राष्ट्रीय कृषि और ग्रामीण विकास बैंक
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DEPARTMENT OF SUPERVISION
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FAD

Circular No. 120 / DOS - 15.7.2004

To Registrars of Cooperative Societies of All States/
Union Territories

CGM(T)
Kindly examine and put up

Dear Sir,

In file

Declaration of dividends by State/Central Cooperative Banks

At present, the State & Central Cooperative Banks declare dividend as per the provisions of their Bye-laws read with the relevant provisions of the State's Cooperative Societies' Act and Rules framed thereunder. We have recently reviewed the position relating to dividend payout by the SCBs and DCCBs in the country during the years 2001-02 & 2002-03. Key findings of the said review are given in Annexure.

30/5
4/6

2. It is observed with concern that despite being pointed out in the Inspection/Audit Reports, many banks continue to take unrealised interest to the income head in Profit & Loss Account, without making full provision for equivalent amount showing an incorrect profit figure. Instances have also come to our notice where the banks had left a huge shortfall in provisioning against their impaired assets so as to declare profit/dividend, which was in violation of the prudential guidelines on income recognition and assets classification issued by RBI.

3. You will agree that in the light of the ongoing financial sector reforms (with the increasing need for strengthening the resources of Cooperative Banks) in order to enable them to play their role effectively in dispensation of credit for agriculture and rural development in the present competitive environment, there is a strong need to augment the resources available with Cooperative Banks. Further, in tune with RBI's directives, the Cooperative Banks will be subject to more stringent norms for assets classification in a couple of years (by 31 March 2006), and to observe the delinquency norms of 90 days (as against 180 days at present) for treating a loan account as NPA. This itself may require additional

249

impaired assets as pointed out in the latest Inspection Report of NABARD.

v) The bank's net NPAs after meeting the requirements indicated in items (i) to (iv) above should not be more than 5% of net loans & advances outstanding as on 31 March of the related year.

vi) Though, minimum Capital to Risk Weighted Assets Ratio (CRAR) is not prescribed for Cooperative Banks so far, it is desirable that to start with, the minimum CRAR of 5% be fixed by the RCS for the purpose of declaring the dividend.

B. Quantum of Dividend Payable :

Banks which comply with the above eligibility criteria may be permitted to declare dividend subject further to the following :

i) **The dividend payout ratio should not exceed 20%.** Dividend payout ratio is calculated as a percentage of 'dividend payable in a year' to 'net profit during the year'.

ii) The proposed dividend should be payable out of the current year's profit.

iii) In case the profit for the relevant period includes any extraordinary profits/income, the payout ratio shall be computed **after excluding** such extraordinary items for reckoning compliance with the prudential ratio ceiling of 20%.

iv) The accounts statements pertaining to the financial year for which the bank is declaring a dividend should 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 should be suitably adjusted while computing the dividend payout ratio.