

Draft Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividends) Directions, 2025

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Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividends) Directions, 2025

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Introduction

In exercise of the powers conferred by section 35A of the Banking Regulation Act (BR Act), 1949 the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest and in the interest of banking policy to do so, hereby, issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short title and commencement

1. These Directions shall be called the Reserve Bank of India (Local Area Banks – Prudential Norms on Declaration of Dividends) Directions, 2025.
2. These Directions shall come into effect immediately upon issuance.

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) 'CRAR' means Capital to Risk Weighted Assets Ratio (CRAR) calculated in terms of Reserve Bank of India (Local Area Banks – Prudential Norms on Capital Adequacy) Directions, 2025.
 - (ii) 'Dividends' includes any interim dividend.
 - (iii) 'Dividend Payout Ratio' means the ratio between 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.
 - (iv) 'Extra-ordinary profits / income' shall have the same meaning as defined under applicable accounting standards.

- (v) 'Net non-performing asset (NNPA) ratio' means ratio of NNPA to net advances.
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. A bank's Board shall take into account the interests of all stake holders and the following aspects while deciding on the proposals for declaring dividend:
 - (i) the interim dividend paid;
 - (ii) the findings of the Reserve Bank with regard to divergence in identification of NPAs, shortfall in provisioning, etc. during inspection for supervisory evaluation;
 - (iii) the auditors' qualifications pertaining to the statement of accounts;
 - (iv) minimum regulatory capital requirement as outlined under the Reserve Bank of India (Local Area Banks – Prudential Norms on Capital Adequacy) Directions, 2025; and
 - (v) the bank's long term growth plans.
7. While declaring dividend on equity shares, the Board of Directors shall *inter-alia* consider the current and projected capital position of the bank vis-à-vis the applicable capital requirements, applicable capital buffers and the adequacy of provisions, taking into account the economic environment and the outlook for profitability.

B. Eligibility criteria for declaration of dividend

8. A bank shall be eligible to declare dividends only if it complies with the following minimum prudential requirements:
 - (i) CRAR of the bank shall be at least nine per cent for preceding two completed financial years and the financial year for which it proposes to declare dividend;
 - (ii) NNPA ratio shall be less than seven per cent for the financial year for which the bank proposes to declare dividend;
 - (iii) In case a bank does not meet the CRAR norm, specified at paragraph 8(i) above, but is having CRAR of at least nine per cent for the financial year for

which it proposes to declare dividend, it shall be eligible to declare dividend provided its NNPA ratio is less than five per cent;

- (iv) The bank shall comply with the provisions of Sections 15 and 17 of the BR Act, 1949;
 - (v) The bank shall comply with the prevailing regulations / guidelines issued by the Reserve Bank, including creating adequate provisions for impairment of assets and staff retirement benefits, and transfer of profits to Statutory Reserves;
 - (vi) The proposed dividend shall be payable out of the current financial year's net profit only; and
 - (vii) The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.
9. If a bank does not meet the above eligibility criteria, no special dispensation shall be given to the bank for declaration of dividend.

C. Quantum of dividend payable

10. A bank, which fulfils the eligibility criteria set out at paragraph 8 above, may declare and pay dividends, subject to the following:

- (i) The dividend payout ratio shall not exceed 40 per cent and shall be as per the matrix furnished below.

Table: Matrix of criteria for maximum permissible range of dividend payout ratio

Category	CRAR	NNPA ratio			
		Zero	More than zero but less than 3%	From 3 % to less than 5%	From 5% to less than 7 %
		Range of dividend payout ratio			
A	11% or more for each of the last 3 years	Up to 40	Up to 35	Up to 25	Up to 15
B	10% or more for each of the last 3 years	Up to 35	Up to 30	Up to 20	Up to 10
C	9% or more for each of the last 3 years	Up to 30	Up to 25	Up to 15	Up to 5

Category	CRAR	NNPA ratio			
		Zero	More than zero but less than 3%	From 3 % to less than 5%	From 5% to less than 7 %
		Range of dividend payout ratio			
D	9% or more in the current year	Up to 10		Up to 5	NIL

An illustration for determining dividend payout ratio has been provided as below:

Bank	CRAR (%)			NNPA ratio (%) [As on March 31, 20X5]	Category	Maximum dividend payout ratio (%) for which the bank shall qualify
	20X4-X5	20X3-X4	20X2-X3			
V	12	11	11	2.3	A	Up to 35
W	12	10	11	3.8	B	Up to 20
X	11	9	10	6.2	C	Up to 5
Y	9	8	10	4.2	D	Up to 5
Z	12	11	12	zero	A	Up to 40

- (ii) If the profit for the relevant period includes any extra-ordinary profits / income, the dividend payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio.
- (iii) The financial statements pertaining to the financial year for which a bank is declaring a dividend shall 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 shall be suitably adjusted while computing the dividend payout ratio.
- (iv) Any application for a higher dividend payout ratio, than the one for which a bank qualifies as per above guidelines, shall not be considered by the Reserve Bank.

D. Reporting System

11. A bank declaring dividend shall report details of dividend declared during the financial year as per the proforma furnished in Annex I, within a fortnight after declaration of dividend, to the Department of Regulation, Central Office, Reserve Bank of India.

Chapter III - Repeal and other provisions

A. Repeal and saving

12. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Prudential Norms on Declaration of Dividend as applicable to Local Area Banks stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
13. 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.

B. Application of other laws not barred

14. 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

15. 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.

Annex I

Reporting format for a bank declaring dividend

Details of dividend declared during the financial year beginning on April 1, 20____

Name of the Bank:_____

Accounting period*	Net profit for the accounting period (in ₹ crore)	Rate of Dividend (in %)	Amount of dividend (in ₹ Crore)	Dividend payout Ratio (in %)
1	2	3	4	5

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