BP.BC. 23/21.01.001/96	March 01, 1996	Grant of Loans & Advances and Award of Contracts to Directors of Other Banks	Wholly
1	DBOD.No.733/ 09.11.013/97	February 14, 1997	Special Order	Wholly

Sl. No	Circular Number	Date of Issue	Subject	Repealed
1	DBOD.No.415/ 08.95.005/98	September 29, 1998	General Order	Wholly
1	DBOD.No.938/ 08.95.005/99	February 08, 1999	General Order	Wholly
1	DBOD.No.Leg.BC. 98/09.11.013/2004-05	June 24, 2005	Section 20 of the Banking Regulation Act, 1949 Line of Credit / Overdraft Facility to National Securities Clearing Corporation Ltd. (NSCCL)	Wholly
1	DBOD.No.Leg.BC. 30/09.11.013/2005 06	August 31, 2005	Section 20 of the Banking Regulation Act, 1949 Line of Credit / Overdraft Facility to Clearing Corporation of India Ltd. (CCIL)	Wholly
1	DBOD.No.BP.BC. 79/21.01.001/2011 12	February 03, 2012	Grant of Loans and Advances and award of Contracts to Directors of Banks and their Relatives.	Wholly
1	DBR.Dir.BC.No. 38/13.03.00/2015-16	September 16, 2015	Guidelines on Compensation of Chief Executive Officer/ Whole Time Directors – Restrictions under Section 20 of the Banking Regulation Act, 1949 – Loans to Directors	Wholly
2	DOR.CRE.REC.No. 33/13.03.00/2021-22	July 23, 2021	Loans and Advances – Regulatory Restrictions	Wholly
