भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Reserve Bank of India (Regional Rural Banks - Concentration Risk Management) Directions, 2025

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Introduction

The concentration of a bank's exposures to a single borrower or a group borrower poses significant risks. The Reserve Bank of India (RBI), recognizing the imperative of robust risk management, therefore introduced prudential exposure limits for Regional Rural Banks (RRBs) in October 1995. 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. These prudential norms were further revised in March 2000 and June 2001 and the reference parameter was changed to owned funds. In addition, banks were advised in October 1999 to implement the recommendations of High-Level Committee on Credit SSI, which required, *inter alia,* banks to have their own sectoral exposure limits.

Recognizing the imperative of robust risk management in the area of concentration risk either to a counterparty or a group of connected counterparties or specific sectors, 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 (Regional Rural 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 Regional Rural Banks (hereinafter collectively referred to as 'RRBs' and individually as 'RRB').

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) "**Owned Funds**" shall comprise of paid-up capital, statutory reserve, other free reserves not in the nature of outside liabilities and credit balance in profit and loss account. It

shall also include share capital deposit / additional share capital (provided to RRBs selected under restructuring programme) contributions received from Central Government and sponsor banks (even in cases where State Government's contributions are awaited) for the computation of owned funds on a notional basis only for the purpose of computing exposure limit for advances / investments.

It shall not include:

- accumulated losses and shortfall in provisions.
- all provisions attributable to actual diminution in value or identifiable potential loss in any specific asset and are not available to meet unexpected losses. Thus, provisions for bad and doubtful debts / NPAs, investment depreciation fund, and any reserve like bad and doubtful debt reserve, special bad and doubtful debt reserve, overdue interest reserve, etc. will not form part of owned funds. should not be included in owned funds.
- reserves, if any, created by way of revaluation of fixed assets, etc.

(2) "**Exposure**" shall include both credit (funded and non-funded credit limits and underwriting and similar commitments) and investment exposures. For credit exposure, the sanctioned limits or outstanding whichever is higher shall be reckoned for arriving at the exposure limit. Further, in case of fully drawn term loans, where there is no scope of re-drawal of any portion of the sanctioned limit, RRBs may reckon the outstanding for arriving at credit exposure limit. Non-fund-based exposures should also be reckoned at 100 per cent of the non-fund based credit limits, or outstanding, whichever is higher.

(3) **"Group borrowers":** As group borrowers may be requiring substantially higher credit facilities, RRBs may not be financing them. However, where such finance is extended to group borrowers directly, an RRB shall establish a framework for identifying group borrowers based on relevant information available with it. The guiding principle in this regard being commonality of management and effective control.

(4) "**Sponsor Bank**" means a bank by which such Regional Rural Bank has been sponsored.

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 the Regional Rural Banks Act, 1976 and rules / regulations made thereunder, 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 RRB shall develop a set of written loan policies. Such policies should, inter alia, specify explicitly single counterparty and group exposure limits, standards for documentation, sectoral exposure limits and delegation of powers. The Board shall review the position of diversification of lending portfolios. This aspect has been detailed in the ensuing paragraph.

B. Exposure Ceilings

7. The RRB's exposure to a single and group borrower / party (i.e., single exposure and group exposure) shall not be higher than 15 per cent and 40 per cent of its owned funds, respectively.

8. The RRB shall formulate its lending programme focussing on reaching a large number of relatively smaller borrowers, while ensuring suitable diversification of its lending portfolios, in order to obviate concentration of risk in a single / group of borrowers or line of activity etc. The Boards of RRBs shall also suitably review the position to ensure compliance.

9. The RRB's investment in Tier-II Bonds issued by its sponsor bank or other banks / FIs shall not be higher than 10 per cent of its owned funds.

10. The RRB's investment in shares and debentures of corporates and units of mutual funds shall not be higher than 5 per cent of the incremental deposits at the end of the preceding financial year including buying the shares / debentures from the secondary market. However, the ceiling of 5 per cent would not be applicable in case of investments in bonds of

(1) Public Sector Undertakings (those fully owned by Central / State Governments or in which Central / State Governments have more than 50 per cent equity holding).
(2) All India Financial Institutions (List given in **Annex - I**).

11. While making investments in a company, provisions of Sections 19(2) of the Banking Regulation Act, 1949 shall be complied with.

12. The RRB may invest its non-SLR surplus funds in risk-sharing participation certificates (PCs) issued by sponsor banks on agreed terms subject to the exposure ceilings. Further,

PCs shall be within the overall ceiling of 15 per cent of fresh lending during a year fixed for the purpose.

13. The RRB shall review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various sub-segments under consumer credit as may be considered necessary by the Boards 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.

14. All top-up loans extended by RRBs 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.

Chapter III - Repeal and other provisions

A. Repeal and saving

15. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Concentration Risk Management applicable to Regional Rural 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.

16. 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

17. 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

18. 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 exempted form prescribed ceiling of five per cent for RRBs investments in equities / bonds

1. IFCI Ltd.
2. Export-Import Bank of India (Exim Bank)
3. National Bank for Agriculture and Rural Development (NABARD)
4. Small Industries Development Bank of India (SIDBI)
5. National Housing Bank (NHB)
6. Unit Trust of India (UTI)
7. Life Insurance Corporation of India (LIC)
8. General Insurance Corporation of India (GIC)
9. IFCI Venture Capital Funds Ltd. (IFCI Venture)
10. Technology Development and Information Company of India Ltd. (TDICI)
11. Tourism Finance Corporation of India Ltd. (TFCI)
12. Discount and Finance House of India Ltd. (DFHI)
13. STCI Finance Ltd.