

Part-C Annexure-2

POLICY FOR DECLARATION OF DIVIDEND FOR THE YEAR 2024-25

1. Objective: -

The Bank would endeavor to maintain a consistent approach towards dividend pay-out plans and to tradeoff between the dividend paid and volume of profits retained in the business.

2. Board Oversight:

The dividend declaration/payment is an important decision as it affects all its stakeholders. While declaring dividend on equity shares, Board is inter-alia considering the current & projected capital positions of the Bank vis-à-vis the applicable capital requirements and the adequacy of provisions, considering the economic environment and the outlook for profitability. The Bank's Board, therefore, shall consider the interest of all stakeholders and the following internal and external factors, while deliberating and deciding on the proposal for declaration of dividend:

2.1 External Factors:

2.1.1 Macro-Economic Scenario:

In case of subdued economic scenarios, industrial environment and business conditions, Board will endeavor to retain larger portion of profits to build up cushion to absorb future shocks.

2.1.2 Statutory Obligations:

The Bank shall endeavor compliance of RBI guidelines with particular reference to CRAR and NPA levels and also the guidelines issued by the Ministry of Finance, Government of India and SEBI guidelines with respect to declaration of dividend as spelt out in this policy document.

2.2 Internal Factors:

2.2.1 The interim dividend paid

2.2.2 The Annual Financial Inspection findings of the RBI with regards to divergence in identification of NPAs, shortfall in provisioning etc.

2.2.3 The auditors' qualifications, if any, in the financial statements.

2.2.4 Basel III capital requirements.

2.2.5 The bank's long-term growth plans.

2.2.6 Fresh Investments or Additional investments in Subsidiaries/Associates of the Bank

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3. Eligibility Criteria:

3.1 As per Circular No. DBOD.NO.BP.BC.88/21.02.067/2004-05 dated May 04, 2005 of the RBI, the Bank should ensure the following for declaration of dividend:

3.1.1 CRAR of at least 9% plus applicable CCB for preceding two completed years and the accounting year for which it proposes to declare Dividend.

3.1.2 Net NPA 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 would be eligible to declare Dividend provided its Net NPA ratio is less than 5%.

3.1.3 The Bank should comply with the provisions of Section 15 and Section 17 of the Banking Regulation Act, 1949 detailed hereunder:

Section 15 : No banking company shall pay any dividend on its shares until all its capitalized expenses (including preliminary expenses, organization expenses, share-selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.

Notwithstanding anything to the contrary contained in sub-section (1) or in the Companies Act, 1956 (1 of 1956), a banking company may pay dividends on its shares without writing off—

- i) The depreciation, if any, in the value of its investments in approved securities in any case where such depreciation has not actually been capitalized or otherwise accounted for as a loss;
- ii) The depreciation, if any, in the value of its investments in shares, debentures or bonds (other than approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company;
- iii) The bad debts, if any, in any case where adequate provision for such debts has been made to the satisfaction of the auditor of the banking company.

Section 17: Every banking company incorporated in India shall create a reserve fund and shall, out of the balance of profit of each year as disclosed in the profit and loss account prepared under section 29 and before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than twenty percent of such profit.

Notwithstanding anything contained in sub-section (1), the Central Government may, on the recommendation of the Reserve Bank and having regard to the adequacy of the paid-up capital and reserves of a banking company in relation to its deposit liabilities, declare by order in writing that

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the provisions of sub-section (1) shall not apply to the banking company for such period as may be specified in the order:

Provided that no such order shall be made unless, at the time it is made, the amount in the reserve fund under sub-section (1), together with the amount in the share premium account is not less than the paid-up capital of the banking company.

- 3.1.4 The Bank should comply 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, Investment Fluctuation Reserve etc. In term of RBI circular reference no. DBR.No.BP.BC.102/21.04.048/2017-18 dated April 2, 2018 wherein bank has to create an Investment Fluctuation Reserve (IFR) for an amount not less than the lower of the following:

(a) net profit on sale of investments during the year

(b) net profit for the year less mandatory appropriations

until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis.

- 3.1.5 The proposed Dividend should be payable out of the profit for the year for which it proposes to declare dividend.
- 3.1.6 The Reserve Bank should not have placed any explicit restrictions on the Bank for Declaration of Dividend.
- 3.1.7 The AFS-Reserve would be reckoned as Common Equity Tier (CET) 1 subject to clause 28 of the RBI MASTER CIRCULAR dated September 12, 2023. The unrealised gains transferred to AFS-Reserve would not be available for any distribution such as dividend and coupon on Additional Tier 1.

(Clause 28 of the Directions: Banks shall not pay dividends out of net unrealised gains recognised in the Profit and Loss Account arising on fair valuation of Level 3 investments on their Balance Sheet. Further, such net unrealised gains on Level 3 investments recognised in the Profit and Loss Account or in the AFS-Reserve shall be deducted from CET 1 capital. Provided that this clause shall not apply to investments that meet the SPPI criteria and are required to be risk weighted at 50 per cent or lower for credit risk as per applicable regulatory instructions on capital adequacy).

- 3.1.8 In case of Derivatives, Banks would not pay dividends out of net unrealised gains recognised in the Profit and Loss Account arising on fair valuation of Level 3 derivatives assets and liabilities on their Balance Sheet. Further, such net unrealised gains on Level 3 derivatives recognised in the Profit and Loss Account would be deducted from CET 1 capital.

("Level 3" in the context of inputs used for valuation of a financial instrument are unobservable inputs. In reference to the valuation of an instrument, it refers to a valuation in which there is a significant Level 3 input).

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- 3.2 In terms of Basel III Capital Regulations issued vide RBI Master Circular RBI/2015-16/58 DBR.No.BP.BC.1/21.06.201/2015-16 dated July 01, 2015, the Capital Conservation Buffer (CCB) is being implemented from March 31, 2016 in a phased manner and would be fully implemented as on March 31, 2019. The RBI vide Press Release dated 19th November 2018 has allowed extension of transition period for implementing the last tranche of 0.625% of Capital Conservation Buffer (CCB), by one year i.e. upto 31st March 2020. Again, the same is extended up to April 01, 2021 vide press release date 29th September 2020. RBI vide circular no. DOR.CAP.BC.no.34/21.06.201/2020-21 dated February 05, 2021 has decided to defer the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from April 01,2021 to October 1,2021 and the same is now applicable. Accordingly, the capital requirement from October 1,2021 onwards will be as under:

Particular	(% of Risk Weighted Assets)
Minimum Common Equity Tier 1 (CET1)	5.5
Capital conservation buffer (CCB)	2.5
Minimum CET1+ CCB	8
Additional Tier 1 Capital	1.5
Minimum Tier 1 capital	7
Tier 2 Capital	2
Minimum Total Capital*	9
Minimum Total Capital +CCB	11.5

* The difference between the minimum total capital requirement of 9% and the Tier 1 requirement can be met with Tier 2 and higher forms of capital;

3.2.1 It is, however, provided further that if the Bank has complied with the minimum CET 1 (5.50%) and Tier 1 capital (7.00%), then the excess additional Tier 1 capital can be reckoned towards computation of Total Capital (9.00%). Further, Capital conservation Buffer (CCB) will be a part of CET-1 which will be over and above the aforesaid Minimum CET-1.

3.2.2 Banks should not distribute capital (i.e. pay dividends or bonuses in any form) in case capital level falls within this range.

3.3 **Impact of Countercyclical Capital Buffer (CCCB) guidelines:**

The framework of Countercyclical Capital Buffer (CCCB) was put in place by Reserve Bank of India Circular DBR.No.BP.BC.71/21.06201/2014-15 dated 05.02.2015. In term of these guidelines, CCCB would be activated as and when the circumstances warranted and the Bank will be subject to restrictions on discretionary distribution (may include dividend payments, share buybacks and staff bonus payments) if they do not meet the requirement on countercyclical capital buffer which is an extension of the requirement for capital conservation

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buffer (CCB). The CCCB decision would normally be pre-announced with a lead time of 4 quarters. However, depending on the CCCB indicators, the banks may be advised to build up requisite buffer in a shorter span of time. The CCCB may be maintained in the form of Common Equity Tier 1 (CET 1) capital or other fully loss absorbing capital only, and the amount of the CCCB may vary from 0 to 2.5% of total risk weighted assets (RWA) of the banks. CCCB framework at this point of time is not activated.

Thus presently the bank is required to adhere to CCB guidelines as mentioned in earlier part of the paragraph and accordingly, bank may be able to declare the dividend only when CET 1 including the current periods retained earnings is over and above 8.0% (as on 01.10.2021), else conservation of capital need to be done.

3.4 Prompt Corrective Action Framework (PCA)

3.4.1 In term of revised Prompt corrective Action (PCA) framework circulated by the RBI vide DOS.CO.PPG.SEC.No.4/11.01.005/2021-22 dated November 02, 2021 effective from 01.01.2022, indicators to be tracked for Capital, Asset quality and Leverage would be CRAR/Common Equity tier 1 ratio (the percentage of Core equity capital, net of regulatory adjustments, to total risk weighted assets as defined in RBI Basel II guidelines), Net NPA ratio (the percentage of net NPA to net Advance) and Tier 1 Leverage Ratio respectively.

3.4.2 Breach of any risk threshold as detailed under would result in invocation of PCA and it will trigger various mandatory actions including inter-alia restriction of dividend distributions/remittance of profit by Banks:

Area	Indicator	Threshold 1	Threshold 2	Threshold 3
Capital (Breach of either CRAR or CET 1 Ratio)	CRAR- Minimum regulatory prescription for capital to risk assets ratio + applicable capital conservation buffer (CCB) and/or	Up to 250 bps below indicator	More than 250 bps but not exceeding 400 bps below indicator	In excess of 400 bps below the indicator prescribed
	Regulatory Pre-Specified Trigger of Common Equity Tier 1 Ratio (CET 1 PST) + applicable Capital Conservation Buffer (CCB)	Upto 162.50 bps below Indicator	More than 162.50 bps below but not exceeding 312.50 bps Indicators	In excess of 312.50 bps below indicator

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Overall CRAR	Current minimum of RBI prescription of 11.50% (9% minimum total capital plus 2.50% of CCB as on October 1, 2021)	<11.50% but $\geq 9.0\%$	<9.0% but $\geq 7.50\%$	<7.50%
CET-I	Current minimum RBI prescription of 8.0% (5.5% plus 2.50% of CCB as on October 1, 2021)	<8.0% but $\geq 6.375\%$	<6.375% but $\geq 4.875\%$	<4.875%
Asset Quality	Net Non -performing advance (NNPA) ratio	$\geq 6.0\%$ but <9.0%	$\geq 9.0\%$ but <12.0%	$\geq 12.0\%$
Leverage	Regulatory minimum Tier 1 Leverage Ratio	Upto 50 bps below the regulatory minimum	More than 50 bps but not exceeding 100 bps below the regulatory minimum	More than 100 bps below the regulatory minimum

3.4.3 Mandatory and discretionary actions:

Specification	Mandatory actions	Discretionary actions
Risk Threshold 1	Restriction on dividend distribution/ remittance of profits Promoters/Owners/Parent (in the case of foreign Banks) to bring in capital	Common Menu
Risk Threshold 2	In addition to mandatory action of Threshold 1, Restriction on Branch expansion; domestic and/or overseas,	<ul style="list-style-type: none"> • Special Supervisory Actions • Strategy related • Governance related • Capital related • Credit risk related • Market risk related • HR related • Profitability related • Operational/Business related • Any other
Risk Threshold 3	In addition to mandatory actions of Threshold 1 & 2, i. Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits.	

4. Amalgamation Reserve

RBI vide their letter Reference DOR.CO.BP.No 1873/21.01.002/2020-21 dated December 18, 2020 has directed that Amalgamation Reserve shall not be reckoned for the regulatory computations for CET-1 capital for discretionary payments (including dividend payment and payment of coupons of AT-1 bonds) under the Capital Conservation Buffer Framework unless the bank makes incremental provision for the net non-performing assets of the transferor bank of an amount at least equal to the Amalgamation Reserve recognized in the post-merger opening balance sheet.

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5. Quantum of Dividend payable

5.1 Bank if fulfilled the eligibility criteria set out in paragraph 3.1 & 3.2 above, may declare and pay Dividend, subject to the following:

5.1.1 The Dividend payout ratio shall not exceed 40% and subject to lower ceilings depending on the CRAR and Net NPA values as under:

Category	CRAR	Range of Net NPA Ratio			
		Zero	> zero but less than 3%	From 3% to < 5%	From 5% to < 7%
Range of Dividend Payout Ratio					
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 only in the Current year	Up to 10		Up to 5	Nil

5.1.2 The Payout ratio shall be computed after excluding extraordinary profits/income.

5.1.3 The financial 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.

6. Ministry of Finance (MoF) Guidelines

6.1 The Bank shall also follow the Guidelines of Ministry of Finance which are presently as under.

6.1.1 In terms of Government of India, Ministry of Finance, New Delhi guidelines advised vide their communication F.No.10/3/2010-BOA dated 18th January 2013, the banks are required to pay a minimum Dividend of 20% of their equity (i.e. Paid up Capital) or 20% of the post-tax profits whichever is higher.

6.1.2 MOF, vide reference no.F.no.10/4/2021-BOA.I dated 04th June, 2021 on declaration of dividend has clarified that payment of minimum dividend is subject to any regulatory guidelines issued by the Reserve Bank of India and,

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therefore, specific prior permission may be sought only if the dividend proposed to be paid is less than the minimum required under the guidelines as well as that permissible under regulatory guidelines.

6.1.3 All the above guidelines shall be scrupulously adhered to for declaring any interim Dividend. In case, the Bank decides to pay interim dividend, the total dividend to be paid by the Bank based on the annual result should be as per the above guidelines. Further, where any specific provision of this policy is in conflict with any direction, notification, guidelines of the Central Government, RBI or any other regulator, the said direction, notification, guidelines would prevail.

6.1.4 While deciding and declaring the dividend, both RBI directives and Government of India directives are taken into consideration. In case the Bank is not a position to comply with the directives of Government of India then specific exemption is sought from the Ministry of Finance in this regard so as to comply with RBI guidelines.

7. Reporting System

The Bank on declaring Dividend shall report details of Dividend declared during the accounting year to RBI within a fortnight after Declaration of Dividend.

8. Modification and Review

The Policy shall be valid for the year 2024-25 and the same will be subject to review in accordance with the guidelines received from RBI/Govt. of India from time to time.

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