



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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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 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.

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(Chief General Manager)