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

DRAFT FOR COMMENTS

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

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Introduction

The concentration of a bank's exposures to a single borrower or a group borrower poses significant risks. Recognizing the imperative of robust risk management, in exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949, and all the powers enabling Reserve Bank of India (RBI) on this behalf, the 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: Concentration Risk Management) Directions, 2025.
2. These Directions shall become effective from the date of issue.

B. Applicability

3. These Directions shall be applicable to Regional Rural Banks (hereinafter collectively referred to as 'RRBs' and individually as 'RRB').

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them in the ensuing paragraphs.

5. "**Owned Funds**" shall comprise of paid up capital, statutory reserve, other free reserves not in the nature of outside liabilities and credit balance in profit and loss account. It shall also include share capital deposit / additional share capital (provided to RRBs selected under restructuring programme) contributions received from Central Government and sponsor banks (even in cases where State Government's contributions are awaited) for the computation of owned funds on a notional basis only for the purpose of computing exposure limit for advances / investments. It shall not include accumulated losses and shortfall in provisions. It shall also exclude all provisions attributable to actual diminution in value or identifiable potential loss in any specific asset and are not available to meet unexpected losses. Thus, provisions for bad and doubtful debts / NPAs, investment depreciation fund, co-operative development fund, diamond jubilee fund and any reserve like bad and doubtful debt reserve, special bad and doubtful debt reserve, overdue interest reserve, etc. will not

form part of owned funds. Reserves, if any, created by way of revaluation of fixed assets, etc. should not be included in owned funds.

6. "**Exposure**" shall include both credit (funded and non-funded credit limits and underwriting and similar commitments) and investment exposures. For credit exposure, the sanctioned limits or outstanding whichever is higher shall be reckoned for arriving at the exposure limit. Non-fund based exposures should also be reckoned at 100 percent of the non-fund based credit limits or outstanding, whichever is higher.

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

> ***Note:*** The terms 'borrower' and 'obligor' have been used interchangeably in these Directions.

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

9. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934 or the Regional Rural Banks Act, 1976 and rules / regulations made thereunder, or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II - Exposure Norms

A. Role of the Board

10. The Board shall review the position of diversification of lending portfolios. This aspect has been detailed in the ensuing paragraph.

B. Exposure Ceilings

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

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

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

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

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

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

16. The RRB may invest its non-SLR surplus funds in risk-sharing participation certificates (PCs) issued by sponsor banks on agreed terms subject to the exposure ceilings. Further, PCs shall be within the overall ceiling of 15 percent of fresh lending during a year fixed for

the purpose. The funds deployed under this arrangement will be reckoned within the ceiling fixed for Non-Target Group lending.

Chapter III - Repeal and other provisions

A. Repeal and saving

17. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Concentration Risk Management applicable to Regional Rural Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

18. 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

19. 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

20. 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 - I

List of All-India Financial Institutions exempted form prescribed ceiling of five percent for RRBs investments in equities / bonds

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