Sections 17(1) and 11(2)(b)(ii) of

Banking Regulation Act, 1949-

Transfer to Reserve Funds

BP.BC.24/21.04.018/2000-2001

September 23, 2000

Ashwina 1, 1922(S)

All Scheduled Commercial Banks

(excluding RRBs/LABs)

Dear Sir,

Sections 17(1) and 11(2)(b)(ii) of

Banking Regulation Act, 1949-

<u>Transfer to Reserve Funds</u>

In terms of our instructions on capital funds vide paragraph (i) of circular DBOD No.BP.BC.124/C.469(27)-74 dated December 12, 1974, all Indian Scheduled Commercial banks are required to transfer at least 25% of the disclosed profits (before making adjustment/provision for bonus to staff) to Reserve Fund as against the level of 20% prescribed in Sections 17(1) of Banking Regulation Act, 1949. It has been observed that despite the above instruction, some banks have been transferring only amounts equivalent to the statutory minimum of 20 percent of such profits to Reserve Fund. With the introduction of capital adequacy requirements in line with international norms, strengthening of the core capital through retained earnings has assumed added importance. It has, therefore, been decided that all scheduled commercial banks operating in India (including foreign banks) should transfer not less than 25 per cent of the 'net profit' (before appropriations) to the Reserve Fund with effect from the year ending 31 March 2001.

2. Further, in terms of extant instruction, such transfer of profit to reserves is required to be made "**before** making adjustment/provision towards bonus to staff." It has now been decided that transfer to reserves may be made "**after** adjustment/provision towards bonus to staff."

3. Please acknowledge receipt.

Yours faithfully,

Sd/-

(C.R. Muralidharan)

General Manager

Endt. DBOD No. BP 652/21.04.018/2000-2001 of date

Copy forwarded for information to

(addresses as per list)

(K. Damodaran)
Deputy General Manager