



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

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September 16, 2015

All Commercial Banks

Dear Sir/Madam

Guidelines on Compensation of Chief Executive Officer/ Whole Time Directors – Restrictions under Section 20 of the Banking Regulation Act, 1949 – Loans to Directors

Section 20 of Banking Regulation Act, 1949 (B.R. Act, 1949) prohibits banks from granting any loan or advance to any of its Directors. However, in exercise of the powers conferred by clause (a) of the Explanation under sub-section (4) of Section 20 of Banking Regulation Act, 1949 and having regard to the considerations referred to therein, the Reserve Bank of India has specified that for the purposes of the said Section, the following loans/advances granted to the Chief Executive Officer / Whole Time Directors will not be considered as 'loans and advances':

- i. Loan for purchasing of car
- ii. Loan for purchasing of personal computer
- iii. Loan for purchasing of furniture
- iv. Loan for constructing/acquiring a house for personal use
- v. Festival advance
- vi. Credit limit under credit card facility

The extant policy guidelines exempting the above mentioned loans and advances from applicability of Section 20 of Banking Regulation Act, 1949 required banks to approach RBI for prior approval, except in case of loans granted to a Director who was an employee of the bank immediately prior to his/her appointment as a Director.

2. In order to streamline the existing processes and to obviate the need to approach RBI on case-to-case basis, it has been decided that in exercise of the powers vested with RBI under Section 35B of the B.R. Act, 1949, commercial banks can grant loans

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हिंदी आसान है, इसका प्रयोग बढ़ाए

and advances to the Chief Executive Officer/ Whole Time Directors, without seeking prior approval of RBI, subject to the following conditions:

a) The loans and advances shall form part of the compensation /remuneration policy approved by the Board of Directors or any committee of the Board to which powers have been delegated or the Appointments Committee, as the case may be.

b) The guidelines on Base Rate will not be applicable on the interest charged on such loans. However, the interest rate charged on such loans cannot be lower than the rate charged on loans to the bank's own employees.

3. The terms and conditions of the loans granted to the Chief Executive Officer / Whole Time Directors which are currently outstanding may, at the banks' discretion, be reviewed in the light of the above guidelines in order to address transition issues.

4. Banks should note that in view of the prohibition under Section 20 of the BR Act, 1949, apart from the types of loans mentioned in paragraph 1 of this circular, no other loan can be sanctioned to Directors.

5. In view of above, the instructions issued vide the circulars DBOD. No. Leg. BC. 71 /C.235-72 dated August 10, 1972, DBOD.No.Leg.B.C.108/C.235C-74 dated October 24, 1974, DBOD .No .Leg .BC .96 /C.235.C-78 dated July 25, 1978, DBOD .No. BC. 11/08.95.005/98-99 dated February 15, 1999, DBOD.No.BC.26/08.95.005/99 dated April 1, 1999 and [DBOD. No. Leg.BC.81/09.11.013/2005-06 dated April 20, 2006](#) stand superseded.

Yours faithfully,

(Lily Vadera)
Chief General Manager