



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/178

DOR.CRE.REC.379/07-02-006/2025-26

January 05, 2026

**Reserve Bank of India (Rural Co-operative Banks– Credit Risk Management) –
Amendment Directions, 2026**

Please refer to [Reserve Bank of India \(Rural Co-operative Banks – Credit Risk Management\) Directions, 2025](#) (hereinafter referred to as ‘the Directions’).

2. On a review, in exercise of the powers conferred by the Sections 21 and 35A read with Section 56 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-subparagraphs shall be inserted as definitions:

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

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

(iia) ‘*Director of a RCB*’ 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

(iib) ‘*Entity*’ shall mean a ‘person’ other than an individual and a Hindu Undivided Family.

(iic) ‘*Key Managerial Personnel (KMP)*’ of a RCB shall mean all employees one level below the Board and any person designated as such by the Board.

(iid) ‘*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.

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

(v) '*Personal Loan*' shall have the same meaning as defined under Banking Statistics (Harmonised Definitions).

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

(vii) '*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 Co-operative bank or (ii) relatives of such directors or (iii) firms/companies in which such reciprocally related persons have interest/substantial interest.

(viii) '*Related Party*' with respect to a RCB 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 a 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; or



- (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.

Provided further 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.

(ix) ‘*Related Person*’ with respect to a RCB shall mean a person, and the relatives of such a person, where the person:

- (a) is either a director, a specified employee 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 jointly with other shareholders 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 RCB.

(x) ‘*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.

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

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

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

5. An RCB 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, valuation of properties including empanelment of valuers and maintenance of cash credit accounts, current accounts and overdraft accounts. 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) After paragraph 8, a new paragraph 8A shall be inserted, as given below:

8A. Clarifications on Applicability of Section 20(1)(b) of BR Act

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, read with Section 56 of the Act *ibid*, the following explanations are provided:

(1) 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'.

For removal of doubt, it is clarified that there would be no restriction on a State Co-operative Bank (StCB)'s credit facilities to Central Co-operative Banks (CCBs) and Primary Agricultural Credit Societies (PACS); and a CCB's credit facilities to PACS due to application of Section 20(1)(b) of BR Act.

(2) Provisions of paragraph 8 above would not apply in the following cases:

(i) Credit facilities granted or commitment made by a RCB 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 all directors against government securities, life insurance policies or fixed deposit standing in their own name, where loan-



to-value is not in excess of 100 per cent of the realizable value of such securities or specifically prescribed LTV ratio for loan against such a primary security by relevant Directions of the RBI, if any.

(iv) Regular employee-related loans to staff directors on the Boards of RCBs.

(v) Secured Personal loans to all Directors, including Chairman/MD/CEO and up to the same limits' as permitted to an employee.

Provided that the credit facilities mentioned at sub-paras (iv) and (v) above shall be subject to the prudential ceilings and norms prescribed for various loans to individuals in [Reserve Bank of India \(Rural Co-operative Banks – Credit Facilities\) Directions, 2025](#) and [Reserve Bank of India \(Rural Co-operative Banks – Concentration Risk Management\) Directions, 2025](#).

Provided further that the purpose of loans mentioned at sub-paras (iv) and (v) above shall not be for investment in financial assets and the interest rate charged on all such loans shall not be lower than the rate charged to the employees.

(vi) 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 exposure arising on account of derivative transactions.

3(4). In Chapter IV – 'Regulatory Restrictions' of the Directions, the following amendments shall be effected:

(i) A new Section E and its sub-sections and new paragraphs 16 A through 16Q shall be inserted after paragraph 16, as given below

E. Lending to Related Parties

E.1 General Principles on Lending to Related Parties

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, (a) 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 (b) 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.

E.2 Regulatory Prohibitions

16G. RCB shall not undertake any lending transaction with the relatives of directors except credit facility fully secured by government securities, life insurance policies or fixed deposit standing in their own name.

16H. RCBs shall not undertake any lending transaction with the firms / companies / concerns, as well as subsidiaries/holding companies thereof, in which the relatives of directors are interested, or have given surety/guarantee or hold substantial interest or are in control of the company / firm.

E.3 Materiality Threshold

16I. Loans to related parties, which are not prohibited in terms of provisions of this Chapter and Chapter III 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 (ii) inter-bank loans, shall be subject to a materiality threshold as per the credit policy of the RCB, which shall not be higher than the following ceilings:



Asset Size of the RCB	Materiality Threshold Ceilings
>₹10,000 crore	₹75 lakh
₹3,000 crore - ₹10,000 crore	₹50 lakh
Upto ₹3,000 crore	₹25 lakh

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

16K. All loans above the prescribed materiality threshold shall be sanctioned by Board of the RCB.

E.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.

E.5 Monitoring of Loans to Related Parties

16M. RCB 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 loan sanctioned by the bank to such related persons and related parties.

16N. 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.

16O. Any deviation from the policy relating to lending to related parties and reasons thereof shall be reported to the Audit Committee of the Board.

16P. 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.

E.6 Enforcement Actions

16Q. 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. RCBs may however decide to implement the amendments in entirety from an earlier date. With a view to ensuring non-disruptive implementation of amendments 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 review/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 (Rural Co-operative Banks – Financial Statements: Presentation and Disclosures) – Amendment Directions, 2026 have been separately issued.

Vaibhav Chaturvedi
(Chief General Manager)