FEDERAL BANK

YOUR PERFECT BANKING PARTNER

DIVIDEND DISTRIBUTION POLICY

Contents

I. OBJECTIVE:

Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter called “SEBI LODR”) issued by the Securities and Exchange Board of India (SEBI) has mandated the formulation of a Dividend Distribution Policy for the top 1000 listed entities based on their market capitalization.

It is mandatory for the Bank to frame the Dividend Distribution Policy, as it falls within the top 1000 listed entities as on March 31, 2023, in terms of market capitalization. Accordingly, the following ‘Dividend Distribution Policy’ has been framed, approved, and adopted by the Board of Directors (“Board”) of the Bank. The objective of the Policy is to lay down the criteria to be considered by the Board of the Bank before recommending a dividend to its shareholders for a financial year.

II. POLICY:

1. <u>General Principles of the Bank regarding distribution of dividend</u>

The intent of the Bank is to reward the shareholders of the Bank by sharing a portion of the profits, while also ensuring that sufficient funds are retained for growth of the Bank. The dividend for each year would be recommended by the Board at its discretion within the prescribed guidelines of the Government and Reserve Bank of India and after considering the financial performance of the Bank, its future plans, internal and external factors, compliance with SEBI LODR, Companies Act 2013 and its rules, statutory restrictions, etc., for approval by the shareholders in the General Meeting.

2. <u>Eligibility criteria for declaration of dividend</u>

As per the guidelines (DBOD.NO.BP.BC.88/21.02.067/2004-05 dated May 04, 2005), issued by Reserve Bank of India, Bank will be eligible to declare dividends only when it complies with the following minimum prudential requirements:

i) The bank should have:

- Capital to Risk (Weighted) Assets Ratio (“CRAR”) of at least 9 % for preceding two completed years and the accounting year for which it proposes to declare dividend.
- Net Non-Performing Assets (“NPAs”) less than 7 %.

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

ii) The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.

As per section 15 of the Banking Regulation Act, 1949 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.

As per section 17 of the Banking Regulation Act, 1949, scheduled commercial banks should transfer not less than 25 per cent of the 'net profit' (before appropriations) to the Reserve Fund before any dividend is declared.

iii) 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.

iv) The proposed dividend should be payable out of the current year's profit.

v) The Reserve Bank has not placed any explicit restrictions on the bank for declaration of dividends.

3. Quantum of dividend payable:

The Bank, if it fulfils the eligibility criteria set out at para 2 above, may declare and pay dividends subject to the following:

i) The dividend payout ratio shall not exceed 40% and shall be as per the matrix furnished in **Annexure**.
[Dividend payout ratio shall be calculated as a percentage of 'dividend payable in a year' (excluding dividend tax, if any) to 'net profit during the year'.]

ii) In case the profit for the relevant period includes any extra-ordinary profits/ income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio.

iii) 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 shall be suitably adjusted while computing the dividend payout ratio.

4. 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 percentage of earnings)
5.5%-6.125%	100%
>6.125%-6.75%	80%
>6.75%-7.375%	60%
>7.375%-8.00%	40%
>8.00%	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.

5. Interim Dividend

Bank may also declare and pay interim dividends out of the relevant accounting period's profit without prior approval of RBI if the minimum criteria prescribed in para 2 above and the other requirements prescribed in para 3 above are satisfied, and the cumulative interim dividend(s) are within the prudential cap on dividend payout ratio prescribed by RBI, computed for the relevant accounting period. However, declaration and payment of interim dividends beyond this ceiling requires RBI's prior approval.

6. Board oversight

The interests of all stakeholders and the following aspects shall be considered while deciding on the proposals for declaring dividend:

i) The interim dividend paid, if any.
ii) The Risk Based Supervision findings of Reserve Bank of India with regard to divergence in identification of NPAs, shortfall in provisioning.
iii) The auditors' qualification pertaining to the statement of accounts.
iv) The Basel III capital requirements; and
v) The Bank's long term growth plans.

7. Other parameters in terms of Regulation 43A of SEBI (LODR) Regulations:

i) The circumstances under which the shareholders of the listed entities may or may not expect dividend

The Board of the Bank may not recommend any dividend in the event of inadequacy of profits or whenever the Bank has incurred losses or 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 of dividend or if the Board strongly believes the need to conserve capital for growth or for other exigencies such as liquidity management related requirements, market sentiments, temporary shortage of funds for significant capital expansion plans, etc.

ii) The financial parameters that shall be considered while declaring dividend

The Board of Directors of the Company would consider the following financial parameters before declaring or recommending dividend to shareholders:

- Financial performance of the Bank for the year for which a dividend is recommended.
- Any interim dividend paid.
- Internal capital planning framework / policy
- Dividend payout trends (the dividend payout ratio will be calculated as a percentage of dividend (excluding dividend tax, if any) recommended for the year to the net profit for that year)
- Tax implications if any, on distribution of dividends
- Cost of raising funds from alternate sources of capital

- Corporate actions including mergers/demergers, acquisitions and additional investments including expansion plans and investment in subsidiaries/associates of the Bank.
- Such other factors and/or material events which the Bank's Board may consider relevant.

iii) <u>Internal and external factors that shall be considered for declaration of dividend</u>

Board will consider various internal factors, such as business growth plans, future capital requirements etc. The decision of the Board regarding dividend shall be final.

The dividend payout decision of the Bank will also depend on certain external factors such as the state of the economy of the country, compliance with Companies Act 2013 and its rules, other statutory and regulatory provisions, shareholder expectations including individual shareholders, tax regulations including the treatment of deferred tax assets etc. as may be applicable at the time of declaration of the dividend.

iv) <u>Policy as to how the retained earnings shall be utilized</u>

The retained earnings will mainly be utilized for the purpose of the Bank's growth plans, improvement in CRAR and such other purposes as per the guidelines issued by RBI and Government of India from time to time.

v) <u>Parameters that shall be adopted with regard to various classes of shares:</u>

Presently authorized share capital of the Bank comprises of Equity Shares only. As and when the Bank issues other kind of shares, the Board of Directors may suitably amend this Policy.

8. 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 noting and necessary ratification. In the event of a conflict between this policy and the extant regulations, the regulations shall prevail.

9. Review of Policy

The Board of Directors of the Bank will review the policy annually. If the Board proposes to declare dividend based on any criteria in addition to those specified in the policy, or proposes to modify the criteria, it shall disclose such changes along with the rationale for the same on the Bank's website and in the Annual Report.

10. Disclosures

The policy will be available on the Bank's website and a web-link will be provided in the Bank's Annual Report. Information on dividends paid in the last five years including dividend yield and payout ratio will be made available on the Bank's website.

ANNEXURE

Matrix of Criteria as laid out by RBI for maximum permissible range of Dividend Payout Ratio

(As per RBI Circular No. RBI/2004-05/451; DBOD.NO.BP.BC. 88 /21.02.067/2004-05 dated May 04, 2005)

<table>
<tr><th rowspan="3">Category</th><th rowspan="3">CRAR</th><th colspan="4">Net NPA Ratio</th></tr>
<tr><th>Zero</th><th>More than zero but less than 3%</th><th>From 3 % to less than 5%</th><th>From 5% to less than 7 %</th></tr>
<tr><th colspan="4">Range of Dividend Payout Ratio</th></tr>
<tr><td>A</td><td>11% or more for each of the last 3 years</td><td>Up to 40</td><td>Up to 35</td><td>Up to 25</td><td>Up to 15</td></tr>
<tr><td>B</td><td>10% or more for each of the last 3 years</td><td>Up to 35</td><td>Up to 30</td><td>Up to 20</td><td>Up to 10</td></tr>
<tr><td>C</td><td>9% or more for each of the last 3 years</td><td>Up to 30</td><td>Up to 25</td><td>Up to 15</td><td>Up to 5</td></tr>
<tr><td>D</td><td>9% or more in the Current year</td><td colspan="2">Up to 10</td><td>Up to 5</td><td>Nil</td></tr>
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