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RESERVE BANK OF INDIA

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RBI/2004/176

DBOD.NO.BP.BC.80/ 21.02.067/2003-04

April 23, 2004

All Scheduled commercial banks

Dear Sir,

Declaration of dividends by banks

The policy approach adopted by the Reserve Bank with regard to payment of dividends by banks has been recently reviewed in consultation with the Standing Technical Advisory Committee on Financial Regulation (STACFR) and it has been decided that the regulatory focus with regard to payment of dividend by banks should shift from 'quantum of dividend' to 'dividend payout ratio'. Accordingly our revised guidelines on dividends payable by banks would be as under :-

2. Eligibility criteria for declaration of dividend

(a) Only those banks, which comply with the following minimum prudential requirements, would be eligible to **declare** dividends without prior approval of RBI.

- i) The bank should have:
 - CRAR of at least 11 % for preceding two completed years and the accounting year for which it proposes to declare dividend.
 - Net NPA less than 3 %.
- ii) The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.
- iii) The bank should comply with the prevailing regulations/ guidelines issued by RBI, including creating adequate provisions for impairment of assets

and staff retirement benefits, transfer of profits to Statutory Reserves and Investment Fluctuation Reserve, etc.

- iv) The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.

(b) Quantum of dividend payable

Banks, which qualify to declare dividends consequent upon compliance with the requirements set at 2(a) above would be eligible to **pay** dividends without obtaining the prior approval of the Reserve Bank, subject to further compliance with the following:

- (i) The dividend payout ratio does not exceed 33.33 %.
- (ii) The proposed dividend should be payable out of the current year's profit.
- (iii) Dividend payout ratio is calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'.
- (iv) In case the profit for the relevant period includes any extra-ordinary profits/income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio ceiling of 33.33%.
- (v) The financial statements pertaining to the financial year for which the bank is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

(c) Banks, which comply with the requirements at 2(a) above but desire to declare dividends higher than that specified in para 2(b) should obtain prior approval of RBI for **declaration** of such higher dividend. The RBI would consider the requests received from banks on a case-to-case basis.

3. Interim dividend

Banks may also **declare and pay interim dividends** out of the relevant accounting period's profit without prior approval of RBI if they satisfy the minimum criteria prescribed in paragraph 2(a) above, satisfy the other requirements prescribed in paragraph 2(b) above, and the cumulative interim dividend(s) are within the prudential cap on dividend payout ratio (viz. 33.33%) computed for the relevant

accounting period. However, declaration and payment of interim dividends beyond this ceiling requires RBI's prior approval.

4 Banks which do not meet the eligibility criteria

In case any bank does not meet the criteria prescribed in paragraph 2(a) it should obtain the prior approval of the Reserve Bank before **declaring** any dividend. The requests received from these banks would be considered by the Reserve Bank on a case-to-case basis.

5. Reporting system

All banks declaring dividends should report details of dividend declared during the accounting year as per the proforma furnished in the Annexure. The report should be furnished within a fortnight after payment of dividend(s).

6. The revised guidelines prescribed in paragraphs 2 to 5 above will be applicable to the dividends declared for the accounting year ended March 31, 2004 onwards. A copy of the guidelines may be placed before the Board at its next meeting. In case any bank violates the above guidelines, the violation would be viewed very seriously and such violation would attract penal action under Section 46 of the Banking Regulation Act, 1949.

7. The issue of this circular is in supersession of the instructions contained in our circulars DBOD. No. BC.35/16:13:100/93-94 and DBOD.No.BC.60/16.13.100/94-95 dated March 29,1994 and May 19,1995 respectively on the subject matter.

8. Please acknowledge receipt.

Yours faithfully,

(C R Muralidharan)
Chief General Manager-in-Charge

Encls. As above

ANNEXURE

Reporting format for banks declaring dividend

Details of dividend declared during the financial year beginning on April 1, 2---

Name of the Bank – _____

Accounting period *	Net profit for the accounting period (Rs. in crore)	Rate of dividend	Amount of dividend (excluding dividend tax) (Rs. in Crore)	Pay out ratio
1	2	3	4	5

* quarter or half year or year ended ----- as the case may be