



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/175

DOR.CRE.REC.377/07-02-003/2025-26

January 05, 2026

**Reserve Bank of India (Local Area Banks – Credit Risk Management) –
Amendment Directions, 2026**

Please refer to Reserve Bank of India (Local Area Banks - Credit Risk Management) Directions, 2025 (hereinafter referred to as 'Directions').

2. On a review, in exercise of the powers conferred by the Sections 21 and 35A of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India (hereinafter called the Reserve Bank) in this regard, the Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby issues the Amendment Directions hereinafter specified.

3. The Amendment Directions modifies the Directions as under:

3(1). In Chapter I - 'Preliminary' of the Directions, the following modifications shall be effected:

(i) In paragraph 4(1), the following sub-paragraphs shall be inserted as definitions:

(iiaa) '*Committee on lending to related parties*' shall mean a committee of the Board of the bank entrusted with sanctioning of loans to related parties. Banks may also identify any existing Committee, other than the Audit Committee, for this purpose.

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

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

(iic) '*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.



(iiiia) ‘*Entity*’ in the context of a ‘related party’ prescribed in Chapter IIIA of these Directions shall mean a ‘person’ other than an individual and a Hindu Undivided Family (HUF).

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

(vb) ‘*Lending*’ in the context of a ‘related party’ shall mean extending funded or/ and non-fund-based credit facilities to related parties. While investments in debt instruments of related parties shall be covered for this purpose, equity investments shall be excluded.

(viiiia) ‘*Person*’ shall have the same meaning as assigned to it under Section 3 (23) of Part I of Insolvency and Bankruptcy Code (IBC), 2016.

(viiib) ‘*Personal Loan*’ shall have the same meaning as defined under Banking Statistics (Harmonised Definitions).

(viiic) ‘*Promoter*’ shall have the same meaning as assigned to it under Section 2(69) of the Companies Act, 2013.

(viiid) ‘*Reciprocally Related Person*’ means an individual who is either (i) a director (excluding independent director/ Nominee director appointed by the Government or RBI or a statutory body) of another commercial bank, or an AIFI, or a scheduled cooperative bank, or a subsidiary of a commercial bank; or (ii) a trustee of a mutual fund or an alternate investment fund established by any of the aforesaid regulated entities; or (iii) a relative of such a director or a trustee.

(viiie) ‘*Related Party*’ with respect to a bank shall mean a related person, a reciprocally related person, or any of the following entities:

(a) where a related person or a reciprocally related person is a partner, manager, KMP, director or a promoter; or

(b) where a related person or a reciprocally related person is a shareholder with more than ten per cent of paid-up equity share capital; or

(c) where a related person or a reciprocally related person is having control, whether singly or jointly with another person; or



- (d) where a related person or a reciprocally 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
- (e) where a related person or a reciprocally related person has the power to nominate a director to its Board; or
- (f) which is accustomed to act on the advice, direction, or instruction of a related person or reciprocally related person; or
- (g) where a related person or a reciprocally related person is a guarantor or a surety; or
- (h) where a related person or a reciprocally related person is a trustee or an author or a beneficiary and where the entity is in the form of a private trust.
- (i) which is related to the related person or a reciprocally related person as a subsidiary or a parent company or a holding company or an associate or a joint venture.

Provided that nothing in sub-clause (e) above shall apply in cases where the authority to nominate a director arises exclusively from a lending or financing arrangement.

Provided further that, nothing in sub-clause (f) above shall apply to the advice, directions or instructions given in a professional capacity.

(viiiif) '*Related Person*' with respect to a bank shall mean a person, and the relatives of such a person, where the person:

- (a) is either a promoter, or a director, or a KMP of the bank; or
- (b) 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
- (c) can, through an agreement with the bank, nominate a director to its Board; or
- (d) is either singly or jointly, in control of the bank.



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

(ix) *‘Specified employees’* mean all employees of a bank who are positioned up to two levels below the Board and any employee designated as such as per the bank’s policy.

3(2). In Chapter II – ‘Board Approved Policies’ of the Directions, paragraph 5 shall be replaced with the following paragraph:

5. A bank shall put in place a comprehensive Board approved policy on Credit Risk Management. The policy shall, inter alia, cover aspects related to lending to related parties, unhedged foreign currency exposures and valuation of properties including empanelment of valuers. 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.

3(3). In Chapter III ‘Statutory Restriction’ of the Directions, the following amendments shall be effected:

(i) Paragraph 8 shall be deleted.

(ii) After paragraph 8, a new paragraph 8A shall be inserted, as under:

8A. In exercise of the powers conferred by clause (a) of the Explanation under Section 20(4) of the Banking Regulation Act, 1949, the following explanations are provided:

(1) Provisions of paragraph 7 above would not apply in the following cases:

(i) Credit facilities granted or commitment made by a bank to a company where a director of the bank has substantial interest, if the advance was granted, or commitment was made, prior to the appointment of the said director on the Board of the bank.

Provided that, till the director relinquishes the directorship of either the bank or the company, the bank shall not further renew such a facility on or after its contracted maturity or renewal date; enhance the limit; or change any of the terms of the facility before its maturity.

(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 or in adherence to specifically prescribed LTV ratio and valuation norms for loans against such a primary security by relevant Directions of the RBI, if any.

(iv) Such personal loans and advances to a director, other than loans for investment in financial assets, as permitted to an employee in terms of the approved policy, or that form part of the approved compensation / remuneration package, where applicable. The interest rate charged on all such loans shall not be lower than the rate charged to the employees.

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

Provided that cash collateral would not be mandatory in exposures arising on account of derivative transactions.

(iii) Section B.1 and paragraphs 9, 10, 11 and 12 shall be deleted.

3(4). After paragraph 16 of the Directions, a new chapter, Chapter IIIA – ‘Regulatory Restrictions’, a new Section A, its sub-sections, and new paragraphs 16A through 16R shall be inserted, as given below:

A. Lending to Related Parties

A.1. General Principles

16A. This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties, wherever allowed.

16B. 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.

16C. 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.

16D. The policy shall also have specific provisions for lending to ‘specified employees’ of the bank and their relatives.



16E. Further, the policy shall, as a part of the whistleblowing mechanism, encourage employees to communicate confidentially and without the risk of reprisal, legitimate concerns, if any, about irregular, unethical, or questionable loans to related parties; and eliminate quid pro quo arrangements, if any.

16F. 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 within the extant prudential exposure limits prescribed by the Reserve Bank.

A.2 Regulatory Prohibitions

16G. Provisions of paragraph 7 in Chapter III 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 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, conforming to arms-length principle.

16H. In addition to the restrictions placed on loans and advances by a bank to its directors and the companies in which its directors are interested under Section 20 of the Banking Regulation Act, 1949, a bank shall not have any exposure (including investments in the equity / debt capital instruments) to its promoters and their relatives; shareholders with shareholding of 10 per cent or more in the paid-up equity capital of the bank; as also the entities in which they (promoters, their relatives and shareholders as stated above) have significant influence or control (as defined under Accounting Standards Ind AS 28 and Ind AS 110).

A.3 Materiality Threshold

16I. Loans to related parties, which are not prohibited in terms of provisions of Chapter III or this Chapter of these Directions, or which have been permitted under power exercised by the Reserve Bank under clause (a) of the Explanation under sub-section 4 of Section 20 of the Banking Regulation Act, 1949, except (i) credit facilities fully secured by cash or liquid securities and in accordance to prescribed LTV and valuation norms for such securities, and (ii) interbank loans, shall be



subject to a materiality threshold as per the credit policy, which shall not be higher than ₹10 lakh.

16J. Materiality thresholds may vary for different categories of loans to related parties as per the bank's policy.

16K. All loans above the prescribed materiality threshold shall be sanctioned either by the Board or by the 'Committee on Lending to Related Parties' of the bank. As regards loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them.

A.4 Recusal of Interested Parties

16L. Directors, KMP, or 'specified employees' shall recuse themselves from deliberations and decision on loan proposals, or contracts and arrangements, involving themselves or their related parties. Such recusal shall also extend to deliberations and decisions relating to any subsequent material changes to the terms of such loans, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc.

A.5 Monitoring of Loans to Related Parties

16M. A bank shall put in place a suitable mechanism for maintaining and periodically updating the list of all the related persons, and the related parties thereof, as well as the loans sanctioned by the bank to such related persons and related parties.

16N. Credit facilities sanctioned to 'specified employees' and their relatives shall be reported to the Board on an annual basis.

16O. Periodic reviews shall be conducted at quarterly or shorter intervals by internal auditors to check, *inter alia*, whether guidelines and procedures in relation to loans to related parties are being adhered to or not.

16P. Any deviation from the policy relating to lending to related parties and reasons therefor such deviations shall be reported to the Audit Committee of the Board.

16Q. 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.

A.6 Enforcement Actions

16R. Any non-compliance with and circumvention of these Directions shall result in supervisory and enforcement actions as deemed appropriate by the Reserve Bank. These actions may include imposition of monetary penalty, requirement of full provisioning, directions to conduct staff accountability exercises, forensic audits, and restrictions or any other supervisory and enforcement actions as deemed fit.

4. The above amendments shall come into force from April 1, 2026. Banks may however decide to implement the amendments in entirety from an earlier date. With a view to ensuring non-disruptive implementation of instructions issued vide these Amendment Directions, banks are permitted to let their existing related party transactions which are not in conformity with these amendments as on the date of issuance of these Amendment Directions to run-off till maturity. However, banks shall not renew such loans / limits after their expiry on same or different terms, even if such renewal is provided in the contract, or enhance the limits sanctioned prior to the date of these Amendment Directions coming into force, unless they are in compliance with amendments issued vide these Amendment Directions.

5. Consequent to the above amendments, corresponding amendment directions viz., **Reserve Bank of India (Local Area Banks – Financial Statements: Presentation and Disclosures) – Amendment Directions, 2026** have been separately issued.

Vaibhav Chaturvedi

(Chief General Manager)