

Dividend **Distribution** **Policy**



Investor Relations Cell
Regd. & Central Office
Karur

Investor Relations Cell

Dividend Distribution Policy

Prepared By	Investor Relations Cell
Reviewed By	Audit Committee of the Board
Approved By	Board of directors
Issued Date	24.12.2024
Version	7
Revision History	As below
Document Classification	<input type="checkbox"/> Restricted <input type="checkbox"/> Confidential <input type="checkbox"/> Internal <input checked="" type="checkbox"/> Public
Distribution List	Public
Document Owner (Department)	Investor Relations Cell

Document Revision History		
Version Details	Date	Details
Version-001	03.12.2016	Formulation of Policy
Version-002	15.05.2019	Amendment to Policy
Version-003	29.06.2020	Amendment to Policy
Version-004	15.09.2021	Annual review
Version-005	21.10.2022	Annual review
Version-006	17.11.2023	Amendment to Policy

Index

SL. No.	Topic	Page No.
1.	Preface	2
2.	Implementation of Policy	2
3.	Objective	2
4.	Philosophy	2
5.	Legal Framework	2
6.	Definitions	3
7.	Eligibility criteria for declaration of Dividend	4
8.	Internal and External Factors	9
9.	Circumstances under which shareholders may or may not expect dividend	10
10.	Retained earnings utilization	10
11.	Parameters for various classes of shares	10
12.	Reporting System	11
13.	Manner of Payment of Dividend	11
14.	Unpaid Dividend	11
15.	Website Updation	12
16.	Amendments / Modifications	12
17.	Disclosures	12

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) Regulations, 2015. Pursuant to regulation 43A, which requires the top thousand listed entities based on market capitalization (calculated as per SEBI (LODR) Regulations, 2015 as amended from time to time) 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 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.

“Net Profit” Operating Profit less Provisions & Contingencies (including tax provision)

Net profit which will be available for distribution as dividend will be balance amount after making the regulatory and statutory appropriations –

1. Statutory Reserve (Minimum of 25% of net profit)
2. Capital Reserve (Profit on sale of HTM securities net of taxes and transfer to statutory reserve)
3. Investment Fluctuation Reserve (To be held as at least 2% percentage of AFS/HFT securities)
4. Any other reserve as stipulated by RBI from time to time and
5. Special Reserve (Created to the extent permissible based on eligibility for claim under Income Tax)

The residual amount of net profit after deducting the above will be available for distribution as dividend, subject to compliance with the dividend pay-out ratio matrix prescribed as per extant RBI guidelines.

7. Eligibility criteria for declaration of Dividend

No explicit restrictions on the Bank for declaration of dividends have been placed by RBI and Bank shall 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 shall be in compliance with the provisions of :-
 - Section 15 (relating to Restrictions as to payment of dividend) of the Banking Regulation Act, 1949
 - (1) No banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation 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.
 - (2) Notwithstanding anything to the contrary contained in sub-section (1) or in the Companies Act, 2013, 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 capitalised 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 (relating to creation of Reserve Fund) of the Banking Regulation Act, 1949.

- (1) 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 per cent of such profit.

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

- ❖ 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
- ❖ As per RBI circular - Revised Prompt Corrective Action (PCA) Framework for Banks dated April 13,2017, restriction on dividend distribution/remittance of profits, if the Bank covers under Risk Threshold 1 of RBI PCA framework.

❖ 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 as mentioned below.

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 shall 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%.

- 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, shall 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 shall 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 as applicable subject to the provisions of Banking Regulation Act, 1949 and circulars issued from time to time.
- ❖ Basel III Capital requirements:

The Bank shall maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement 9%. The Bank should not distribute capital in case the capital level falls within this range. The prescribed minimum capital conservation ratios ("MCCR") corresponding to the range of CET1 ratios are as below:

CET 1 Ratio	MCCR (as a % of earnings)
5.5% - 6.125%	100%
>6.125% -6.75%	80%
>6.75%-7.375%	60%
>7.375%-8.00%	40%
>8%	0%

For example, if the CET1 ratio of the Bank is in the range of 6.125% to 6.75%, the Bank is required to conserve 80% of its earnings (i.e., distribution as prescribed by the RBI not more than 20%).

CET1 capital must first be used to meet the minimum Tier 1 (7%) and total CRAR (9%) requirements, if necessary, before the remainder can contribute to the capital conservation buffer requirement.

- 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.
- The unrealised gains transferred to AFS-Reserve shall not be available for any distribution such as dividend and coupon on Additional Tier 1.

❖ **Interim Dividend:**

Board may declare interim dividend during any financial year 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.

- ❖ Dividend declared shall be credited post deduction of Tax Deducted at Source (TDS) applicable, if any as per Income Tax Act, 1961 (amended from time to time).

8. 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;

9. 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.

10. 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.

11. 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.

12. 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 and 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.

13. 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.

Further, dividend payments to security holders holding securities in physical form shall be made in accordance with SEBI (LODR) Regulations, 2015 and SEBI circulars issued from time to time.

14. 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) In terms of section 124(2) of the Companies Act 2013, Bank shall upload the details of unclaimed dividends along with the names of shareholders, their last known addresses & dividend unclaimed, in the website of the Bank within 90 days from the date of transfer of the amount to Unpaid Dividend Account.
- c) 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, and all shares in respect of which dividend are not claimed for the last 7 consecutive years or more shall be transferred to the Investor Education and Protection Fund.

- d) 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.

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 'Other Liabilities and Provisions', the amount lying in the Unpaid Dividend Account.
- 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. Bank shall upload the details of unclaimed dividends along with the names of shareholders, their last known addresses & dividend unclaimed, in the website of the Bank within 90 days from the date of transfer of the amount to Unpaid Dividend Account.
- 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, at least 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 three 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/3 hours of closure of the meeting, as may be applicable. 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.
