

# **Draft Reserve Bank of India (Regional Rural Banks - Governance) Directions**

## **DRAFT FOR COMMENTS**

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### **Table of Contents**

Chapter I - Preliminary .....	2
A.    Short title and commencement.....	2
B.    Applicability.....	2
C.    Definitions.....	2
Chapter II – Appointment, Tenure and Remuneration of Chairman .....	4
Chapter III - Role of Nominee Directors and Non-Official Directors.....	8
Chapter IV – Board Meeting Procedures.....	10
Chapter V – Committees of the Board.....	15
A.    Audit Committee of the Board .....	15
B.    Risk Management Committee .....	21
Chapter VI – Repeal and other provisions.....	24
Annex .....	26

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

## **Chapter I - Preliminary**

### **A. Short title and commencement**

1. These Directions shall be called the Reserve Bank of India (Regional Rural Banks - Governance) Directions, 2025.
2. These Directions shall come into force with immediate effect.

### **B. Applicability**

3. These Directions shall be applicable to

- (i) Regional Rural Banks, collectively referred to as 'RRBs' and individually as an 'RRB';

*In this context, Regional Rural Bank shall mean an entity established under sub-section (1) of section 3 of The Regional Rural Banks Act, 1976.*

- (ii) a bank by which such an RRB has been sponsored, collectively referred to as 'Sponsor Banks' and individually as a 'Sponsor Bank', which shall be governed by instructions contained in Chapter II of these Directions, to the extent they are not inconsistent with the statutory provisions or instructions issued thereunder.

*In this context, Sponsor Bank shall mean as defined under Clause (g) of Section 2 of The Regional Rural Banks Act, 1976.*

### **C. Definitions**

4. In these directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below:

- (1) 'Chairman', in relation to an RRB, means the individual appointed or re-appointed under sub-section (1) of section 11 of The Regional Rural Banks Act, 1976, as the Chairman of that bank.
  - (2) 'Commercial Banks' means Public Sector Banks, Private Sector Banks, Regional Rural Banks and Foreign Banks.
  - (3) 'Director', in relation to an RRB, means a member of the Board of that RRB.
5. All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934 or the Banking Regulation Act, 1949, the Regional Rural Banks Act, 1976, or any statutory modification or re-enactment thereto, or Glossary of Terms published by RBI or as used in common or commercial parlance, as the case may be.

## **Chapter II – Appointment, Tenure and Remuneration of Chairman**

6. The eligibility criteria for appointment as Chairman of an RRB shall be as under:

- (i) A Sponsor Bank may consider the upper age limit upto 55 years, subject to one year at a time while appointing Chairman of the RRB and additional relaxation of one year, if required, can be considered by the Board of the concerned Sponsor Bank.
- (ii) Officers of the rank Assistant General Manager / equivalent rank and above, may be posted as Chairman of RRB. The officers posted as Chairmen of RRBs shall be placed at one level above their position in Sponsor Bank.

*Explanation:* The leadership quality, competency and the age factor should not be compromised for want of officers of a particular level / scale.

- (iii) The candidate shall not have been imposed any major penalty or more than one minor penalty in their career.
- (iv) The cutoff date for determining the eligibility will be reckoned as on April 1 of the financial year in which the vacancies arise.

7. Selection procedure

- (i) The selection shall be made for all vacancies likely to arise during the year (April to March). For this purpose, the Sponsor Bank shall invite applications from amongst its eligible officers. Eligible candidates shall be invited for an interaction with the selection committee.
- (ii) Selection committee - The Sponsor Bank shall constitute a Selection Committee under the Chairmanship of its own Chairman / MD&CEO / Managing Director with the following members.

1.	RBI Nominee Director on the Board of the bank	Member
2.	Officer not below the rank of CGM from NABARD	Member

3.	ED (CGM in case of SBI) of Sponsor Bank looking after RRBs	Member
4.	An external expert in rural banking	Member

- (iii) The selection committee shall recommend officers for appointment as Chairman of the RRB based on their suitability after considering their overall service record, experience, past performance and performance during the interaction. Potential and ability of the officer to discharge the responsibility as Chairman of RRB shall be the essential criteria.

*Explanation:*

- (a) The selection committee may also recommend officers to be posted as against specific vacancies to arise in the year.
  - (b) The selection committee may also prepare a Reserve list upto 50% of the vacancies.
- (iv) The recommendation of the Selection Committee shall be placed before the Board of the Directors of Sponsor Bank for final selection and appointment of the Chairman of an RRB.
- (v) The proposal for appointment of Chairman may be forwarded to NABARD for a decision, in prescribed format ([Annex](#)) before the expiry of the term of the existing incumbent, as required in terms of the RRB Act 1976. The proposal in the prescribed format, with complete information may be submitted well in advance, under the seal and signature of General Manager In-Charge of RRB Division of Sponsor Bank.

## 8. Tenure and performance review

- (i) The tenure of the Chairman shall not exceed five years, subject to ongoing and critical review of performance with reference to the tasks / targets assigned by the Board of Directors of the Sponsor Bank as indicated in clause (ii) below.

*Provided that*, the Board of a Sponsor Bank is competent to approve the reduction in tenure of Chairman of an RRB in a North Eastern State from

5 years to 3 years, which may be extendable up to 5 years by the Sponsor Bank.

- (ii) The performance of an RRB shall be reviewed by the Board of Directors of the sponsor bank on a quarterly basis and based on performance, the Board may take a decision on recalling the officer from RRB and post another officer from the list of officers recommended for the year.

*Explanation:* When an action for recall / withdrawal of the Chairman of an RRB is contemplated by the Sponsor Bank, it shall forward the proposal to NABARD in the format and manner prescribed at Para 7(v) above.

*Provided that*, an individual cannot be withdrawn from the post of the Chairman of RRB before expiry of their tenure on the ground of promotion to the higher grade in his parent organization, unless there are reasonable and justified grounds for it.

9. Remuneration: The IBA fitment pattern may be followed while fixing the pay and allowances of a Chairman of an RRB on their appointment.
10. Pay and Performance linked cash incentive: Performance matrix and applicable cash incentive may be followed as approved by the GoI from time to time.
  - (i) The performance shall be evaluated by a Committee, consisting of General Manager in-charge of RRB section of the Sponsor Bank, the CGM / GM, NABARD in-charge of Regional Office of the State and Regional Director of RBI / their nominee of the concerned State where the RRB exists.
  - (ii) The targets on each of the parameters mentioned in the performance matrix shall be set by the Sponsor Bank in consultation with the Regional Office of NABARD for each RRB.
  - (iii) The evaluation by the Committee shall be done within a period of one month from the availability of the audited reports of the concerned RRB.
  - (iv) In case of midway transfer of Chairman of an RRB, evaluation shall be done at the end of the year and the incentive for Chairman shall be provided in proportion of their stay.

- (v) The incentive shall be payable subject to the RRB making current profits in the year for which the incentives are payable.

### **Chapter III - Role of Nominee Directors and Non-Official Directors**

11. The directors on the Board of an RRB shall ensure adherence to the following illustrative, but not exhaustive, list of DO'S and DONT'S:

(1) DO'S: A board member shall

(i) attend Board meetings regularly and effectively;

*Explanation:* Under Section 13(1)(b) of the RRBs Act 1976, the seat of a nominee director who remains absent without leave of the Board for more than 3 consecutive meetings shall become vacant.

(ii) study the Board papers, follow up and seek the assistance of the Chairman for eliciting any information;

(iii) ask the Chairman to furnish the board papers and follow up reports on a definite time schedule;

(iv) be involved in the follow up of the matter of formulation of general policy and ensure performance;

(v) be familiar with the objectives of the bank and policies laid down by GoI and RBI, and give constructive ideas for better management;

(vi) work as a team member without any prejudice;

(vii) try to give as much of their wisdom, guidance and knowledge as possible;

(viii) analyse the trends of economy and assist in discharge of the responsibility; and

(ix) disclose their interest whenever any advance for any proposal in which they are directly or indirectly interested,

(2) DONT'S: A board member shall not

(i) participate in meetings in which any advance for any proposal in which they are directly or indirectly interested is discussed;

- (ii) send any instructions to any individual officer or give direction to individual officer in any matter. This may be routed through the Chairman of the RRB;
- (iii) involve in any administrative matters;
- (iv) interfere in the day to day functioning of the bank;
- (v) insist on getting facilities from an individual branch manager;
- (vi) involve in the day to day business of management's functions;
- (vii) reveal any information of the bank to anyone; and
- (viii) encourage an individual officer from approaching them in any matter.

## Chapter IV – Board Meeting Procedures

12. The quorum of a Board meeting shall be in accordance with the rule 8 of meetings of Board Rules notified by Government from time to time, with the modification that if there is no quorum in the adjourned meeting of the Board, the Chairman of RRB should give fresh notice for a fresh meeting.
13. While outsiders including officials of the Sponsor Bank who are not Directors are not allowed to attend meeting of the Board of an RRB to observe secrecy relating to the affairs of the RRB's constituents, a senior official of the RRB may attend the Board meeting to provide secretarial assistance to the Chairman. They, however, cannot participate in the deliberations or discussions of the Board Meetings.
14. A model agenda for meetings of the Board of an RRB is given below:

Sr. No.	Agenda Item	Nature of items (Statutory/ Non- statutory)
<b>1)</b>	<b>Minutes and Action Taken Report</b>	
i.	Confirmation of the minutes of the previous Board meeting	
ii.	Actions taken on the decisions taken during the previous Board meetings	
<b>2)</b>	<b>Policies &amp; Review of policies</b>	<b>Statutory</b>
i.	New policy for approval and existing policies for renewal	
ii.	Important circulars issued by RBI/ NABARD/ Government/ Sponsor Bank for adoption <i>in toto</i> or with suitable modifications as per the needs of the bank	
iii.	Review of important/ key policies/ Matrix of policies	
iv.	"RRBs in Focus" — Monitorable Action Plan	
<b>3)</b>	<b>Review of financial performance of;</b>	
i.	Review of status of Share capital, Reserve & Surplus	
ii.	Deposits — Status of deposits, Special campaign for improving CASA deposits, status of insurance under DICGC, interest rate under various deposits	
iii.	Borrowings — Status of borrowings, Security given/lien created for borrowings, default in repayment, if any	
iv.	Other Liabilities — Review of reconciliation of Sundry Creditors/Inter-branch Adjustment A/c especially with long pending dues, provision made	
v.	Review of status of Provisions for tax, depreciation, other liabilities	

<b>Sr. No.</b>	<b>Agenda Item</b>	<b>Nature of items (Statutory/ Non-statutory)</b>
vi.	Review of status of contingent liabilities viz. issue of bank guarantee/ letter of credit, amount transferred to DEAF, etc.	
vii.	Cash & bank balances — Review of cash-in-hand limits, physical verification of cash, insurance, cash shortages counterfeit notes, cash counting machines	
viii.	Loans & Advances — Review of various types of loans — KCC, Agri term loan, MSME, SHG/ JLG, jewel loans, housing, retail, etc. - Review of big borrowers, Top 20/ 50 loan accounts — Review of high yielding advances sanctioned by the bank - Adherence to exposure norms prescribed by RBI/ NABARD - Enrolment as Member Lending Institution of different Credit Guarantee Funds under CGTMSE/ NCGTC — Status of membership of Credit Information Companies	
ix.	Investments — Assessment of investible surplus, avenues for investment, delegation of powers, procedures, empanelment of brokers, if any — SLR & Non-SLR investment, stop loss limit, exposure norms, status of Non-Performing Investments & provisions there against, disclosures, reporting	
x.	Fixed Assets (FA) — Review of FA including book value, depreciation, purchase/disposal of movable/ immovable assets, etc.	
xi.	Other Assets — Status of interest receivable, Review of Sundry Debtors/ Suspense Account and provision made against loss	
<b>4)</b>	<b>Financial statements</b>	
	Annual Financial statements with Auditor's Report Review	
<b>5)</b>	<b>Profit &amp; Loss Position</b>	
i.	Income & Expenditure (with a view of maximising operating profit, net profit, reduction of expenditure)	
ii.	Key financial ratios	
iii.	Transfer Price mechanism and Branch profitability	
iv.	Non-fund business activities — Undertaking of cross selling insurance business as an agent	
v.	PSLC traded by bank	
vi.	Review of branches/ loss making branches — Review of discussions held during Branch Manager's review meetings	
vii.	Status of market share of the bank's business - Review	
<b>6)</b>	<b>Review of performance of NPAs and Standard Assets</b>	<b>Statutory</b>
i.	Review of top 50 Standard Borrower Accounts	
ii.	Review of top 50 NPA Accounts	
iii.	Status of Gross NPAs	
iv.	Position of SMAs	

<b>Sr. No.</b>	<b>Agenda Item</b>	<b>Nature of items (Statutory/ Non-statutory)</b>
v.	Movement of NPAs	
vi.	Provisions for standard assets and NPAs	
vii.	Provision Coverage Ratio	
viii.	Status of time-barred loans/ documents	
ix.	Legal action cases — suit filed/ arbitration cases, OTS, Write-off, Restructuring of loans, SARFAESI Act, etc.	
<b>7)</b>	<b>Performance Review of developmental areas</b>	
i.	Annual Credit Plan — Region-wise review	
ii.	Priority Sector lending — Target & Achievement under various categories	
iii.	Sustainable Viability Plan — Target vis-a-vis achievement	
iv.	Credit to Deposit Ratio	
v.	Govt sponsored scheme – Review	
(a)	KCC coverage and initiatives — Interest Subvention/ Subsidy scheme	
(b)	Crop Insurance scheme – coverage	
(c)	Agriculture term loan and initiatives	
(d)	MSME loan and initiatives	
(e)	SHG/ JLG schemes – initiatives	
(f)	FPO scheme – initiatives	
(g)	Social Security Schemes (PMJDY, PMSBY, APY etc.)	
(h)	Agriculture Infrastructure Fund (AIF)	
(i)	PM Surya Ghar Muft Bijli Yojana	
(j)	Udyami Mitra	
(k)	Stand up India	
(l)	Status of finance to different social categories of borrowers	
(m)	Pradhan Mantri MUDRA Yojana	
(n)	Other Flagship programmes of Gol - Pradhan Mantri Awas Yojana, National Livelihood Mission-Ajeevika, Production Linked Incentive Scheme for Food Processing Industry, Pradhan Mantri Kisan Sampada Yojana, PM Vishwakarma Scheme, Prime Minister Formalisation of Micro Food Processing Enterprise	
(o)	Any other scheme	
<b>8)</b>	<b>Financial inclusion initiatives</b>	
i.	Status of banking outlets opened including new licenses, since previous meeting	
ii.	Status of Branch expansion	
iii.	Performance review of Business Correspondents/ Corporate BC	
iv.	Status of Financial Literacy - Conduct of programmes/ campaigns	
<b>9)</b>	<b>Technology Initiatives</b>	

<b>Sr. No.</b>	<b>Agenda Item</b>	<b>Nature of items (Statutory/ Non-statutory)</b>
i.	Budget for CBS/CBS plus initiatives and utilization	
ii.	Review of onboarding of 33 CBS plus services and usage by customers (as stipulated by DFS, GoI)	
iii.	Functioning of ATMs and mobile/ internet banking	
iv.	Association of Fin-techs/ Agri-techs in promotion of technology, if any	
<b>10)</b>	<b>Status of compliance to important provisions of BR Act 1949/RBI Act 1934/RRB Act 1976/Other Acts/Rules applicable to RRBs</b>	<b>Statutory</b>
i.	Compliance to provisions of Section 19, 20, 21, 23, 24, 26, 26A(DEAF), 27, 29, 31 & 35A of B. R. Act, 1949 Compliance to provisions of Section 42(1), 42(6)(a)(i) and 42(6)(a)(ii) of RBI Act, 1934	
ii.	Submission of statutory returns (like CTR, STR, CCR, cyber security related VICS, Matrix of Policies, KYC/AML/CFT, fraud related VINFRA, etc.) to RBI/ FIU-INDIA (GoI)/ NABARD	
iii.	KYC/ AML/ CFT guidelines	
iv.	NABARD Inspection — Observations and compliance	
v.	Penalties levied on the bank by RBI, if any	
vi.	Status of complaints/ Grievance Redressal Mechanism	
vii.	Compliance in respect of outstanding observations of the Board	
<b>11)</b>	<b>Governance System</b>	<b>Statutory</b>
i.	Calendar of Board meeting & Agenda items to be placed in the meeting	
ii.	Appointment/ Change/ Leave /Absence of Directors	
iii.	Details of absence of Chairman from HQ	
iv.	Constitution and Performance of various board level committee and other important committee like Audit Committee, Risk Management Committee, Asset Liability Management Committee, Investment Committee, Committee for monitoring of frauds, IT related Committees, Business Advisory Committee in RRBs in Focus, Customer Services Committee	
v.	Chairman General Manager's branch visits	
vi.	Payment of Sitting fee to Directors and payment of TA, etc. to Chairman	
vii.	Appeals of the staff against punishment order passed by the Chairman and Disciplinary authority	
viii.	Details of special rates approved by Chairman/ Bank for special/ bulk deposits, if any	
ix.	Tie-up arrangements of bank with different companies/ agencies/ vendors	
x.	Delegation of discretionary power for Capital and Revenue expenditure by sanctioning authority	
xi.	Credit facilities sanctioned under the powers of Chairman/	

<b>Sr. No.</b>	<b>Agenda Item</b>	<b>Nature of items (Statutory/ Non-statutory)</b>
	Head Office Level Credit Committee	
xii.	Prudential write-off approved by Chairman/ Committee	
<b>12)</b>	<b>Internal Checks &amp; Control System</b>	<b>Statutory</b>
i.	Observations of Audit Committee and compliance	
ii.	Observations of IS Audit and compliance	
iii.	Observations of Management Audit and compliance	
iv.	Review of frauds/ embezzlements/ thefts/ burglaries/ robberies	
v.	Areas of income leakage and remedial measures	
vi.	Complaints received under Ombudsman Scheme	
vii.	Review of customers' meetings	
viii.	Review of Grievance Redressal mechanism	
<b>13)</b>	<b>Risk Management System</b>	<b>Statutory</b>
i.	Review of Risk Management Systems - Strengthening of Risk Management Structure, Conduct of Risk Management meeting, Internal Capital Adequacy Assessment Process (ICAAP) document, Stress testing, Business Continuity Plan, Disaster Recovery Management	
ii.	Review of liquidity position	
iii.	Adoption of Vulnerability Index for Cyber Security framework (VICS) for establishing Cyber Security Controls and Fraud Vulnerability Index (VINTRA)	
iv.	Instances of cyber-attacks including attempts at intrusion in Information Systems	
v.	Major disruptions in extension of banking services to customers including staff agitation and rectification thereof	
<b>14)</b>	<b>Human Resource Management &amp; Capacity building</b>	
i.	Manpower planning	
ii.	Recruitment	
iii.	Promotion	
iv.	Outsourcing of services — Formulation and review	
v.	Review of disciplinary, vigilance and non-vigilance cases against staff/ officers	
vi.	Review of legal cases relating to staff and other matters	
vii.	Review of staff rotation/ transfer policy	
viii.	Appreciation/ Awards, if any	
ix.	Training Need Assessment (TNA) of staff	
x.	Status report on training, training establishment, quality of faculty members, infrastructure of training establishment	
<b>15)</b>	<b>Inspection &amp; Audit</b>	<b>Statutory</b>
i.	Status of Branch inspection	
ii.	Progress of Risk Based Internal Audit	
iii.	Branch rating	
iv.	Appointment of Statutory Auditors, Concurrent Auditors, Internal Auditors, and review thereof	

<b>Sr. No.</b>	<b>Agenda Item</b>	<b>Nature of items (Statutory/ Non-statutory)</b>
v.	Observations of Statutory Auditors (LFAR), Concurrent Auditors, Internal Auditors, and compliance thereto	

*Explanation:* The list of items indicated in the above model agenda are indicative in nature and an RRB may make suitable changes as it deems fit keeping in view the best corporate governance standards.

15. The fees and allowances payable to the Non-Official Directors on the Board of an RRB shall be as notified by Gol from time to time.

## **Chapter V – Committees of the Board**

### **A. Audit Committee of the Board**

16. An RRB shall set up an independent Audit Committee of the Board (ACB) for overseeing and providing direction to its internal audit, inspection machinery, Statutory (external) auditors and other executives. It shall have direct, unfettered and independent access to management, internal audit, and statutory auditors, with whom it needs to communicate in confidence, independent of each other.
17. The ACB of an RRB may consist of three / four directors with one or more of such directors having experience in management, finance, accountancy, audit systems, etc.

*Provided that,*

- (i) in case no director/s are available in the Board to function in the ACB with adequate background in these areas, the Board may consider co-opting a Chartered Accountant or other professionally qualified person in the ACB.
- (ii) the Chairman of the RRB should not be a member of the ACB;
- (iii) the NABARD's Nominee Director may be inducted into the ACB.
- (iv) the normal convention of choosing the senior-most Director of the Board as the Chairman of the ACB may be adopted and this could be done by

- rotation annually, if considered necessary, due to the changes in the incumbencies of the Directors on the Board;
- (v) while the representative of Head Office of an RRB, who is associated with the conduct of the ACB meetings, shall ideally be in a position to furnish clarifications required by the Committee in respect of issues pertaining to any of the Regions, the presence of concerned Regional Managers may be enlisted, if warranted, solely for the purpose of eliciting their views on critical issues pertaining to their respective Region.
18. It is the responsibility of the Board of Directors to ensure that Audit Committee members are independent, understand banking and financial matters and have the characteristics to serve as effective Audit Committee members. For this purpose, they shall consider whether the members of the ACB:
- (i) possess a general understanding of the major operational, liquidity, credit, interest rates and reputational risks faced by the RRB;
  - (ii) have a broad awareness of the RRB's statutory and other obligations as well as various business-related operations and their financial reporting;
  - (iii) have the ability to formulate and ask probing questions about the RRB's financial reporting process and to challenge management decisions if and when necessary;
  - (iv) possess the required competence and will to discuss with auditors and control the agenda with respect to competence and independence of auditors, internal control and diligence;
  - (v) insist unrelentingly on legal compliance, accuracy in financial reporting, and truthfulness as the foremost objective of the RRB.
19. The ACB should meet at least four times annually, or more frequently as circumstances dictate. In order to obviate the problem arising out of lack of quorum in Audit Committee meetings, the RRB may arrange to fix these meetings by either pre-fixing or suffixing the same to their Board Meetings in normal circumstances. Conducting meetings of the ACB either in the forenoon or afternoon of the same day as the Board meetings may also aid in economising the expenditure.

20. The ACB should also meet, at least half-yearly, with management, the chief of the statutory audit / inspection team and the department of accounts in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.
21. It is the basic responsibility of the ACB to oversee the internal controls and financial reporting process of the RRB as implemented by management, identification and quantification of various financial risks faced by the RRB and controls related to that process, and ensuring a fair and transparent financial reporting process. This includes oversight responsibility for financial reporting risks (including fraud risks) and controls related to those risks.
22. The ACB shall assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the RRB's:
  - (i) financial reports and other financial information provided by the RRB to any statutory body or the public;
  - (ii) internal controls regarding funds, accounting, legal compliance, ethics that management and the Board have established; and,
  - (iii) auditing, accounting and financial reporting processes.
23. For the above purpose, an ACB shall perform, inter-alia, the following functions:
  - (i) provide an open channel of communication among the external / departmental auditors, the internal audit department, senior management, and the Board of Directors;
  - (ii) serve as an effective and objective mechanism to monitor the RRB's financial reporting process and internal control system;
  - (iii) ensure expeditious closing of books of accounts as on March 31 every year with a view to prepare the Balance-Sheet and Profit & Loss Account within the time limit prescribed in the BR Act, 1949 and review the Annual Report with financial management and the accounts department prior to its release. The Chairman of the Audit Committee may represent the ACB for purposes of this review;
  - (iv) review the RRB's annual financial statements and any reports or other financial information submitted to any statutory body, or the public, including any certification, report, opinion, or review rendered by the

- auditors; and ensure that management has a proper review system to ensure such dissemination satisfies legal requirements;
- (v) review any significant disagreement between the management and the accounts department or the internal audit department in connection with the preparation of the financial statements;
  - (vi) review the integrity of the RRB's financial reporting processes (especially, the correctness of NPAs and provisioning for impaired assets as per RBI norms) and monitor the "key risks and controls" thereof;
  - (vii) evaluate the accounts department's judgments about the quality and appropriateness of the RRB's accounting principles as applied in its financial reporting. The Committee shall also ensure a periodic review of the RRB's accounting policies, systems, and controls to enhance transparency in financial reporting and ensure adequacy of controls in addressing current and emerging risks faced by the RRB;
  - (viii) consider and approve, if appropriate, major changes to the RRB's auditing principles and practices as suggested by the accounts department, management, or the internal Audit Department / External Auditors / NABARD Inspection Team;
  - (ix) review with the accounts department, the internal audit department and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the ACB.
  - (x) recommend to the Board of Directors the selection of the Internal Auditor(s) considering their independence and effectiveness;
  - (xi) review the activities, organizational structure, and qualifications of the internal audit department; including a review of different types of inspections / audits (Internal Inspection, Internal Audit, Concurrent Audit, etc.) conducted within the RRB, their periodicity and scheduling, coverage and quality to ensure an effective internal audit function;
  - (xii) evaluate the competence and ensure independence of the internal and external auditors;

- (xiii) review the performance of the internal auditor / accounts officer;
- (xiv) periodically consult with the senior accountant / accounts officer, without the presence of management, about internal controls and the fullness and accuracy of the organization's financial statements.
- (xv) establish regular and separate systems of reporting to the Audit Committee by the management, the accounts department and the internal auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to the appropriateness of such judgments;
- (xvi) review and appraise the audits of the supervisor and RRB's external / departmental auditors, including Half-yearly Review report of the Statutory Auditors, and internal audit department. The Committee shall specifically examine any omission on the part of internal inspecting officials or concurrent auditors to detect serious irregularities that come to light at a later stage;
- (xvii) review the regular internal reports to management prepared by the internal audit department and management's response thereto;
- (xviii) review and approve the compliances furnished by the RRB in respect of audit reports and inspection reports issued by NABARD, internal Inspection Department, concurrent auditors and statutory auditors;
- (xix) following completion of the annual audit, review separately with the management, the accounts department and the internal audit department any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- (xx) review of adoption of measures for improvement in controls as suggested by internal/external auditors/NABARD's inspection team, with specific emphasis on the follow-up action on Internal Inspection and Internal Audit Reports, particularly in respect of "unsatisfactory" branches and large branches. The Committee shall also review the follow-up on concurrent audit observations. If measures are not adopted, compelling reasons must be in place. The ACB shall also fix

- accountability for unsatisfactory compliance of inspection / audit reports, delay in compliance and non-rectification of deficiencies;
- (xxi) establish, review and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce, monitor and review this Code.
  - (xxii) review, with the organization's counsel, any legal matter that could have a significant impact on the RRB's financial statements and legal compliance matters including corporate securities trading policies.
  - (xxiii) certification of physical possession of securities as reported to the RBI every quarter by Internal Auditors or Concurrent Auditors;
  - (xxiv) examine reasons for defaults in payment to the depositors and creditors whenever there are any cases of default in payments;
  - (xxv) evaluate information security audit mechanism in the RRB with particular reference to Disaster Recovery System and Business Continuity Planning;
  - (xxvi) periodic review of the progress in reconciliation of entries in inter-bank and Inter-branch accounts and reconciliation of bank accounts;
  - (xxvii) review of frauds and action taken to recover the amount involved, to avoid recurrence of such frauds in future;
  - (xxviii) ensure adherence to KYC & PMLA guidelines issued by the RBI / NABARD and if any violations are observed, action taken thereon to avoid recurrence of the same;
  - (xxix) review RRB's compliance with statutory provisions with particular reference to Sections 24, 29, 31, 35A of Banking Regulation Act 1949, and Section 42(1), 42(6)(a)(i) & (ii) of RBI Act, 1934; and
  - (xxx) any other activities consistent with these Directions, the instructions / guidelines issued by the RBI, NABARD or Government of India, from time to time, and the Banking Regulation Act, 1949 etc., as the Committee or the Board deems necessary or appropriate.

*Provided that*, the ACB shall not be overloaded with other activities or else, the Committee may lose sight of its major objectives or perform its duties superficially. Further, the above list is illustrative and not exhaustive. The bank

may firm up its detailed policy keeping in view these broad guidelines and frameworks

24. While an RRB may, with the approval of its Board or the ACB, decide on the periodicity of review of various issues and accordingly, draw an annual Calendar of Reviews to be put up to the ACB, they may adopt the following periodicity in respect of the undernoted items:
  - (i) Quarterly
    - (a) Inter-branch reconciliation,
    - (b) unreconciled long outstanding entries in inter-branch and inter-bank accounts,
    - (c) Performance of Audit / Inspection Department,
    - (d) Inspection reports of poorly rated branches - Progress in rectification of deficiencies,
    - (e) Position of house-keeping (i.e., balancing of books, clearing differences, etc.),
    - (f) frauds
  - (ii) Half-yearly
    - (a) compliance with the statutory audit / concurrent audit / Management Audit / NABARD Inspection reports,
    - (b) omissions on the part of Internal Inspecting Officials to detect serious irregularities,
    - (c) periodic review of the accounting policies / systems in the RRB with a view to ensuring greater transparency in the RRB's accounts and adequacy of accounting controls, and
    - (d) Review of Loss Assets with balance of ₹1 lakh and above for more than two years and where legal action has not been initiated.

## **B. Risk Management Committee**

25. Risk Management Committee (RMC) will be a Board level sub-committee including Chairman and heads of Credit, Market and Operational Risk Management Committees. Since the volume, size and nature of operations of RRBs are small as compared to the commercial banks, they may consider having

a small Credit and Operational Risk Management Cell immediately, to begin with. Based on the quantum of investment portfolio, the Boards of the respective RRBs can decide to have a separate Market Risk Committee at a later stage.

26. The RMC will devise the policy and strategy for integrated risk management containing various risk exposures of the bank including the credit risk. For this purpose, RMC should effectively coordinate between Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO) and other risk committees of the bank, if any.
27. The Board of the RRB should, therefore, ensure that the independence of the RMC is not compromised at any cost. In the event of the Board not accepting any recommendation of this committee, systems should be put in place to spell out the rationale for such an action and should be properly documented. This document should be made available to the internal and external auditors for their scrutiny and comments.
28. The credit risk strategy and policies adopted by RMC should be effectively communicated throughout the organization.
29. An RRB may, at its discretion, constitute sub-committees and support committees to assist the RMC.
30. The RMC of an RRB shall discuss the following as part of its meeting agenda:
  - (i) identification of inherent business risks in various activities undertaken by the RRB;
  - (ii) risk measurement in terms of both uncertainty and its potential adverse impact on profitability;
  - (iii) evaluation of effectiveness of the control systems for monitoring the inherent risks of the business activities (control risk);
  - (iv) establish proper system of Disaster Recovery and Business Continuity Planning;
  - (v) drawing up a risk-matrix for taking into account both the factors viz., inherent business risks and control risks;
  - (vi) fixing parameters for classification of high, medium and low risks;

- (vii) risk measurement methodology by using previous internal audit reports and compliance;
  - (viii) suggest changes in loan policy and / or change prudential exposure norms;
  - (ix) oversee significant changes in management / key personnel, to manage 'operational risk';
  - (x) scrutiny of Inspection report of NABARD and reports of external auditors and suggest suitable risk mitigation measures; and
  - (xi) risk focused internal audit.
31. The agendas suggested for each of the committees above are illustrative and not exhaustive, and an RRB may include additional items based on local conditions and emergent priorities, while adhering to the provisions of these Directions on committee constitution.

## **Chapter VI – Repeal and other provisions**

### **A. Repeal and saving**

32. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to governance as applicable to Regional Rural Banks, stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
33. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

### **B. Application of other laws not barred**

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

### **C. Interpretations**

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



**Annex****Format for submitted proposal for Appointment / Recall / Withdrawal of Chairman**

<b>Sr. No.</b>	<b>Particulars</b>	<b>Remarks</b>
1)	Name of the RRB	
2)	Name of the Sponsor Bank	
3)	Information on existing Chairman	
(a)	Name	
(b)	Date of taking over charge of RRB	
(c)	Date of completion of 5 years	
(d)	If extension is sought for, reasons for extension	
<b>Information in case of recall/withdrawal of existing Chairman</b>		
(a)	Reasons for recall/ withdrawal (in case of recall/withdrawal copy of the approval of the Board of Sponsor Bank may be enclosed)	
(b)	No. of years completed in the RRB	
(c)	Approval of the Board of Sponsor Bank (Resolution No. & Date)	

Note: Even in case of re-appointment / extension of the existing Chairman, the resolution of the Selection Committee is also required. Regarding extension of the existing Chairman, reasons for extension may clearly be indicated.

Signature : \_\_\_\_\_

Name of the General Manager-in-Charge of RRB Division in Sponsor Bank:

Mobile No. : \_\_\_\_\_

Telephone No. : \_\_\_\_\_

e-mail ID : \_\_\_\_\_