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RESERVE BANK OF INDIA

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**Reserve Bank of India (Local Area Banks - Concentration Risk Management)
Directions, 2025**

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Introduction

The concentration of a bank's exposures to a single counterparty or a group of connected counterparties poses significant risks. The Reserve Bank of India (RBI), recognizing the imperative of robust risk management, therefore introduced prudential exposure limits in March 1989. These limits restricted banks' exposures to individual borrower and group borrowers to a certain percentage of capital funds, laying the foundation for mitigating concentration risk on assets side of their balance sheets. Cognizant of the concentration risk on the liability side of the balance sheet, the RBI introduced Prudential Limits for Inter-Bank Liabilities in 2007 further strengthening its comprehensive approach on concentration risk management. These prudential limits are proportionately applicable on Local Area Banks (LABs) as given in these Directions.

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

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Local Area Banks - Concentration Risk Management) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to Local Area Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them in the ensuing paragraphs.

(1) "**Capital Funds for exposure norms**" shall comprise Tier I and Tier II capital as defined in the [Reserve Bank of India \(Local Area Banks – Prudential Norms on Capital Adequacy\) Directions, 2025](#), and as per the published accounts as on March 31 of the previous year. However, the infusion of capital under Tier I and Tier II after the published balance sheet date will also be taken into account for determining the exposure ceiling.



Other accretions to capital funds by way of quarterly profits, etc., would not be eligible to be reckoned for determining the exposure ceiling. Banks are also prohibited from taking exposure in excess of the regulatory ceiling in anticipation of infusion of capital at a future date.

(2) “**Exposure**” shall include credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding as the exposure. The credit exposure, investment exposure and exposure for derivative products shall be reckoned as under:

- (i) “**Credit Exposure**” comprises all types of funded and non-funded credit limits, and facilities extended by way of equipment leasing, hire purchase finance and factoring services.
- (ii) “**Investment Exposure**” comprises the investments in shares and debentures of companies, PSU bonds, and Commercial Papers (CPs).

Explanation:

- (a) A bank’s investment in debentures / bonds / security receipts / pass-through certificates (PTCs) issued by a Securitisation Company (SC) / Reconstruction Company (RC) as compensation consequent upon sale of financial assets shall constitute exposure on the SC / RC.
- (b) The investment made by a bank in bonds and debentures of corporates which are guaranteed by an RBI Regulated Entity shall also be governed by [Reserve Bank of India \(Local Area Banks – Credit Facilities\) Directions, 2025.](#)
- (iii) “**Credit Exposure of Derivative Products**” is the credit exposure arising on account of the interest rate and foreign exchange derivative transactions and gold. For the purpose of exposure norms, a bank shall compute its credit exposure of derivative products using the method prescribed in the [Reserve Bank of India \(Local Area Banks – Prudential Norms on Capital Adequacy\) Directions, 2025.](#)

(3) “**Group**” shall have the following definition.

- (i) The concept of 'Group' and the task of identification of the borrowers belonging to specific industrial groups is left to the perception of the bank/financial



institution. The bank / financial institution is generally aware of the basic constitution of its clientele for the purpose of regulating its exposure to risk assets. The group to which a particular borrowing unit belongs, may, therefore, be decided by it on the basis of the relevant information available with it, the guiding principle being commonality of management and effective control. In so far as public sector undertakings are concerned, only single borrower exposure limit would be applicable.

(ii) In the case of a split in the group, if the split is formalised the splinter groups will be regarded as separate groups. If a bank and financial institution has doubts about the bona fides of the split, a reference may be made to RBI for its final view in the matter to preclude the possibility of a split being engineered in order to prevent coverage under the Group Approach.

(4) **“Net worth”** shall comprise Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets. No general or specific provisions should be included in computation of net worth. Infusion of capital through equity shares, either through domestic issues or overseas floats after the published balance sheet date, may also be taken into account for determining the ceiling on exposure to capital market. Banks should obtain an external auditor’s certificate on completion of the augmentation of capital and submit the same to the RBI (Department of Supervision) before reckoning the additions, as stated above.

(5) **“Qualifying Central Counterparty”** or **“QCCP”** is an entity that is licensed to operate as a central counterparty (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. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator / overseer has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

(6) **“Securities financing transaction (SFTs)”** are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, collateralised borrowing and lending and margin lending transactions, where the value of



the transactions depends on market valuations and the transactions are often subject to margin agreements.

(7) “**Trade exposures**” include the current exposure and potential future exposure of a clearing member or a client to a CCP arising from OTC derivatives, exchange traded derivatives transactions or SFTs, as well as initial margin. The current exposure of a clearing member includes the variation margin due to the clearing member but not yet received.

(8) “**Default funds**”, also known as clearing deposits or guarantee fund contributions (or any other names), are clearing members’ funded or unfunded contributions towards, or underwriting of, a CCP’s mutualised loss sharing arrangements. The description given by a CCP to its mutualised loss sharing arrangements is not determinative of their status as a default fund; rather, the substance of such arrangements shall govern their status.

5. 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 or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.



Chapter II - Exposure Norms

A. Role of the Board

6. The bank shall put in place a comprehensive Board approved policy on Concentration Risk Management, which shall, inter alia, include.
 - (1) Policy to determine the size of the exposure to NABARD.
 - (2) Limits in respect of various sub-segments under consumer credit, particularly limits for unsecured consumer credit exposures.
 - (3) Intra-day exposure limits to the capital markets.
 - (4) Internal ceiling, within the regulatory prescribed ceilings for capital market exposure.

B. Exposure limits

B.1 Credit exposure to single and group borrowers

7. A bank's credit exposure to a single and group borrower shall not be higher than 15 percent and 40 percent of its capital funds, respectively.

B.2 Exposures to and among certain specific counterparties

B.2.1 Exposures to Central Counterparties

8. A bank's exposures to QCCPs related to clearing activities shall be exempted from the exposure ceiling of 15 percent of its capital funds applicable to single borrower. Clearing exposure would include trade exposure and default fund exposure. Other exposures to QCCPs such as loans, credit lines, investments in the capital of CCP, liquidity facilities, etc. will continue to be within the existing exposure ceiling of 15 per cent of capital funds to a single borrower.

9. A bank's exposure to non-QCCPs shall be subject to the exposure ceiling of 15 percent of its capital funds applicable to single borrower.

B.2.2 Exposures to NBFCs

B.2.2.1 Exposure to an NBFC excluding gold loan company

10. A bank's loan and investment exposure to a single NBFC and group NBFC borrower shall not be higher than 10 percent and 15 percent of its capital funds, respectively.



B.2.2.2 Exposure to an NBFC predominantly engaged in lending against collateral of gold jewellery

11. A bank's exposure to a single NBFC which is predominantly engaged in lending against collateral of gold jewellery (hereafter referred to as 'gold loans') i.e. such loans comprising 50 percent or more of its financial assets, shall not exceed 7.5 percent of the bank's capital funds.

B.3 Lending under Consortium Arrangements

12. The exposure limits shall also be applicable to lending under Consortium / Multiple Banking / Syndication Arrangements.

B.4 Bills discounted under Letter of Credit (LC)

13. In cases where the bills discounting / purchasing / negotiating bank and LC issuing bank are different entities, bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve'), will be treated as an exposure on the LC issuing bank and not on the third party / borrower. However, in cases where the bills discounting / purchasing / negotiating bank and LC issuing bank are part of the same bank, i.e. where LC is issued by the Head Office or branch of the same bank, then the exposure should be taken on the third party / borrower and not on the LC issuing bank. In the case of negotiations 'under reserve', the exposure should be treated on the borrower.

B.5 Exemptions

B.5.1 Food credit

14. Borrowers, to whom limits are allocated directly by the Reserve Bank for food credit, will be exempt from the ceiling.

B.5.2 Guarantee by the Government of India

15. The ceilings on single / group exposure limit would not be applicable where principal and interest are fully guaranteed by the Government of India.

B.5.3 Loans against Own Term Deposits

16. Loans and advances (both funded and non-funded facilities) granted against the security of a bank's own term deposits should not be reckoned for computing the exposure to the extent that the bank has a specific lien on such deposits.



B.5.4 Exposure on NABARD

17. The ceiling on single / group borrower exposure limit will not be applicable to exposure assumed by a bank on NABARD. The bank is free to determine the size of the exposure to NABARD as per the policy framed by its Board of Directors. However, there shall not be any exemption from the prohibitions relating to investments in unrated non-SLR securities prescribed in terms of [Reserve Bank of India \(Local Area Banks – Classification, Valuation and Operation of Investment Portfolio\) Directions, 2025.](#)

C. Exposure to Industry and certain Sectors

C.1 Internal Exposure Limits

C.1.1 Fixing of Sectoral Limits

18. In addition to limiting exposures to a single or group borrowers, a bank shall consider fixing internal limits for aggregate commitments to specific sectors to ensure diversified sectoral exposure. These sectoral limits shall be fixed based on the bank's assessment of sectoral performance and associated risk perceptions. The bank shall review and revise these limits periodically, as deemed appropriate.

19. A bank shall have Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Board as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee.

20. All top-up loans extended by a bank against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

C.1.2 Exposure to NBFC Sector

21. A bank may also consider fixing internal limits for its aggregate exposure to all NBFCs put together.

22. The bank should have an internal sub-limit on its aggregate exposures to all NBFCs, having gold loans to the extent of 50 percent or more of their total financial assets, taken together. This sub-limit should be within the internal limit, where fixed by the bank for its aggregate exposure to all NBFCs put together as mentioned in paragraph 21.



C.1.3 Exposure to Real Estate

23. A bank shall be guided by the [Reserve Bank of India \(Local Area Banks – Credit Facilities\) Directions, 2025](#).

C.1.4 Bank's Exposure to Capital Markets – Rationalisation of Norms

C.1.4.1 Components of Capital Market Exposure (CME)

24. A bank's capital market exposures shall include both its direct exposures and indirect exposures. The aggregate exposure (both fund and non-fund based) of a bank, if it is permitted to undertake such exposures in terms of [Reserve Bank of India \(Local Area Banks – Credit Facilities\) Directions, 2025](#), to capital markets in all forms shall include the following:

- (1) A bank's direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;
- (2) advances by a bank against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;
- (3) advances by a bank for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;
- (4) advances by a bank for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds/convertible debentures / units of equity oriented mutual funds does not fully cover the advances;
- (5) secured and unsecured advances by a bank to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;
- (6) loans sanctioned by a bank to corporates against the security of shares / bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;
- (7) bridge loans to companies by a bank against expected equity flows / issues;



- (8) underwriting commitments taken up by the bank in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;
- (9) financing by a bank to stockbrokers for margin trading; and
- (10) A bank's all exposures to Alternate Investment Funds.

C.1.4.2 Limits on a bank's Exposure to Capital Markets

C.1.4.2.1 Statutory limit on shareholding in companies

25. In terms of Section 19(2) of the Banking Regulation Act, 1949, no banking company shall hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less, except as provided in sub-section (1) of Section 19 of the Act. Shares held in demat form should also be included for the purpose of determining the exposure limit. This is an aggregate holding limit for each company. A bank shall strictly adhere to these statutory provisions while granting any advance against shares, underwriting any issue of shares, or acquiring any shares on investment account or even in lieu of debt of any company.

C.1.4.2.2 Regulatory Limit

26. The aggregate exposure of a bank to the capital markets in all forms (both fund based, and non-fund based) shall not exceed 40 percent of its net worth, as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to Alternate Investment Funds (AIFs) shall not exceed 20 percent of its net worth.

27. The above-mentioned ceiling is the maximum permissible and a bank's Board of Directors is free to adopt a lower ceiling for the bank, keeping in view its overall risk profile and corporate strategy. A bank shall adhere the ceilings on an ongoing basis.

28. Shares acquired by a bank as a result of conversion of debt / overdue interest into equity under resolution of stressed loans in terms of [Reserve Bank of India \(Local Area Banks – Resolution of Stressed Assets\) Directions, 2025](#), will be exempted from regulatory ceilings / restrictions on Capital Market Exposures, investment in Para-Banking activities and intra-group exposure. However, these will require reporting to RBI (DoS, CO every month along with the regular DSB Return on Asset Quality) and disclosure by a bank in the Notes to



Accounts in Annual Financial Statements. Nonetheless, the bank shall comply with the provisions of Section 19(2) of the Banking Regulation Act, 1949.

C.1.4.3 Items excluded from Capital Market Exposure of a bank

29. The following items should be excluded from the aggregate exposure ceiling of 40 percent of net worth and direct investment exposure ceiling of 20 percent of net worth (wherever applicable):

- (1) A bank's investments in shares and convertible debentures, convertible bonds issued by institutions forming crucial financial infrastructure such as National Securities Depository Ltd. (NSDL), Central Depository Services (India) Ltd. (CDSL), NSE Clearing Limited (National Clearing), National Stock Exchange (NSE), Clearing Corporation of India Ltd., (CCIL), a credit information company which has obtained Certificate of Registration from RBI and of which the bank is a member, Multi Commodity Exchange of India Ltd. (MCX), National Commodity and Derivatives Exchange Ltd. (NCDEX), Indian Commodity Exchange Limited (ICEX), National Commodities Management Services Ltd. (NCML), National Payments Corporation of India (NPCI) and Bombay Stock Exchange (BSE) and other All India Financial Institutions as given in [Annex - I](#). After listing, the exposures in excess of the original investment (i.e. prior to listing) shall form part of the CME.
- (2) Tier I and Tier II debt instruments issued by other banks.
- (3) Investment in Certificate of Deposits (CDs) of other banks.
- (4) Investment by a bank in Preference Shares.
- (5) Investment by a bank in non-convertible debentures and non-convertible bonds.
- (6) Investment by a bank in units of Mutual Funds under schemes where the corpus is invested exclusively in debt instruments.
- (7) Shares acquired by a bank as a result of conversion of debt / overdue interest into equity under resolution of stressed loans in terms of [Reserve Bank of India \(Local Area Banks – Resolution of Stressed Assets\) Directions, 2025](#).

C.1.4.4 Computation of exposure

30. For computing the exposure to the capital markets, loans / advances sanctioned and guarantees issued for capital market operations shall be reckoned with reference to sanctioned limits or outstanding, whichever is higher. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, a bank shall reckon the outstanding as the exposure.



31. The bank's direct investment in shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds shall be calculated at its cost price.

C.1.4.5 Intra-day Exposures

32. The bank shall put in place a Board-approved policy for fixing intra-day exposure limits to the capital markets and establish an appropriate system for ongoing monitoring of such limits.

D. Cross holding of capital among banks / Financial Institutions

33. A bank shall be guided by the [Reserve Bank of India \(Local Area Banks – Prudential Norms on Capital Adequacy\) Directions, 2025.](#)

E. 'Safety Net' Schemes for Public Issues of Shares, Debentures, etc.

E.1 'Safety Net' Schemes

34. A bank shall not offer 'Safety Net' or any such facilities, which would entail commitments to buy the securities from the investors at a pre-determined price during a stipulated period, irrespective of the prevailing market price.

E.2 Provision of buy back facilities

35. If a bank provides a buy back arrangement to small investors subscribing to new issues, such an arrangement shall not provide commitments to buy the securities at pre-determined prices. Prices should be determined from time to time, keeping in view the prevailing stock market prices for the securities. Commitments should also be limited to a moderate proportion of the total issue in terms of the amount and should not exceed 25 percent of the owned funds of the bank. These commitments shall also be subject to the overall exposure limits which have been or may be prescribed from time to time.



Chapter III - Prudential Limits for Inter-Bank Liabilities (IBL)

36. The regulatory instructions on prudential limits for inter-bank liabilities are covered in [Reserve Bank of India \(Local Area Banks – Asset Liability Management\) Directions, 2025](#).



Chapter IV - Repeal and other provisions

A. Repeal and saving

37. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Concentration Risk Management applicable to Local Area Banks stand repealed, as communicated vide [circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025](#). The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

38. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
- (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
- (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

39. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

C. Interpretations

40. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Vaibhav Chaturvedi)
Chief General Manager



Annex - I

List of All-India Financial Institutions

[Investment in equity / convertible bonds / convertible debentures by banks - List of FIs whose instruments are exempted from Capital Market Exposure ceiling]

1. IFCI Ltd.
2. Tourism Finance Corporation of India Ltd. (TFCI)
3. IFCI Venture Capital Funds Ltd. (IFCI Venture)
4. Technology Development and Information Company of India Ltd. (TDICI)
5. National Housing Bank (NHB)
6. Small Industries Development Bank of India (SIDBI)
7. National Bank for Agriculture and Rural Development (NABARD)
8. Export Import Bank of India (EXIM Bank)
9. Life Insurance Corporation of India (LIC)
10. General Insurance Corporation of India (GIC)