

Draft Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividend) Directions, 2026

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Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividend) Directions, 2026

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Introduction

In exercise of the powers conferred by Section 35A of the Banking Regulation Act (BR Act), 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest to do so, hereby, issues the Directions hereinafter specified.

Chapter I

A. Short title and commencement

1. These Directions shall be called the Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividend) Directions, 2026.
2. These Directions shall come into effect from Financial Year (FY) 2026-27.

B. Applicability

3. These Directions shall be applicable to Local Area Banks (LABs) (hereinafter collectively referred to as 'banks' and individually as a 'bank').

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meanings assigned to them below.

- (i) 'Adjusted Profit After Tax (PAT)' means PAT of the financial year for which the dividend is proposed to be paid *minus* Net NPA as on March 31 of the financial year for which the dividend is to be paid.
- (ii) 'Dividend' means dividend payable on equity shares and includes interim dividend but excludes dividend on Perpetual Non-Cumulative Preference Shares (PNCPS);
- (iii) 'Exceptional profits / income' shall have the same meaning as defined under applicable Accounting Standards.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the applicable Acts, 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 - Declaration of dividend

A. Board oversight

6. The Board of Directors while considering the proposal for declaration of dividend of a bank shall consider the following:

- i. The divergence in asset classification and provisioning for Non-Performing Assets (NPAs), including its trend, as observed under supervisory findings of the Reserve Bank.
- ii. Auditors' Report to the financial statements, including modified opinion or Emphasis of Matter, for the financial year in which the dividend is proposed.
- iii. Current and projected capital position vis-à-vis applicable regulatory capital requirement; and
- iv. Long term growth plans.

B. Eligibility criteria

7. A bank shall meet the following prudential requirements, to be eligible to declare dividends

- i. The bank was in compliance with the applicable regulatory capital requirement as at the end of the previous financial year and shall continue to be in compliance as at the end of the financial year during which the dividend is proposed to be paid.
- ii. The regulatory capital of the bank shall not fall below the applicable regulatory capital requirement even after the payment of dividend.
- iii. The bank shall have positive adjusted Profit After Tax (PAT) for the financial year for which the dividend is proposed.
- iv. The bank shall not be under any explicit restrictions for declaration of dividends from the Reserve Bank or any other authority.

C. Quantum of dividend payable

8. A bank which satisfies the eligibility criteria laid down in paragraph 7 above may declare and pay dividend up to the limits prescribed under Table 1 below, but in

aggregate not exceeding 80% of the PAT for the period for which the dividend is being proposed.

Table 1		
Bucket	CRAR as at the end of previous FY	Dividend allowed as a % of adjusted PAT for the period
B1	Up to 9%	0
B2	Above 9% and up to 11%	20
B3	Above 11% and up to 13%	30
B4	Above 13% and up to 15%	40
B5	Above 15% and up to 17%	50
B6	Above 17% and up to 18%	60
B7	Above 18% and up to 19%	70
B8	Above 19% and up to 20%	80
B9	Above 20% and up to 21%	90
B10	Above 21%	100

9. The detailed illustrations are given in **Annex I**.

D. Deductions from Profit After Tax (PAT)

10. As regards calculation of PAT for the purpose of these Directions, a bank shall adhere to the following: As regards PAT, a bank shall adhere to the following:

- (i) In case the PAT for the relevant period includes any exceptional and / or extraordinary profits / income, or if audit report by the statutory auditor contains a modified opinion (including 'emphasis of matter') that indicates an overstatement of the PAT, the same shall be deducted from PAT to the extent it is included in PAT.
- (ii) In terms of Reserve Bank of India (Local Area Banks - Classification, Valuation and Operation of Investment Portfolio) Directions, 2025, a bank shall not pay dividend out of net unrealised gains arising on fair valuation of Level 3 financial instruments (including derivatives).
- (iii) The prudential treatment of reversal of excess provision, dividend payment by a bank on reversal of such provisions and unrealized profits arising on account of transfer of loans and Security Receipts guaranteed by the Government of India shall be guided by the instructions contained in the Reserve Bank of India (Local Area Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

E. Reporting system

11. A bank declaring dividend shall report details thereof as per the format prescribed in **Annex II**. The report shall be furnished to the Department of Supervision of the Reserve Bank within a fortnight of declaration of dividend.

F. Restriction on payment of dividend

12. The Reserve Bank reserves the right to place restrictions on distribution of dividend where a bank is found to be non-compliant with the applicable laws, regulations / guidelines issued by the Reserve Bank.

13. If a bank does not meet the eligibility criteria as per paragraph 7 above, no special dispensation will be given for declaration of dividend for that period.

G. Penal consequences for non-compliance

14. Non-compliance with any of the provisions contained in these Directions may attract supervisory and / or enforcement action, as applicable.

Chapter III - Repeal and other provisions

A. Repeal and saving

15. The list of circulars repealed with respect to the provisions relating to LABs coming under the purview of this Direction are in **Annex III**.

16. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

17. 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. Further, the repeal of these Directions, instructions, or guidelines shall not in any way prejudicially affect:

- a. any right, obligation or liability acquired, accrued, or incurred thereunder;
- b. any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
- c. any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture, or punishment may be imposed as if those Directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

18. 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

19. 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 Reserve Bank 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 Reserve Bank shall be final and binding.

Illustrations of calculation of maximum dividend

Note: The calculations are for illustrative purposes only to aid banks in their understanding of the Directions.

Illustration 1: Computation of maximum permissible dividend for FY 20X1-X2

Particulars	Amount (₹ '000)
Net profit (PAT) for FY 20X1-X2 (A)	17,000
Net NPAs as on March 31, 20X2 (B)	6,500
Adjusted PAT, i.e., (C) = (A) - (B)	10,500
CRAR as on March 31, 20X1 (D)	11.72%
The CET1 ratio falls in bucket B3	
80% of PAT(E)	13,600
Max payable as per Table 1 (30% of 10,500) (F)	3,150
Maximum Eligible Dividend (i.e., Lower of E or F)	3,150
Maximum Eligible Dividend as percentage of PAT	18.52%

Illustration 2: Computation of maximum permissible dividend for FY 20X1-X2

Particulars	Amount (₹ '000)
Net profit (PAT) for FY 20X1-X2 (A)	40,500
Net NPAs as on March 31, 20X2 (B)	5,000
Adjusted PAT i.e., (C) = (A)-(B)	35,500
CRAR as on March 31, 20X1 (D)	15%
The CET1 ratio falls in bucket B4	
80% of PAT(F)	32,400
Max payable as per Table 1 (40% of 35,500) (G)	14,200
Maximum Eligible Dividend (i.e., Lower of F or G)	14,200
Maximum Eligible Dividend as percentage of PAT	35.06%

Illustration 3: Computation of maximum eligible dividend for FY 20X1-X2

Particulars	Amount (₹ '000)
Net profit (PAT) for FY 20X1-X2 (A)	1500
Net NPAs as on March 31, 20X2 (B)	200
Adjusted PAT, i.e., (C) = (A) - (B)	1,300
CRAR as on March 31, 20X1 (D)	24.36%
The CET1 ratio falls in bucket B10	
80% of PAT (E)	1,200
Maximum payable as per Table (100% of 1,300) (F)	1,300
Maximum Eligible Dividend (i.e., G = Lower of E or F)	1,200
Maximum Eligible Dividend as percentage of PAT	80%
Interim dividend paid for FY 20X1-20X2 (H)	500
As the bank has already paid interim dividend of ₹500,000, the final dividend shall not be more than (G) – (H)	700

Annex II

Details of dividend declared during the financial year

Name of the Bank: _____

Accounting period *	Net profit for the accounting period (₹ crore)	Net profit[#] for determining the Dividend Payout Ratio (₹ crore)	Rate of dividend (per cent)	Amount of dividend (₹ crore)	Dividend Payout ratio (per cent)

**Quarter or half year or year ended as the case may*

excluding any exceptional and/or extra-ordinary profits/ income, or if audit report by the statutory auditor contains modified opinion that indicates an overstatement of net profit (including 'emphasis of matter'), net unrealised gains on fair valuation of Level 3 financial instruments (including derivatives), reversal of excess provision and unrealized profits arising on account of transfer of loans and Security Receipts guaranteed by the Government of India (as provided in Reserve Bank of India (Local Area Banks – Transfer and Distribution of Credit Risk) Directions, 2025).

'Dividend Payout Ratio (DPR)' means the ratio of the amount of the dividend payable on equity shares (including interim dividend) in a year and the net profit during the year as per the audited financial statements for the financial year for which the dividend is proposed.

Annex III**List of circulars repealed**

Sr. No.	Circular Number	Date of Issue	Subject
a)	DO.R.ACC.REC.161/21-02-067/2025-26	November 28, 2025	Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividends) Directions, 2025