ANNEXURE-I

POLICY FOR DECLARATION OF DIVIDEND FOR THE YEAR 2021-22

1. Objective:-

The Bank would endeavor to maintain a consistent approach towards dividend pay-out plans and to trade off balance 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. The Bank's Board, therefore, shall take into account 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 policy 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 regard 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

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% 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 Sections 15 (Dealing with Restrictions on payment of dividend) and 17 (Dealing with Transfer of part of profit, not less than 20%, to Reserve Fund before declaration of dividend) of the Banking Regulation Act, 1949.

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 etc.

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.

3.2 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. However, 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 upto April 01, 2021 vide press release date 29th September, 2020.

The Revised Transitional Arrangements as indicated in the said guidelines is as under:

Transitional Arrangement		**(% of Risk Weighted Assets)**				
	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	April 01, 2021
Minimum Common Equity Tier 1 (CET1)	5.5	5.5	5.5	5.5	5.5	5.5
Capital conservation buffer (CCB)	0.625	1.25	1.875	1.875	1.875	2.5
Minimum CET1+ CCB	6.125	6.75	7.375	7.375	7.375	8
Minimum Tier 1 capital	7	7	7	7	7	7
Minimum Total Capital*	9	9	9	9	9	9
Minimum Total Capital +CCB	9.625	10.25	10.875	10.875	10.875	11.5
Phase- in of all deductions from CET1 (in %) #	80	100	100	100	100	100
* 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;						
# The same transition approach will apply to deductions from Additional Tier 1 and Tier 2 capital.						

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

Limits and Minima/Maxima of Tier 1 and Tier 2 can be summarized as under:

Minimum Total Capital Requirement	
Tier 1 Capital	**7.00%**
W/w Minimum CET 1	5.50%
Maximum additional Tier 1 can be	1.50%
Maximum Tier 2 Capital	**2.00%**
Minimum Total Capital Requirement	**9.00%**

It is, however, provided further that if the Bank has compiled 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.

Status during the Transition Period:

Basel III minimum capital conservation standards apply with reference to the applicable minimum CET1 capital and applicable CCB. Therefore, during the Basel III transition period, banks are required to refer to the following Table for meeting the minimum capital conservation ratios at various levels of the Common Equity Tier 1 capital ratios:

Minimum Capital Conservation for Individual Banks				
Common Equity Tier 1 Ratio after including the current periods retained earnings				
As on 31st March 2016	As on 31st March 2017	As on 31st March 2018, 2019, 2020 & 2021	1st April 2021 onwards	Minimum Capital conservation Ratio (expressed as % of earning)
5.5% - 5.65625%	5.5% - 5.8125%	5.5% - 5.96875%	5.5% - 6.125%	100%
> 5.65625% - 5.8125%	> 5.8125% - 6.125%	> 5.96875% - 6.4375%	> 6.125% - 6.75%	80%
> 5.8125% - 5.96875%	> 6.125% - 6.4375%	> 6.4375% - 6.90625%	> 6.75% - 7.375%	60%
> 5.96875% - 6.125%	> 6.4375% - 6.75%	> 6.90625% - 7.375%	>7.375% - 8.0%	40%
> 6.125%	> 6.75%	> 7.375%	> 8.0%	0%

Therefore, as the RBI vide Press Release dated 29th September, 2020 has allowed extension of transition period for implementing the last tranche of 0.625% of Capital Conservation Buffer (CCB) from September 30, 2020 to April 1, 2021.

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 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 Common Equity Tier- 1 ratio after including the current periods retained earnings is above and above 8.0% (as on 01.04.2021) else, conservation of capital need to be done as mentioned therein.

3.3 **Quantum of Dividend payable**

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

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

Category	CRAR for each of the last 3 years	Range of Net NPA Ratio			
		Zero	More than zero but less than 3%	From 3% to less than 5%	From 5% to less than 7%
		Range of Dividend Payout Ratio			
1.A	11% or more	Upto 40	Upto 35	Upto 25	Upto 15
1.B	10% or more	Upto 35	Upto 30	Upto 20	Upto 10
1.C	9% or more	Upto 30	Upto 25	Upto 15	Upto 5
2	9% or more only in the Current year	Upto 10		Upto 5	Nil

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

3.3.3 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.

3.3.4 In term of revised Prompt corrective Action(PCA) framework circulated by the RBI vide DBS.CO.PPD.BC.No.8/11.01.005/2016-17 dated 13th April 2017 effective from 01.04.2017, indicators to be tracked for capital, Asset quality and Profitability 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 return on Assets (the percentage of profit after tax to average total assets) respectively. Leverage would be monitored additionally as part of the PCA framework.

3.3.5 Break of any risk threshold (as detailed under) would result in invocation of PCA.

Area	Indicator	Threshold 1	Threshold 2	Threshold 3
Capital	CRAR- Minimum regulatory prescription for capital to risk assets ratio + applicable capital conservation buffer (CCB)	Upto 250 bps below indicator	More than 250 bps but not exceeding 400 bps below indicator	-
Overall CRAR	Current minimum of RBI prescription of 11.50% (9% minimum total capital plus 2.50% of CCB as on April 1, 2021)	<11.50% but >= 9.0%	<9.0% but >=7.50%	-
CET	Regulatory pre specified trigger of common Equity tier 1 (CET 1) + 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
	Current minimum RBI prescription of 8.0% (5.5% plus 2.50% of CCB as on April 1,2021	<8.0% but >= 6.375%	<6.375% but >=4.875%	<4.875%
Breach of either CRAR or CET 1 ratio to trigger PCA				
Asset Quality	Net Non -performing advance (NNPA) ratio	>=6.0% but <9.0%	>=9.0% but<12.0%	>= 12.0%
Profitability	Return of Assets (ROA)	Negative ROA for two consecutive years	Negative ROA for three consecutive years	Negative ROA for four consecutive years
Leverage	Tier I	<=4.0% but>= 3.5%(leverage is over 25 times the Tier 1 capital	< 3.5% (leverage is over 28.6 times the Tier 1 capital)	

3.3.6 Mandatory and discretionary actions:

Specification	Mandatory actions	Discretionary actions
Risk Threshold 1	Restriction on dividend distribution/ remittance of profits Promoters/owners/parents in the case of foreign bank to bring in capital	Common Menu • Special Supervisory Interactions • Strategy related • Governance related • Capital related • Credit risk related • Market risk related • HR related • Profitability related • Operational related • Any other
Risk Threshold 2	In addition to mandatory action of Threshold 1, Restriction on Branch expansion; domestic and/or overseas, Higher provision as part of the coverage regime	
Risk Threshold 3	In addition to mandatory action of Threshold 1, Restriction on branch expansion; domestic and/or overseas, Restriction on Management compensation and directors fee, as applicable	

The bank would adhere to the stipulations specified in the PCA framework as mentioned above

3.4 **Ministry of Finance (MoF) Guidelines**

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

3.4.1 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.

3.4.2 In case any 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.

3.4.3 Any relaxation from the provision of the above instructions will require specific prior permission of the Government of India.

3.4.4 The Government of India, Ministry of Finance vide communication 7/38/2014 - BOA dtd 24th January 2018 on capital infusion and PSB Reforms Agenda, has directed as under (for the FY 2017-18 & FY 2018-19):

- That the Bank shall not make any dividend payment without prior approval of the Government.
- No dividend shall be paid in case the Bank is in loss.

The said communication requires the Bank to obtain prior approval of the Government of India for declaration of dividend for the FY 2017-18 and FY

2018-19. In case the Government of India issues any further directives in this regard, the Bank shall comply with the same.

3.4.5 All the above guidelines shall be scrupulously adhered to for declaring any interim Dividend. In case 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.

3.5 RBI instructed vide circular DOR.BP.BC.No.29/21.02.067/2020-21 dated December 04, 2020 that in view of the ongoing stress and heightened uncertainty on account of COVID-19, it is imperative that banks continue to conserve capital to support the economy and absorb losses. To further strengthen the Bank's balance sheet and support lending to the real economy the banks shall not make any dividend payment on equity share from the profits pertaining to the financial Year ended March 31, 2020.

3.6 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.

4. 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.

5. Modification and Review

The Policy shall be reviewed every year and also when needed to give effect to the guidelines/directives that may be advised by the Reserve Bank of India/ Ministry of Finance, Government of India from time to time and to be modified accordingly.

The Policy shall remain valid for the year 2021-22 and its validity may be extended for a further period not exceeding three months with the specific approval of Managing Director & CEO, pending review/renewal by the ACB/Board.