Dividend Distribution Policy

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Investor Relations Cell
Regd. & Central Office
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Index

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DIVIDEND DISTRIBUTION POLICY

1. Preface

This policy is being adopted and published in compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2016. Pursuant to regulation 43A, which requires the top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) to formulate a Dividend Distribution Policy ("the Policy"), which shall be disclosed in the annual reports and on the website.

2. Implementation of Policy

This policy was originally approved by the Board of Directors of the Bank in its meeting held on 03.12.2016, pursuant to requirement of regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2016 notified vide on July 8th, 2016

3. Objective

The Objective of this policy is to lay down the criteria to be considered by the Board of Directors of the Bank before recommending dividend to its shareholders for a financial year.

4. Philosophy

The Bank always believes in optimizing the shareholders wealth by offering them various corporate benefits from time to time after considering the Capital to Risk (Weighted) Assets Ratio (CRAR) and reserve requirements subject to regulatory stipulations.

5. Legal Framework

The Bank shall declare dividend only after ensuring compliance with the Banking Regulation Act, 1949, various regulatory guidelines on dividend declaration issued by RBI from time to time, the provisions of the Companies

Act, 2013 & the rules made thereunder, the SEBI Listing Regulations, as amended to the extent applicable for Banking Companies.

However strict compliance of the provisions of the Banking Regulation Act, 1949 (BR Act) would be adhered, where ever the provisions of other statutes are not consistent with the provisions of the BR Act, the BR Act and the guidelines issued by the RBI from time to time shall only prevail.

6. Definitions

"Board" means Board of Directors of the Bank as defined under the Companies Act, 2013.

"CRAR", it is the ratio of the Bank's capital to its risk weighted assets.

"Dividend Payout Ratio" it is calculated as a percentage of 'dividend payable in a year' (excluding dividend tax' (if any) to 'net profit during the year').

"Final Dividend" means the Dividend recommended by the Board of Directors and declared by the Members at an Annual General Meeting.

"Interim Dividend" means the Dividend declared by the Board of Directors.

"Free Reserves" means such reserves which, as per the latest audited balance sheet of a Bank, are available for distribution as Dividend. However, the following amount shall not be treated as free reserves:

(i) any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as reserve or otherwise, or

(ii) any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value.

Words and expressions used and not defined herein shall have the meaning respectively assigned to them under the Banking Regulation Act/ Companies Act 2013 or other applicable laws.

7. Eligibility criteria for declaration of Dividend

No explicit restrictions on the Bank for declaration of dividends have been placed by RBI and Bank should be eligible for payment of dividend as per extant RBI guidelines.

As per the extant guidelines of RBI dated May 04,2005, the eligibility criteria for declaration of dividend is as under:

- ❖ CRAR of at least 9% for the preceding two years and the accounting year for which it proposes to declare dividend;

- ❖ Net NPA level of less than 7%

  In case the Bank does not meet the above CRAR norm, but is having a CRAR of at least 9% for the accounting year for which it proposes to declare dividend, it may still declare the dividend provided the Bank's Net NPA ratio is less than 5%.

- ❖ The Bank should be in compliance with the provisions of Section 15 (relating to Restrictions as to payment of dividend) and Section 17 (relating to creation of Reserve Fund) of the Banking Regulation Act, 1949.

- ❖ The Bank shall be in compliance with the prevailing Regulations / guidelines issued by RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, Transfer of profits to statutory reserves etc.

- ❖ The proposed dividend shall be paid out of the Current year's profits (i.e. relevant accounting year profits) only

The Bank may not declare dividend for a particular year in case it does not meet any of the above eligibility criteria.

- Quantum of Dividend Payable:

If the eligibility criteria, set out above is satisfied, the Bank may declare and pay dividends, subject to the following:

1) The dividend payout ratio shall not exceed 40% and shall be as per the matrix furnished in Annexure 1 of RBI circular No. RBI /2004-05/451 DBOD. No. BP. BC.88/21.02.067/2004-05 dated 04.05.2005 or such other quantum as advised by RBI from time to time. Dividend payout ratio shall be calculated as a percentage of 'dividend payable' in a year (excluding dividend tax, if any) to the net profit during the year. The matrix criteria for maximum permissible range of Dividend Payout Ratio is annexed as Annexure I.

2) In case the profits 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 payout ratio.

3) The financial statements pertaining to the financial year, for which the Bank is declaring dividend, should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during the year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

- Dividends declared if any, shall be subject to Conditions stipulated under the provisions of Section 123 of the Companies Act, 2013 and the Companies (Declaration and Payment of Dividend) Rules, 2014

Rule 3 of the above mentioned Rules stipulates the following major conditions regarding declaration of dividend out of surplus in the case of inadequacy or absence of profits in any year:

❖ The rate of dividend shall not exceed the average of the rates at which dividend was declared by the company in the three years immediately preceding that year;

❖ The total amount to be drawn from such accumulated profits shall not exceed one-tenth (1/10th) of the sum of its paid-up share capital and free reserves;

- The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

- The balance of reserves after such withdrawal shall not fall below 15% of its paid-up share capital as appearing in the latest audited financial statements;

Dividend is declared at the Annual General Meeting of the Bank, based on the recommendation of the Board of Directors. Pursuant to Sec. 123 of the Companies Act, 2013 "No dividend shall be declared or paid by the Bank from its reserves other than free reserves", but there are restrictions under Banking Regulation Act, 1949 and payment of Dividend is not allowed out of past reserves.

- Interim Dividend:

Board may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.

Provided that in case the Bank has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the bank during the immediately preceding three financial years.

Banks may declare and pay interim dividends out of the relevant accounting period's profit without prior approval of RBI if they satisfy the minimum criteria prescribed and satisfy the other requirements prescribed above, and the cumulative interim dividend(s) are within the prudential cap on dividend payout ratio (viz. 40%) computed for the relevant accounting period. However, declaration and payment of interim dividends beyond this ceiling requires RBI's prior approval.

8. Unpaid Dividend

a) The amount of Dividend which remains unpaid or unclaimed after thirty days from the date of its declaration shall be transferred to an account titled as 'Unpaid Dividend Account' in that behalf. Such transfer shall be made within seven days from the date of expiry of the thirty days period from the date of declaration of Dividend.
b) Any amount in the Unpaid Dividend Account of the company which remains unclaimed for a period of seven years from the date of transfer of such amount to the Unpaid Dividend Account, along with interest accrued, if any, shall be transferred to the Investor Education and Protection Fund.
c) Before transferring any unclaimed Dividend to the Investor Education and Protection Fund, the Bank shall give an individual intimation to the Members in respect of whom such unclaimed Dividend is being transferred, at least three months before the due date of such transfer.
d) All shares in respect of which Dividend has not been claimed for seven consecutive years or more shall be transferred by the company in the name of Investor Education and Protection Fund.

9. Internal and External factors

The Board will consider the internal and external factors while making any recommendation for dividend.

- Financial performance of the Bank for the year for which dividend is recommended;
- Growth rate of past earnings;
- Growth rate of estimate profits;
- Shareholders expectations;
- Dividend payout trends;
- Interim dividend paid, if any;
- Government's regulations;
- Risk effect;
- Optimal Capital Adequacy Ratio subject to regulatory stipulations;
- Auditors' qualifications pertaining to the statement of accounts;
- Expected capital requirements for planned growth;
- Cost of raising funds from alternative sources;
- Re investment opportunities;

- Tax implications if any, on distribution of dividends;
- Macro-economic environment;
- Such other factors and material events which Board may consider; and
- Corporate actions;

10. Circumstances under which shareholders may or may not expect dividend

The Board of the bank may not recommend any dividend if the eligibility criteria for recommendation of dividend has not been met by the Bank, including any regulatory restriction placed on the Bank on declaration or if the Board strongly believes the need to conserve capital for growth or other exigencies which will be spelt. There may also be regulatory obligations that the Bank would have undertaken in the form of dividend stopper clauses in bond issuances which might get triggered in certain circumstances and would prohibit the Bank from declaring dividend.

11. Retained earnings utilization

The Bank would utilize the retained earnings of the Bank in a manner which is beneficial to the interest of the Bank and its stakeholders, including, but not limited to ensuring maintenance of a healthy level of minimum capital adequacy ratios, meeting the Bank's future business growth/ expansion and strategic plans or such other purpose the Board may deem fit from time to time in the interest of the Bank and its stakeholders.

12. Parameters for various classes of shares

Currently, the Bank does not have any other class of shares except equity shares. The entire distributable profit for the purpose of declaration of dividend is considered for the equity shareholders based on their shareholding on the record date fixed for the dividend entitlement.

13. Reporting System

The recommendation as to dividend whether interim or final shall be informed to the Stock Exchange/s in terms of the provisions of SEBI Listing Regulations as also to the Depositories.

The Bank shall report the details of dividend declared and paid as per the format furnished by RBI in its circular referred herein above, within a fortnight after declaration of dividend.

Information on dividend paid in last five financials years including dividend percentage are made available on the website of the Bank.

14. Manner of Payment of Dividend

In terms of Regulation 12 of SEBI Listing Regulations, the Bank shall use any of the electronic mode of payment facility approved by the Reserve Bank of India for the payment of the dividends. Where it is not possible to use electronic mode of payment, 'payable-at-par' Warrants or Demand drafts will be issued to the eligible shareholders.

15. Website updation

This Policy would be subject to revision/amendment in accordance with the guidelines as may be issued by Reserve Bank of India, Ministry of Corporate Affairs, Securities Exchange Board of India or such other authority as may be authorized, from time to time, on the subject matter.

The Bank shall place the Dividend Distribution Policy on its website and will also be disclosed in the Bank's Annual Report.

16. Amendments / Modifications

To the extent any change/amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the policy and the provisions in the policy would be modified in due course to make it consistent with law. Such amended policy shall be placed before the Board for approval.

17. Disclosures

a) Notes to Accounts forming part of the financial statements of the Company shall disclose the aggregate amount of Dividend proposed to be distributed to equity Shareholders for the financial year and the related amount of Dividend per share.

b) The Balance Sheet of the company shall also disclose under the head 'Current Liabilities and Provisions', the amount lying in the Unpaid Dividend Account together with interest accrued thereon, if any.

c) The amount of Interim Dividend, if any, paid during the financial year and final Dividend recommended by the Board of directors shall be disclosed in the Board's Report.

d) The Annual Report of the company shall disclose the total amount lying in the Unpaid Dividend Account of the company in respect of the last seven years and when such unpaid Dividend is due for transfer to the Fund. The amount of Dividend, if any, transferred by the company to the Investor Education and Protection Fund during the year shall also be disclosed.

e) The company shall give prior intimation to the Stock Exchange(s) about the Board Meeting in which Dividend is proposed to be recommended / declared, atleast two working days in advance excluding the date of the meeting and the date of the intimation.

f) The company shall intimate the Stock Exchange(s), the record date fixed for the purpose of payment of Dividend at least seven working days in advance excluding the date of the intimation and the record date.

g) The company shall disclose the outcome of the Board Meeting held to consider the Dividend matters, to the Stock Exchange(s) within 30 minutes of closure of the meeting. In case of recommendation / declaration of Dividend, the intimation shall also include the date on which such Dividend shall be paid or Dividend warrant shall be dispatched.

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Annexure I

Category	CRAR	Net NPA Ratio			
		Zero	More than zero but less than 3%	From 3% to less than 5%	From 5% to less than 7%
A	11% or more for each of the last 3 years	Up to 40	Up to 35	Up to 25	Up to 15
B	10% or more for each of the last 3 years	Up to 35	Up to 30	Up to 20	Up to 10
C	9% or more for each of the last 3 years	Up to 30	Up to 25	Up to 15	Up to 5
D	9% or more in the current year	Up to 10		Up to 5	Nil

Notes:

Banks should have a CRAR of at least 9% for preceding two completed years and the accounting year for which it proposes to declare dividend and Net NPA less than 7% to be eligible to declare dividends. In case any bank does not meet the above CRAR norm, but is having a CRAR of at least 9 % for the accounting year for which it proposes to declare dividend, it would be eligible to declare dividend provided its Net NPA ratio is less than 5%.

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