

September 22, 2004

**Circular BM - 976**

**To: All Locally Incorporated Banks**

After Compliments,

**Sub: Dividend Payments by Banks**

As banks are aware, in terms of the provisions contained in Article 72 (a) of the Banking Law 2000, the Central Bank has been empowered to establish the procedures for submission of the financial statements by banks, audited by independent auditors. The procedures have been established vide Circular BM 771 dated October 23, 1995, which also provides for the banks to seek the prior approval of the Central Bank before declaring any dividends.

In the light of the developments in international best practices and in achieving greater transparency, need for clearly articulated policy on dividend payments by banks was examined. Accordingly, in consultation with the banking system, the Board of Governors of the Central Bank has formulated a transparent policy for approval of the banks' proposals for distribution of dividends. In terms of the set policy, the Central Bank shall not be approving proposals for distribution of dividends of banks, which are not meeting the minimum BIS capital adequacy ratio and / or net worth requirements, the loan loss provisions as per the extant norms and have not made any net profit in a given year.

Banks are advised to consider the above points while formulating their internal policies on dividend payments. The existing practice of seeking the prior approval before declaring dividends would continue and the Central Bank's decision would be final.

Best regards,

**Hamood Sangour Al-Zadjali**  
**The Executive President**