प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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January 02, 2024

RBI releases draft circular on declaration of dividend by banks and remittance of profits to Head Office by foreign bank branches in India

The Reserve Bank of India today released the draft circular on "Declaration of dividend by banks and remittance of profits to Head Office by foreign bank branches in India". Comments on the draft circular are invited from banks, market participants, and other stakeholders by January 31, 2024.

Feedback on the draft circular may be forwarded to:

The Chief General Manager-in-Charge
Department of Regulation, Central Office
Reserve Bank of India,
12th Floor, Central Office Building
Shahid Bhagat Singh Marg, Fort,
Mumbai – 400001
or
by email

Background:

Currently, scheduled commercial banks (SCBs) declare dividend and foreign bank branches remit profit, subject to compliance with the guidelines issued on May 4, 2005 and November 6, 2003, respectively. There have been significant changes in the regulatory framework governing banks post issuance of these guidelines. Some of these developments also have implications for the guidelines on declaration of dividend and remittance of profits. In view of this, the Reserve Bank has undertaken a comprehensive review of the extant regulations on declaration of dividend and remittance of profits.

(Yogesh Dayal)
Chief General Manager

Press Release: 2023-2024/1602

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

Draft Circular for comments

DOR.ACC.REC.No.##/21.02.067/2023-24 **January 2, 2024**

Madam/ Dear Sir,

Declaration of dividend by banks and remittance of profits to Head Office by foreign bank branches in India

The Reserve Bank has granted general permission to all scheduled commercial banks [excluding regional rural banks (RRBs)] to declare dividends vide circular reference DBOD.NO.BP.BC.88/21.02.067/2004-05 dated May 4, 2005 on 'Declaration of dividends by banks'. Similarly, foreign banks operating in India in the branch mode are permitted to remit profits to their head office without prior approval from the Reserve Bank pursuant to circular reference DBOD.No.IBS.BC.46/16.13.100/2003-04 dated November 6, 2003.

2. These guidelines have been reviewed in the light of implementation of Basel III standards, the revision of the prompt corrective action (PCA) framework, and the introduction of differentiated banks. Accordingly, banks should comply with the following guidelines for declaration of dividends or remittance of profit[1].

Board Oversight

3. While considering the proposal for declaration of dividends or remittance of profits, the Board of Directors or the bank's management[2] should consider the following:

i. The divergence in classification and provisioning for Non-Performing Assets (NPAs), including its trend, as observed under supervisory findings of the Reserve Bank or National Bank for Agriculture and Rural Development (for RRBs), as applicable.

[1] Remittance of profit refers to repatriation of profit by foreign banks operating in India in branch mode to their head offices.

[2] Applicable in case of foreign banks operating in India in the branch mode.

ii. Qualifications and Emphasis of Matter in the Auditors' Report to the financial statements.

iii. Current and projected capital position vis-à-vis applicable capital requirement; and

iv. Long term growth plans of the bank.

Eligibility criteria

4. Banks should meet the following prudential requirements to be eligible to declare dividends or remit profits.

Table 1: Declaration of Dividend: Minimum Prudential Requirements		
Sr. No.	**Parameter**	**Requirement**
i.	Capital Adequacy	Bank shall have met the applicable regulatory capital requirement[3] (refer Annex I) for each of the last three[4] financial years including the financial year for which the dividend is proposed.
ii.	Net NPA	The net NPA ratio, for the financial year for which the dividend is proposed, shall be less than six per cent.
iii.	Other Criteria	a. The bank should comply with Sections 11(2)(b)(ii), 15, and 17(1) of the Banking Regulation Act, 1949, as applicable. b. The bank shall be compliant with the applicable laws, regulations/ guidelines issued by the Reserve Bank including, inter alia, creating adequate provisions for impairment of asset and employee benefits, transfer of profits to Statutory Reserves etc. c. The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends or remittance of profits.

Quantum of Dividend Payable

5. Banks eligible to declare dividend as per paragraph 4 above, may pay dividend, subject to the following:

[3] Including, where applicable, capital conservation buffer, countercyclical capital buffer, and additional Common Equity Tier 1 (CET1) for D-SIBs.

[4] Where a bank has been in existence for less than three financial years, it shall be since date of commencement of operation.

i. The Dividend Payout Ratio is the ratio between the amount of the dividend payable[5] in a year and the net profit as per the audited financial statements for the financial year for which the dividend is proposed.

ii. Proposed dividend payable shall include dividend on equity shares[6] only.

iii. In case the net profit for the relevant period includes any exceptional and/or extra-ordinary profits/ income, or if the financial statements are qualified (including 'emphasis of matter') by the statutory auditor that indicates an overstatement of net profit, the same shall be reduced from net profit while determining the Dividend Payout Ratio.

iv. The ceilings on dividend payout ratios for banks eligible, as per paragraph 4 above, to declare dividend are as under:

Table 2: Ceilings on Dividend Payout Ratio

Sr. No.	Net NPA Ratio[7]	Maximum Dividend Payout Ratio (percentage)
1	Zero	50
2	More than zero but less than 1 per cent	40
3	More than or equal to 1 per cent but less than 2 per cent	35
4	More than or equal to 2 per cent but less than 4 per cent	25
5	More than or equal to 4 per cent but less than 6 per cent	15

v. The Reserve Bank shall not entertain any request for ad-hoc dispensation on declaration of dividend.

Remittance of profits to head office by foreign banks operating in India in the branch mode

6. A foreign bank operating in India in branch mode, that satisfies the eligibility criteria specified in paragraph 4, may remit net profit/surplus (net of tax) of a quarter or year, earned in the normal course of business arising out of its Indian operations, without prior approval of the Reserve Bank, provided that the accounts of the bank are audited and

[5] Including the interim dividends.

[6] Dividends on Perpetual Non-Cumulative Preference Shares (PNCPS) shall be guided by Master Circular – Basel III Capital Regulations dated May 12, 2023, as modified from time to time, and terms under which these instruments are issued.

[7] For the financial year for which the dividend is proposed.

in the event of excess remittance, the head office of that foreign bank immediately makes good the shortfall.

Reporting System

7. Banks declaring dividend or remitting profits to Head Office shall report details thereof as per the format prescribed in Annex 2. The report shall be furnished to the Department of Supervision of the Reserve Bank or NABARD (in case of RRBs) within a fortnight of declaration of dividend or remitting profits to Head Office.

Applicability

8. This circular is applicable to all commercial banks (including Regional Rural Banks, Local Area Banks, Small Finance Banks, and Payments Banks).

Effective Date

9. These guidelines shall be effective for declaration of dividends for the FY 2024-25 and onwards.

Repeal

10. With the issuance of these guidelines, following circulars shall stand repealed.

Sr. No.	Circular Number	Date of Issue	Subject
a)	DBOD.No.BC.35/16.13.100/93-94	March 29, 1994	Declaration of Dividends
b)	DBOD.No.IBS.BC. 46/16.13.100/2003-04	November 6, 2003	Remittance of profit by foreign banks operating in India
c)	DBOD.No.BP.BC.80/21.02.067/2003-04	April 23, 2004	Declaration of Dividends by Banks
d)	DBOD.No.BP.BC.88/21.02.067/2004-05	May 4, 2005	Declaration of Dividends by Banks

(Usha Janakiraman)
Chief General Manager

Annex 1: Applicable regulatory capital requirements as at the date of issuance of the circular

The table below enumerates the applicable capital requirements for various categories of banks as applicable on the date of issuance of the circular. These are subject to change in future and therefore while declaring dividend, the requirements applicable to the period under consideration need to be considered.

<table>
<tr><th>Sl. No</th><th>Bank Category</th><th>Capital requirements</th><th>Reference</th></tr>
<tr><td>1.</td><td>Commercial Banks (excluding Regional Rural Banks, Local Area Banks, Small Finance Banks, and Payments Banks)</td><td>The minimum capital requirements are as under:
<table>
<tr><th colspan="2">Minimum capital requirements (in per cent)</th></tr>
<tr><td>Common Equity Tier (CET) 1</td><td>5.5</td></tr>
<tr><td>Capital Conservation Buffer (CCB) (comprised of Common Equity)</td><td>2.5</td></tr>
<tr><td>Minimum CET1 and CCB</td><td>8</td></tr>
<tr><td>Minimum Tier 1 capital</td><td>7</td></tr>
<tr><td>Minimum Total Capital</td><td>9</td></tr>
<tr><td>Minimum Total Capital including CCB (CRAR)</td><td>11.5</td></tr>
</table>
Further, Domestic Systemically Important Banks (D-SIBs), are also required to meet additional Common Equity Tier 1 (CET1) as applicable.</td><td>Circular DOR.CAP.REC.15/21.06.201/2023-24 dated May 12, 2023 on Basel III Capital Regulations.</td></tr>
<tr><td>2.</td><td>Small Finance Banks</td><td>The minimum capital requirements are as under:
<table>
<tr><th colspan="2">Minimum capital requirements (in per cent)</th></tr>
<tr><td>Common Equity Tier (CET) 1</td><td>6</td></tr>
<tr><td>Minimum Tier 1 capital</td><td>7.5</td></tr>
<tr><td>Minimum Total Capital (CRAR)</td><td>15</td></tr>
</table></td><td>Circular DBR.NBD.No.26/16.13.218/2016-17 dated October 6, 2016 on Operating Guidelines for Small Finance Banks.</td></tr>
<tr><td>3.</td><td>Payments Banks</td><td>The minimum capital requirements are as under:
<table>
<tr><th colspan="2">Minimum capital requirements (in per cent)</th></tr>
<tr><td>Common Equity Tier (CET) 1</td><td>6</td></tr>
<tr><td>Minimum Tier 1 capital</td><td>7.5</td></tr>
<tr><td>Minimum Total Capital (CRAR)</td><td>15</td></tr>
</table></td><td>Circular DBR.NBD.No.25/16.13.218/2016-17 dated October 6, 2016 on 'Operating Guidelines for Payments Banks'.</td></tr>
</table>

Sl. No	Bank Category	Capital requirements	Reference
4	Local Area Banks	Banks are required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis.	Reserve Bank of India (Prudential Norms on Capital Adequacy for Local Area Banks) Directions, 2021.
5	Regional Rural Banks	RRBs are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis.	Circular DOR.RRB.No.21/31.01.001 /2019-20 dated November 1, 2019 on 'Issue of additional instruments for augmenting regulatory capital for RRBs'.

Annex 2: Details of dividend declared/ profit remitted to its head office during the financial year

Name of the Bank: _________

Accounting period *	Net profit for the accounting period (₹ crore)	Rate of dividend (per cent)	Amount of dividend (₹ crore) or Amount of profit/surplus remitted to head office and the rate of exchange applied	Dividend Payout ratio (per cent) or Profit/surplus remitted to head office as percentage of net profit

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