

Draft Reserve Bank of India (Urban Co-operative Banks – Prudential Norms on Declaration of Dividends) Directions, 2025

DRAFT FOR COMMENTS

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Reserve Bank of India (Urban Co-operative Banks – Prudential Norms on Declaration of Dividends) Directions, 2025

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Introduction

In exercise of the powers conferred by section 35A read with section 56 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 (Urban Co-operative 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 Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as a 'UCB').

In this context, Urban Co-operative Banks shall mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

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 (Urban Co-operative Banks – Prudential Norms on Capital Adequacy) Directions, 2025.
 - (ii) 'Dividends' includes any interim dividend.
 - (iii) '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 by a UCB

6. A UCB may declare dividend provided it fulfils conditions outlined as under:
 - (i) It shall comply with applicable regulatory capital requirement;
 - (ii) NNPA ratio shall be less than five per cent, after making all necessary provisions (including provisions required as per assessment made by the Reserve Bank in the last inspection report), for the financial year for which dividend is proposed;
 - (iii) There is no default in maintenance of Cash Reserve Ratio (CRR) / Statutory Liquidity Ratio (SLR) during the financial year for which dividend is proposed;
 - (iv) All required provisions have been made for NPAs, investments and other assets as per prudential and accounting norms.
 - (v) Dividend shall be paid out of the net profit, of the financial year for which dividend is being paid, after making all statutory and other provisions and adjustment for accumulated losses in full.
7. A UCB complying with all the parameters specified in paragraph 6 except for the NNPA ratio [as prescribed under paragraph 6(ii) above], and desirous of declaring dividend shall approach the respective Regional Office of the Reserve Bank for permission for declaring dividend provided the NNPA ratio is less than ten per cent.
8. While declaring dividend on equity shares, the Board of Directors a UCB shall *inter alia* consider the current and projected capital position of the bank vis-à-vis the applicable capital requirements and the adequacy of provisions, taking into account the economic environment and the outlook for profitability.

Chapter III - Repeal and other provisions

A. Repeal and saving

9. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Prudential Norms on Declaration of Dividend as applicable to Urban Co-operative 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.
10. 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

11. 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

12. 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.