



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/173

DOR.CRE.REC.374/07-02-001/2025-26

January 05, 2026

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

Please refer to [Reserve Bank of India \(Commercial Banks - Credit Risk Management\) 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-subparagraphs shall be inserted as definitions:

(iia) '*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.

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

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

(iva) '*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.

(vii) '*Entity*' in the context of a 'related party' prescribed in Chapter V shall mean a 'person' other than an individual and a Hindu Undivided Family (HUF).



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

(ixb) '*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.

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

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

(xivb) '*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.

(xivc) '*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.

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.

(xivd) '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.

(xviiia) '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.

(ii) Sub-paragraph 4(1)(xiv) shall be replaced with the following sub-paragraph:

(xiv) '*Personal Loan*' shall have the same meaning as defined under [Banking Statistics \(Harmonised Definitions\)](#).

(iii) Sub-paragraph 4(1)(xv) shall be replaced with the following sub-paragraph:

(xv) '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.



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, country risk management, unhedged foreign currency exposures, valuation of properties including empanelment of valuers, and opening of current accounts and CC / OD 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 IV ‘Statutory Restriction’ of the Directions, the following amendments shall be effected:

(i) Paragraph 15 shall be deleted.

(ii) After paragraph 15, a new paragraph 15A shall be inserted, as under:

15A. 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:

(1) The sanction or grant of credit facilities to companies in India by a foreign bank having branches in India shall be in compliance with the spirit of Section 20 of the Banking Regulation Act, 1949. Accordingly, a foreign bank branch in India shall not lend to a firm / company in India, if a director in the foreign bank’s Board abroad has an interest in the firm / company or if the company is a subsidiary of any Indian / foreign parent in which the director is interested.

(2) Provisions of paragraph 14 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 of the director, 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.

(vi) 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, if such QCCP is classified as a related party.

(iii) Section B.2 and paragraphs 16, 17, 18 and 19 shall be deleted.

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

(i) Sections A, A.1, and B; and paragraph 24 through paragraph 42 shall be deleted.

(ii) A new Section B.1, its sub-sections, and new paragraphs 42A through 42T shall be inserted after paragraph 42, as given below:



B.1 Lending to Related Parties

B.1.1. General Principles

42A. This Section sets out general principles and procedures to be followed for prudent risk management of loans to related parties, wherever allowed.

42B. 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.

42C. 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.

42D. The policy shall also have specific provisions for lending to 'specified employees' of the bank and their relatives.

42E. 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.

42F. 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.

B.1.2 Regulatory Prohibitions

42G. Provisions of paragraph 14 in Chapter IV 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.



42H. 42G. 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).

Provided that nothing in paragraph 42G above shall apply in cases where a financial institution, a scheduled commercial bank, a foreign portfolio investor or a mutual fund holds ten per cent or more of the equity share capital of the bank as non-strategic investment and without any control of the bank.

B.1.3 Materiality Threshold

42I. 42H. Loans to related parties, which are not prohibited in terms of provisions of Chapter IV 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 Section 20(4) 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 the following ceilings:

Asset Size of the bank (in ₹crore)	Materiality Threshold Ceilings
> 10,00,000	₹25 crore
≥ 1,00,000 to up to 10,00,000	₹10 crore
Less than 100,000	₹5 crore
Asset size based on the last audited balance sheet. For loans, materiality threshold shall apply at individual transaction level.	

42J. 42I. Materiality thresholds may vary for different categories of loans to related parties as per the bank's policy.

42K. 42J. 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.

B.1.4 Recusal of Interested Parties

42L. 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.

B.1.5 Monitoring of Loans to Related Parties

42M. 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.

42N. Credit facilities sanctioned to 'specified employees' and their relatives shall be reported to the Board on an annual basis.

42O. 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.

42P. Any deviation from the policy relating to lending to related parties and reasons therefor shall be reported to the Audit Committee of the Board.

42Q. 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.

B.1.6 Others

42R. In addition to the provisions of Chapter V 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.



42S. Banks shall also adhere to instructions placed in terms of Chapter VI- Prudential Limits on Intra-Group Transactions and Exposure of [Reserve Bank of India \(Commercial Banks - Concentration Risk Management\) Directions, 2025](#) for transactions with their group entities.

B.1.7 Enforcement Actions

42T. 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, bank shall not renew/review 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 \(Commercial Banks – Financial Statements: Presentation and Disclosures\) – Amendment Directions, 2026](#) have been separately issued.

Vaibhav Chaturvedi
(Chief General Manager)



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/174

DOR.CRE.REC.375/07-02-002/2025-26

January 05, 2026

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

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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-subparagraphs shall be inserted as definitions:

(iiia) '*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.

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

(va) '*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.



(viii) '*Entity*' in the context of a 'related party' prescribed in Chapter V shall mean a 'person' other than an individual and a Hindu Undivided Family (HUF).

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

(ixb) '*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.

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

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

(xivb) '*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.

(xivc) '*Related Party*' with respect to a bank shall mean a related person or 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.

(xivd) '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.

(xviiia) '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.

(ii) Sub-paragraph 4(1)(xiv), shall be replaced with the following sub-paragraph:



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

(iii) Sub-paragraph 4(1)(xv), shall be replaced with the following sub-paragraph:

(xv) '*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.

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, country risk management, unhedged foreign currency exposures, valuation of properties including empanelment of valuers, and opening of current accounts and CC / OD 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 IV 'Statutory Restriction' of the Directions, the following amendments shall be effected:

(i) Paragraph 15 shall be deleted.

(ii) After paragraph 15, a new paragraph 15A shall be inserted, as under:

15A. 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 14 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.

(vi) 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, if such QCCP is classified as a related party.

(iii) Section B.2 and paragraphs 16, 17, 18 and 19 shall be deleted.

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

(i) Sections A, A1 and B; and paragraph 24 through paragraph 42 shall be deleted.

(ii) A new Section B.1, its sub-sections, and new paragraphs 42A through 42T shall be inserted after paragraph 42, as given below:

B.1 Lending to Related Parties

B.1.1. General Principles



42A. This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties, wherever allowed.

42B. 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.

42C. 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.

42D. The policy shall also have specific provisions for lending to 'specified employees' of the bank and their relatives.

42E. 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.

42F. 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.

B.1.2 Regulatory Prohibitions

42G. Provisions of paragraph 14 in Chapter IV 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.

42H. 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).

Provided that nothing in paragraph 42G above shall apply in cases where a financial institution, a scheduled commercial bank, a foreign portfolio investor or a mutual fund holds ten per cent or more of the equity share capital of the bank as non-strategic investment and without any control of the bank.

B.1.3 Materiality Threshold

42I. Loans to related parties, which are not prohibited in terms of provisions of Chapter IV 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 the following ceilings:

Asset Size of the bank (in ₹crore)	Materiality Threshold Ceilings
> 10,00,000	₹25 crore
≥ 1,00,000 to up to 10,00,000	₹10 crore
Less than 100,000	₹5 crore
Asset size based on the last audited balance sheet.	
For loans, materiality threshold shall apply at individual transaction level.	

42J. Materiality thresholds may vary for different categories of loans to related parties as per the bank's policy.

42K. 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.



B.1.4 Recusal of Interested Parties

42L. 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.

B.1.5 Monitoring of Loans to Related Parties

42M. 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.

42N. Credit facilities sanctioned to 'specified employees' and their relatives shall be reported to the Board on an annual basis.

42O. 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.

42P. Any deviation from the policy relating to lending to related parties and reasons therefor shall be reported to the Audit Committee of the Board.

42Q. 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.

B.1.6 Others

42R. In addition to the provisions of Chapter V 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.

42S. Banks shall also adhere to instructions placed in terms of Chapter VI- Prudential Limits on Intra-Group Transactions and Exposure of Reserve Bank of



India (Small Finance Banks - Concentration Risk Management) Directions, 2025
for transactions with their group entities.

B.1.7 Enforcement Actions

42T. 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 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 (Small Finance Banks – Financial Statements: Presentation and Disclosures) – Amendment Directions**, 2026 have been separately issued.

Vaibhav Chaturvedi
(Chief General Manager)



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.

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

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

(viiiid) ‘*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.

(viiiie) ‘*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)



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/176

DOR.CRE.REC.376/07-02-004/2025-26

January 05, 2026

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

Please refer to Reserve Bank of India (Regional Rural 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:

(iiia) '*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.

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

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

(va) '*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.



(vb) ‘*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).

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

(vd) ‘*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.

(viiia) ‘*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).

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

(viid) ‘*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.

(viie) ‘*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.

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

(viif) ‘*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.

(viig) ‘*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.

(viia) ‘*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, valuation of properties including empanelment of valuers and opening of current accounts and CC / OD 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) 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 16Q 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.

A.3 Materiality Threshold

16H. 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 the following ceilings:

Asset Size of the bank in ₹ crore	Materiality Threshold Ceilings
> 50,000	₹ 50 lakh
≥ 10,000 to up to 50,000	₹ 25 lakh
Up to 10,000	₹ 10 lakh
Asset size based on the last audited balance sheet. For loans, materiality threshold shall apply at individual transaction level.	

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



16J. 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

16K. 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

16L. 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.

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

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 therefor such deviations 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.



A.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. 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 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 (Regional Rural Banks – Financial Statements: Presentation and Disclosures) – Amendment Directions, 2026** have been separately issued.

Vaibhav Chaturvedi
(Chief General Manager)



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/177

DOR.CRE.REC.378/07-02-005/2025-26

January 05, 2026

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

Please refer to [Reserve Bank of India \(Urban Co-operative Banks – Credit Risk Management\) 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:

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

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

(iva) ‘*Director of a UCB*’ 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, an independent director, and a member of the Board of Management (BoM).

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

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



(ivd) '*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.

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

(vib) '*Personal Loan*' shall have the same meaning as defined under [Banking Statistics \(Harmonised Definitions\)](#).

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

(vid) '*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) a member of Board of Management of another Co-operative bank or (iii) relatives of such directors/BoM members or (iv) firms/companies in which such directors/BoM members have interest/substantial interest.

(vie) '*Related Party*' with respect to a UCB 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.

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

- (a) is either a director, specified employees 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 others 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 UCB.

(viiiia) '*Specified employees*' mean all employees of a UCB who are positioned upto two levels below the Board and any employee designated as such as per the UCB's policy.

(ii) Sub-paragraph 4(1)(vii), shall be replaced with the following sub-paragraph:

(vii) '*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.

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

5. A UCB 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 review/renewal of credit facilities. The aforementioned 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:

(i) A new Section shall be inserted before Paragraph 7, as below:

A. Advances to UCBs' Directors

(ii) After paragraph 7, the following paragraph 7A shall be inserted:

7A. In terms of Section 20(1)(b) of the Banking Regulation Act, 1949, read with Section 56 of the Act *ibid*, banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of:

- (1) any of its directors;
- (2) any firm in which any of its directors is interested as partner, manager, employee or guarantor;
- (3) 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
- (4) any individual in respect of whom any of its directors is a partner or a guarantor.

(iii) After paragraph 7A, a new Section B shall be inserted, as given below:

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

(iv) After the new Section B, a new paragraph 7B shall be inserted, as given below:

7B. 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) Provisions of paragraph 7A above would not apply in the following cases:
 - (i) Credit facilities granted or commitment made by a UCB 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 standing in their own name, where loan-to-value is not in excess of 100 per cent of the realisable 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 UCBs;

(v) Such personal loans to a director, including Chairman/MD/CEO and members of BoM, and up to the same limits, as permitted to an employee.

(vi) Normal loans, as applicable to members, to the directors on the Boards of salary earners' primary (urban) co-operative banks.

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

Provided further that purpose of loans mentioned at sub-paras (iv), (v), and (vi) 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.

(vii) 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.



(viii) 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, if such QCCP is classified as a related party.

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

(i) Section A and paragraphs 11 through 14 shall be deleted.

(ii) A new Section A.1 and its sub-sections and new paragraphs 14 A through 14Q shall be inserted after paragraph 14, as given below

A.1 Lending to Related Parties

A.1.1 General Principles on Lending to Related Parties

14A. This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties, wherever allowed.

14B. 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.

14C. 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.

14D. The policy shall also have specific provisions for lending to ‘specified employees’ of the bank and their relatives.

14E. 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.



14F. 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.1.2 Regulatory Prohibitions

14G. UCBs categorised under Tier I, Tier II, and Tier III 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.

14H. UCBs categorised under Tier I, Tier II and Tier III 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 is in control of the company / firm.

A.1.3 Materiality Threshold

14I. Loans to related parties, which are not prohibited in terms of provisions of Chapter III and Chapter IV of these Directions, or which have been permitted under power exercised by the Reserve Bank under clause (a) of the Explanation under Section 20(4) of the Banking Regulation Act, 1949, except credit facilities fully secured by cash or liquid securities, shall be subject to a materiality threshold as per the credit policy of the UCB, which shall not be higher than the following ceilings:

UCB Tier	Materiality Threshold Ceilings
Tier 1	₹10 lakh
Tier 2	₹25 lakh
Tier 3	₹75 lakh
Tier 4	₹1 crore

14J. Materiality thresholds may vary for different categories of loans to related parties as per the UCB's policy.

14K. All loans above the prescribed materiality threshold shall be sanctioned by Board of the UCB.



A.1.4 Recusal of Interested Parties

14L. 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.1.5 Monitoring of Loans to Related Parties

14M. UCB 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.

14N. 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.

14O. Any deviation from the policy relating to lending to related parties and reasons therefor shall be reported to the Audit Committee of the Board.

14P. 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.1.6 Enforcement Actions

14Q. 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. UCBs 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 (Urban Cooperative Banks – Financial Statements: Presentation and Disclosures) – Amendment Directions, 2026** have been separately issued.

Vaibhav Chaturvedi
(Chief General Manager)



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)



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/179

DOR.CRE.REC.380/07-02-008/2025-26

January 05, 2026

Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) – Amendment Directions, 2026

Please refer to [Reserve Bank of India \(Non-Banking Financial Companies - Credit Risk Management\) Directions, 2025](#) (hereinafter referred to as 'the Directions').

2. On a review, in exercise of the powers conferred by the 45JA, 45L and 45M of the Reserve Bank of India Act, 1934; Sections 30A and 32 of the National Housing Bank Act, 1987 and Section 6 of the Factoring Regulation Act, 2011 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 amendments shall be effected:

(i) A proviso shall be inserted in Paragraph 3(1), as under:

Provided that Paragraphs 6 through 8 of these Directions shall be applicable exclusively to 'Notified NBFCs' as defined in Chapter III 'Credit Risk Evaluation' of these Directions.

(ii) Paragraph 3(2) of Chapter I 'Preliminary' of the Directions shall be deleted

(iii) In Paragraph 4(1), the following sub-sub paras shall be inserted as definitions:

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

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



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

(iiia) ‘Director of an NBFC or any other entity’ shall mean a director appointed/elected to the Board of the entity.

(iiib) ‘Entity’ in the context of a ‘related party’ shall mean a ‘person’ other than an individual and a Hindu Undivided Family.

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

(iiid) ‘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.

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

(ivb) ‘Personal Loans’ shall have the same meaning as defined under [Banking Statistics \(Harmonised Definitions\)](#). However, for these Directions, personal loans shall exclude loans for investments in financial assets.

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

(va) ‘Related Party’ with respect to a NBFC shall mean a related person, or any of the following entities:

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

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

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

(d) where a 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 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



- (g) where a related person is a guarantor or a surety; or
- (h) where a 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 as a subsidiary or a parent company or a holding company or an associate or a joint venture.

Provided that nothing 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 NBFC just by virtue of the fact that the Government has the common ownership or control of such entities.

(vb) '*Related Person*' with respect to a NBFC 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 NBFC; or
- (b) owns more than five per cent of paid-up equity share capital of the NBFC or can, either singly or jointly, exercise more than five per cent of the voting rights of the NBFC 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 NBFC, nominate a director to its Board; or
- (d) is either singly or jointly, in control of the NBFC.

(viiia) '*Specified employees*' mean all employees of a NBFC who are positioned upto two levels below the Board and any employee designated as such as per the NBFC's policy.

(iv) The Sub-paragraph (vi) shall be modified by adding 'and rules framed therein' at the end.

(v) The sub paragraph (vii) shall stand deleted

3(2). In 'Chapter IV Regulatory Restriction' of the Directions, the following amendments shall be effected:



- (i) Heading of Section A shall be renamed as ‘Lending to Related Parties’
- (ii) The existing section B, sub-sections A.1 and A.2, and paragraphs 9 through 13 shall be deleted.
- (iii) The following new sub-sections and new paragraphs 13A to 13Q shall be inserted after paragraph 13, as given below:

A.3 General Principles on Lending to Related Parties

13A. This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties.

A.3.1 Provisions in the Credit Policy

13B. 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 NBFC.

13C. The credit policy (hereinafter called the policy) of a NBFC, 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.

13D. The policy shall also have specific provisions for lending to ‘specified officers’ of the NBFC and their relatives.

13E. Further, the policy shall, as a part of the whistleblowing mechanism, encourage employees to communicate confidentially and without the risk of reprisal, legitimate concerns about irregular, unethical, or questionable loans to related parties; and eliminate *quid pro quo* arrangements, if any.

13F. 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.3.2 Materiality Threshold

13G. Credit Facilities to related parties can be extended by an NBFC in terms of their credit policy. However, such loans, including personal loans to directors or a



KMP, shall be subject to a materiality threshold as per the credit policy, which shall not be higher than the following ceilings:

Category of NBFCs	Materiality Threshold
Upper Layer and Top Layer	₹10 crore
Middle Layer	₹5 crore
Base Layer	₹1 crore
Layer of the NBFC shall be based on the last audited balance sheet. For loans, materiality threshold shall apply at individual transaction level.	

13H. Materiality thresholds may vary for different categories of loans to related parties and borrowers subject to ceilings prescribed above.

13I. All loans above the prescribed materiality threshold shall be sanctioned by the Board of the NBFC. However, a NBFC at its discretion, may delegate the above powers of lending beyond the materiality threshold to a Committee of the Board (hereafter called Committee) other than the Audit Committee of the Board. As regards loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them

A.3.3 Recusal of Interested Parties

13J. 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.4 Monitoring of Loans to Related Parties

13K. A NBFC 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.

13L. Credit facilities sanctioned to 'specified employees' and their relatives shall be reported to the Board on an annual basis.



13M. 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.

13N. Any deviation from the policy relating to lending to related parties and reasons therefor shall be reported to the Audit Committee of the Board or to the Board, where Audit Committees are not formed.

13O. 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 NBFC or by the supervisory authority and investigating agencies shall always be treated as lending to related party

A.5 Others

13P. In addition to the provisions of these Directions on lending to related parties, listed NBFCs 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.

A.6 Enforcement Actions

13Q. Any non-compliance with and circumvention of these Directions shall result in imposition of supervisory and enforcement actions 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, and restrictions or any other supervisory and enforcement actions as deemed fit.

4. The above amendments shall come into force from April 1, 2026. NBFCs 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, NBFCs 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, NBFCs shall not renew/review 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 (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) – Amendment Directions, 2026** have been separately issued.

Vaibhav Chaturvedi
(Chief General Manager)



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2025-26/180

DOR.CRE.REC.381/07-02-007/2025-26

January 05, 2026

**Reserve Bank of India (All India Financial Institutions – Credit Risk
Management) – Amendment Directions, 2026**

Please refer to Reserve Bank of India (All India Financial Institutions - Credit Risk Management) Directions, 2025 (hereinafter referred to as 'the Directions').

2. On a review, in exercise of the powers conferred by Section 45L of the Reserve Bank of India Act, 1934 and all other provisions / laws enabling the Reserve Bank of India (hereinafter called the Reserve Bank) in this regard, Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby issues these 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:

(iia) '*Committee on lending to related parties*' shall mean a committee established by the Board of the AIFI specifically to deal with lending to related parties. AIFIs may also identify any existing Committee, other than the Audit Committee, for this purpose.

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

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

(iic) '*Director of an AIFI*' or '*any other entity*' shall mean a director appointed/elected to the Board of the entity and would include a nominee director and an independent director.



(iie) ‘*Entity*’ in the context of a ‘related party’ shall mean a ‘person’ other than an individual and a Hindu Undivided Family.

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

(iig) ‘*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.

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

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

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

(iiid) ‘*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.

(iiie) ‘*Related Party*’ with respect to an AIFI 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.

(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 AIFI just by virtue of the fact that the Government has the common ownership or control of such entities.

(iiif) '*Related Person*' with respect to an AIFI 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 AIFI; or

(b) owns more than five per cent of paid-up equity share capital of the AIFI or can, either singly or jointly, exercise more than five per cent of the voting rights of the AIFI 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 AIFI, nominate a director to its Board; or

(d) is either singly or jointly, in control of the AIFI;

(iva) '*Specified employees*' mean all employees of an AIFI who are positioned up to two levels below the Board and any employee designated as such as per the AIFI's policy.

(ii) Sub-paragraph (iv), shall be replaced with the following sub-paragraph:

(iv) '*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.



(iii) Sub-paragraph (v), shall be replaced with the following sub-paragraph:

(v) *‘Substantial interest’ shall have the same meaning as assigned to it in Section 5(ne) 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 AIFI 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, legal entity identifier (LEI), filing of security interest, and restrictions on revolving credit facilities. 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) Chapter III – ‘Connected Lending by All-India Financial Institutions (AIFIs)’ of the Directions shall stand deleted and a new Chapter IIIA – ‘Regulatory Restrictions’ shall be inserted as under:

A. Advances against AIFI’s Own Shares

17A. An AIFI cannot grant any loans and advances on the security of its own shares.

B. Advances to AIFI’s Directors

17B. In order to obviate the possibility of conflict of interest in the lending operations of the AIFIs, an AIFI shall not:

(1) enter into any commitment for granting any loan or advance to or on behalf of:

(i) any of its directors, or

(ii) any firm in which any of its directors is interested as Partner, Manager, Employee or Guarantor, or

(iii) any company (not being a subsidiary of the AIFI 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 AIFI is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or

(iv) any individual in respect of whom any of its directors is a partner or a guarantor.



17C. Provisions of paragraph 17B above would not apply in the following cases:

(1) Credit facilities granted or commitment made by an AIFI to a company where a director of the AIFI 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 AIFI.

Provided that, till the director relinquishes the directorship of either the AIFI or the company, the AIFI 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.

(2) Advances to a public trust, where a trustee is also a director of the lending AIFI.

(3) 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.

(4) 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 of the director, where applicable. The interest rate charged on all such loans shall not be lower than the rate charged to the employees.

(5) 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.

C. Restrictions on Lending to Related Parties

C.1 General Principles

17D. This Section sets out general principles and procedures to be followed for prudent risk management of loan to related parties, wherever allowed.



17E. 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 AIFI.

17F. The credit policy (hereinafter called the policy) of an AIFI, 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.

17G. The policy shall also have specific provisions for lending to ‘specified employees’ of the AIFI and their relatives.

17H. Further, the policy shall 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 eliminate quid pro quo arrangements, if any.

17I. 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.

B. Materiality Threshold

17J. Loans to related parties, which are not prohibited in terms of this Chapter of these Directions, or which have been exempted from prescribed prohibitions in these Directions, 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 the following ceilings:

Asset Size (in ₹ crore)	Materiality Threshold Ceilings
> 10,00,000	₹25 crore
≥ 1,00,000 to up to 10,00,000	₹10 crore
Less than 100,000	₹5 crore

Asset size based on the last audited balance sheet.
For loans, materiality threshold shall apply at individual transaction level.

17K. Materiality thresholds may vary for different categories of loan to related parties and borrowers as per the AIFI’s policy.



17L. All loans above the prescribed materiality threshold shall be sanctioned either by the Board or the ‘Committee on Lending to Related Parties’ of the AIFI. As regards loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them.

C. Recusal of Interested Parties

17M. 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.

D. Monitoring of Loans to Related Parties

17N. An AIFI 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 AIFI to such related persons and related parties.

17O. Credit facilities sanctioned to ‘specified employees’ and their relatives shall be reported to the Board on an annual basis.

17P. 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.

17Q. Any deviation from the policy relating to lending to related parties and reasons therefor shall be reported to the Audit Committee of the Board.

17R. 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 AIFI or by the supervisory authority and investigating agencies shall always be treated as lending to related party.

E. Enforcement Actions

17S. 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. AIFIs 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, AIFIs 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, an AIFI 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 (All India Financial Institutions – Financial Statements: Presentation and Disclosures) – Amendment Directions, 2026** have been separately issued.

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