



LEARNING SESSIONS

WITH ASHISH SIR

BANK PROMOTION EXAM NOTES

VOLUME 1 | 2026 EDITION

Banking Law and Regulatory Framework

RBI REGULATIONS • PUBLIC-SECTOR BANKING

REGIONAL RURAL BANKS (RRBs)

State Bank of India
Canara Bank
Indian Bank
Indian Overseas Bank

Bank of Baroda
Union Bank of India
Central Bank of India
UCO Bank

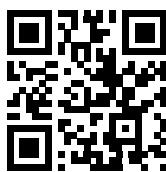
Punjab National Bank
Bank of India
Bank of Maharashtra
Punjab & Sind Bank

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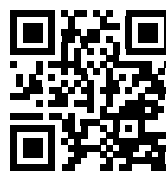
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Chapter 1 — Banking Regulation Act, 1949

Topics covered

1. Key definitions (Section 5)
2. What business a bank may do (Sections 6 to 9)
3. Management and capital of a bank (Sections 10 to 13)
4. Reserves, shareholdings and restrictions on loans (Sections 17 to 21A)
5. Licence, branches, SLR, returns and unclaimed deposits (Sections 22 to 26A)
6. Accounts and audit (Sections 29 to 31)
7. RBI's powers to control and correct a bank (Sections 35 to 45)
8. Records, nomination, penalties and who the Act applies to (Sections 45Y to 56)

Basic background

What this Act is. The Banking Regulation Act, 1949 is the main law that controls how banks work in India. It tells us what counts as banking, what a bank may and may not do, how a bank must be managed, and what powers the Reserve Bank of India (RBI) has over banks.

Who runs it. RBI administers the Act. The Central Government keeps a few backup powers, such as declaring a

moratorium (a temporary freeze on a bank's business) and giving exemptions.

Its history in three lines.

- Passed in 1949 as the "Banking Companies Act, 1949". It came into force on 16 March 1949.
- Renamed the "Banking Regulation Act" by the 1965 amendment, effective 1 March 1966.
- Extended to co-operative banks by the Banking Regulation (Amendment) Act, 2020. Urban co-operative banks and multi-State co-operative banks came fully under RBI's governance, audit and rescue powers. The change applied to State and District Central co-operative banks from 1 April 2021.

Who the Act covers.

Type of bank	Covered?	How
Private sector banking company	Yes	Directly (the Act is written for "banking companies")
SBI, nationalised banks, RRBs	Yes	Section 51 applies listed sections to them
Co-operative banks	Yes	Section 56 applies the Act with changes
NBFCs	No	NBFCs are controlled under the RBI Act, 1934

The 2025 amendment in one table. The Banking Laws (Amendment) Act, 2025 (Act 16 of 2025) changed several rules. It

came into force in three steps. The exact changes are explained inside the relevant topics below.

Change	Effective from
"Substantial interest" limit raised from ₹5 lakh to ₹2 crore	1 August 2025
Co-operative bank director tenure raised from 8 to 10 years	1 August 2025
Bank fixes its own auditor's remuneration	1 August 2025
Unclaimed dividends, shares and bond money of public sector banks go to IEPF	1 August 2025
Up to four nominees allowed	1 November 2025
Reporting dates changed from "last Friday" to "last day" of fortnight, month or quarter	15 December 2025

Topic 1 — Key definitions (Section 5)

Meaning

Section 5 is the dictionary of the Act. Four definitions are asked again and again in exams.

Main rules

Banking — Section 5(b). Banking means accepting money from the public as deposits, for the purpose of lending or

investing it. The deposit must be repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.

Four tests make an activity "banking":

1. Money is accepted from the public (not only from members or friends).



2. The purpose is lending or investment .
3. The money is repayable — on demand or after a fixed time.
4. It can be withdrawn by cheque, draft or order .

Banking company — Section 5(c). Any company that does banking business in India.

Approved securities — Section 5(a). Securities in which a trustee may invest trust money under the Indian Trusts Act

1882, plus any securities the Central Government or RBI approves for this purpose. In practice these are government securities. They matter because SLR (Topic 5) can be kept only in approved securities.

Secured loan — Section 5(n). A loan backed by an asset (security). The market value of the security must never be less

than the loan amount. If the security is worth less, the loan is treated as unsecured to that extent.

Substantial interest — Section 5(ne). A big shareholding. Add together the shares held by a person, their spouse and their

minor children. The interest is “substantial” if their total shareholding is more than ₹2 crore or more than 10% of the

company's paid-up capital, whichever is smaller. This limit applies from 1 August 2025 . Before that it was only ₹5 lakh, a figure fixed decades ago.

Simple example

Mr. A holds shares worth ₹1.2 crore in XYZ Ltd. His wife holds ₹60 lakh and his minor son holds ₹30 lakh. Total = ₹2.1 crore. XYZ's paid-up capital is ₹40 crore, so 10% = ₹4 crore. The lower test is ₹2 crore. The family holds more than ₹2 crore, so Mr. A has a substantial interest in XYZ. If Mr. A is a director of a bank, that bank cannot lend to XYZ (see Topic 4).

Remember this

- Public deposits + lending/investing + repayable + withdrawable by cheque = banking.
- Substantial interest = ₹2 crore or 10%, whichever is less; count spouse and minor children.

Topic 2 — What business a bank may do (Sections 6 to 9)

Meaning

The Act gives a closed list of activities. A bank may do only what is on the list.

Main rules

Permitted business — Section 6(1). Besides ordinary banking, a bank may do: borrowing and lending, dealing in bills of

exchange, collecting bills, buying and selling foreign exchange, providing lockers and safe custody, issuing letters of credit and travellers' cheques, acting as agent for customers and the Government, selling insurance as an agent, acting as trustee, and any other business the Central Government notifies in the Gazette.

Nothing else — Section 6(2). A bank may not do any business other than what Section 6(1) allows.

Name — Section 7. A company doing banking in India must use the word “bank”, “banker” or “banking” in its name. No

other company may use these words. Exceptions: a subsidiary of a bank formed for permitted purposes, and an association of banks formed to protect their common interests.

No trading — Section 8. A bank cannot buy, sell or barter goods. It may sell goods only to recover a loan (for example,

goods pledged to it), or in connection with bills of exchange.

Non-banking assets — Section 9. Sometimes a bank ends up owning property it does not need, for example a house taken

over from a defaulter. The bank must sell such property within 7 years of acquiring it. RBI may extend this by up to 5 more years if the extension is in the interest of depositors. So the outer limit is 12 years . Property used for the bank's own work (branch building, staff quarters) is not covered by this limit.

Simple example

In March 2020, a bank took over a factory shed from a defaulting borrower. It must sell the shed by March 2027. If the market is bad, the bank can ask RBI for time. RBI can allow up to March 2032, but not later.