

Statement on the feedback received on draft Directions

Subject: Reserve Bank of India (Prudential Norms on Declaration of Dividend and Remittance of Profit) Directions, 2026

The Reserve Bank had, on [January 6, 2026](#), issued the draft Directions on Prudential Norms on Declaration of Dividend and Remittance of Profit for five regulated entities, viz., Commercial Banks, Small Finance Banks (SFBs), Payment Banks (PBs), Regional Rural Banks (RRBs), and Local Area Banks (LABs). Major feedback received and the comments thereon are summarized below¹:

1. Paragraph 2

These Directions shall come into effect from Financial Year (FY) 2026-27.

Feedback: Stakeholders have suggested to defer the implementation of the guidelines till the implementation of guidelines on Expected Credit Loss (ECL).

RBI Comments: Not Accepted.

ECL and dividend guidelines are two separate subjects, hence the date of implementation of these Directions cannot be linked to each other.

2. Paragraph 4 (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.

Feedback: Stakeholders have suggested that net NPA need not be deducted from PAT as banks already make provisions for losses. Some stakeholders suggested that net NPA may be reduced from CET1 (instead of PAT), incremental net NPA or net NPA net of tax may be reduced from net profit.

RBI Comments: Partially Accepted.

Deduction of 100 per cent net NPA from net profit assumes zero per cent recovery, which may be too conservative. Further, deducting net NPA from CET1 would defeat the purpose of linking dividend eligibility to asset quality. To address these concerns,

¹ Paragraph references mainly correspond to the draft Directions issued for Commercial Banks, and the equivalent provisions may be referred to in the Directions applicable to other regulated entities. Notwithstanding this, specific paragraphs pertaining to the Draft Directions to other REs have been mentioned wherever specific comments on drafts for those REs were different from the draft for Commercial Banks.

it has been decided that the Adjusted PAT should be arrived at by reducing 50 per cent of net NPA instead of 100 per net NPA from net profit.

3. Paragraph 6(i) – Board Oversight

The Board of Directors shall consider divergence in asset classification, auditors' reports, and current / projected capital position while considering dividend proposals.

Feedback: Stakeholders have suggested introducing a requirement for Boards to certify that dividend declaration does not impair projected capital adequacy. Stakeholders have also sought clarity on whether interim dividends are subject to the same prudential requirements.

RBI Comments:

Clarified as under

The draft Directions already require the Boards to consider projected and current capital position, for declaration of dividend, including interim dividend.

4. Paragraph 7 – Eligibility Criteria

A bank shall meet specific prudential requirements to be eligible to declare dividends or remit profits.

Feedback:

- (a) Clarification has been requested on whether dividend can be paid only from the current financial year's net profit.
- (b) Stakeholders have requested to incorporate the requirements of Sections 15 and 17 of the Banking Regulation Act, 1949.

RBI Comments:

(a) Clarified as under:

The maximum permissible dividend is a specific percentage of adjusted PAT for the period for which the dividend is proposed. The illustrations provided in Annex I to the circular reflect the manner in which dividend is to be computed.

(b) Not Accepted.

The provisions of the Directions are in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

5. Paragraph 8 – Quantum of Dividend

Feedback: Stakeholders have suggested that the *current year's* CET1 ratio (as of March 31 of the year for which the dividend is proposed) should be considered instead of the *previous year's* CET1. Additionally, suggestions were made to allow the inclusion of subsequent capital infusions in the CET1 capital computation.

RBI Comments:

Not Accepted.

The current year's CET1 ratio cannot be used because it is interdependent on the net profit and the proposed dividend amount (i.e., the dividend amount reduces the CET1 capital). Furthermore, permitting the inclusion of subsequent capital infusion in the numerator (CET1 capital) while retaining the Risk Weighted Assets (RWAs) of the previous year in the denominator would distort the CET1 ratio.

6. Paragraph 10 – Remittance of Profit by Foreign Banks operating in India in branch mode

Foreign banks operating in India in branch mode may remit net profit / surplus (net of tax) without prior RBI approval, subject to audited accounts and the return of any excess remittance.

Feedback: Clarification has been requested on whether remittance is required in cases where an entity has accumulated losses from previous years but reports profits in the current financial year. Clarifications have also been sought regarding audit timelines and standards etc.

RBI Comments:

Not Accepted.

There are no changes to the extant Directions pertaining to remittance of profits applicable to foreign banks operating in branch mode in India. Thus, no separate guidance on audit standards, etc., is deemed necessary.

7. Paragraph 11 – Deductions from PAT

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

(i) Exceptional and / or extra-ordinary 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) A bank shall not pay dividend or repatriate profits out of net unrealised gains arising on fair valuation of Level 3 financial instruments (including derivatives).

(iii) Dividend payment or remittance of profits by a bank on reversal of 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 (Commercial Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

Feedback:

- (a) Stakeholders have suggested removing the reference of 'Emphasis of Matter' (EOM) from the above-mentioned paragraph.
- (b) Stakeholders have suggested to align the definition of extra-ordinary income to the Accounting Standards.
- (c) It has also been suggested that exceptional items should be available for payment of dividend. Stakeholders have also requested for a list of exceptional / non-recurring items and exclude profits arising purely from accounting / regulatory transitions from dividend eligibility.
- (d) Stakeholders have suggested that while unrealised gains on Level 3 instruments should not be distributed, they need not be deducted to arrive at "Adjusted PAT".

RBI Comments:

- (a) **Accepted.**

The reference to EOM has been removed from this paragraph.

- (b) **Accepted.**

To ensure clarity and alignment with accounting norms, the Directions specify that 'extra-ordinary profit / income' shall have the same meaning as defined under applicable Accounting Standards.

- (c) **Not Accepted.**

The dividends shall not be paid from exceptional income / profit, as they are non-recurring in nature. Further, it is not feasible to issue an exhaustive list of all possible exceptional or non-recurring incomes. Likewise, exclusions for transition-related accounting profits will be dealt with appropriately on a case-by-case basis during the issuance of specific guidelines.

(d) **Accepted.**

In order to impart clarity, the wording regarding unrealised gains on Level 3 financial assets has been rephrased to explicitly state that such gains "shall not be available for payment of dividend".

8. Paragraph 13 – Restrictions on payment of dividend and remittance of profit

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

Feedback:

- (a) Stakeholders have requested for disclosures when dividend restrictions arise from prudential calibration rather than adverse findings to avoid market volatility. Clarification has been sought on whether adverse supervisory stress-test, remedial actions could independently justify dividend restrictions, even if minimum capital ratios are met.
- (b) Stakeholders have requested the inclusion of "Dividend Stopper" requirements linked to AT1 instruments and Capital Conservation Buffer in the Directions.

RBI Comments:

(a) **Not Accepted.**

Listed entities are already required to disclose dividend distribution policies under SEBI (LODR) Regulations, 2016, covering circumstances for non-declaration. Moreover, restrictions based on supervisory concerns and remedial actions are appropriately handled on a case-specific basis.

(b) **Not Accepted.**

Dividend stopper requirements primarily emanate from instructions on AT1 instruments and do not fall within the purview of these Directions. Further, the Directions already require banks to comply with the applicable regulatory capital requirements.

9. Feedback Specific to Regional Rural Banks (RRBs): Stakeholders have suggested that "Provision for income tax" should be explicitly deducted while computing Adjusted PAT for RRBs and imposition of a five-year embargo on dividend declaration for RRBs that have received recapitalization assistance.

RBI Comments:

Not Accepted.

Dividend declaration is based on PAT which already considers the provision for income tax. Also, precluding dividends solely based on the timeline of capital infusion would create regulatory asymmetry between RRBs and other banks.