DIVIDEND DISTRIBUTION POLICY

Division	**:**	**Board & Co-ordination**
Version	**:**	**01/2022**

Policy Custodian

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Policy Version Control

S. No.	Version Number	Version Date	Summary of changes
1	01/2020	14.02.2020	Following points were incorporated in the Policy: ▪ Preamble ▪ Manner of Payment of Dividend ▪ Reporting System ▪ Authority to allow deviations in the policy
2	01/2021	30.03.2021	▪ Deferment of the implementation of the last tranche of 0.625% of Capital Conservation Buffer (CCB) from March 31, 2020 to October 01, 2021. ▪ RBI Directive dated 18.12.2020 relating to 'Prudential Treatment of Amalgamation Reserve'
3	01/2022	30.12.2021	▪ RBI Master Direction on Financial Statements - Presentation and Disclosures: RBI/DOR/2021-22/83 DOR.ACC.REC.No.45/21.04.018/2021-22 dated August 30, 2021 as amended ▪ Instructions received from Ministry of Finance Govt. of India vide letter dated 04th June, 2021, regarding specific prior permission only in certain scenarios ▪ Revision in RBI's PCA Framework for Scheduled Commercial Banks -RBI/2021-22/118 DOS.CO.PPG. SEC.No.4/11.01.005/2021-22 dated November 02, 2021

Policy Governance

Frequency Of Review	**Annual**
Last reviewed on	30.03.2021
Approval Path	ACE-ACB-BOARD
Supercedes	Policy dated 30.03.2021

CONTENTS

1. Policy Overview

1.1 Preamble

As per Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [*hereinafter referred to as SEBI (LODR) Regulations*], the top 1000 listed entities based on market capitalization, calculated as on March 31 of every financial year are required to formulate a Dividend Distribution Policy which shall be disclosed on the website of the listed entity and a web-link shall also be provided in their annual reports. This would enable the investors to take informed decisions while making investments in these high profile companies.

1.2 Objective

The objective of Dividend Distribution Policy is to maintain equilibrium between retention of profit to enhance value and to meet long term growth plans of the Bank and rewarding the shareholders with optimum amount for reposing their confidence in our Bank.

Our Bank is a Nationalized Bank constituted under the provisions of Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and is required to comply with the guidelines in respect of Dividend issued by the Reserve Bank of India (RBI) and Government of India which have been duly incorporated in the Policy.

1.3 Guidelines

Following are the brief guidelines/requirements of the regulators/authorities for Dividend Distribution Policy:

- RBI Circular on 'Declaration of dividends by Banks' - Circular No.: DBOD.NO.BP.BC.88/21.02.067/2004-05 dated 04.05.2005 read with Master Circular – Basel III Capital Regulations - Circular No.: DBR.No.BP.BC.1/21.06.201/2015-16 dated 01.07.2015 as amended by Circular No.: DBR.BP.BC.No.20/21.06.201/2018-19 dated 10.01.2019, Circular No.: RBI / 2020-21/42 DOR.BP.BC.No15/21.06.201/2020-21 dated 29.09.2020 and Circular No.:RBI/2020-21/93 DOR. CAP. BC. No. 34/21.06.201/2020-21 dated 05.02.2021.
- RBI's Prompt Corrective Action (PCA) Framework for Scheduled Commercial Banks-RBI/2021-22/118 DOS.CO.PPG.SEC. No.4/11.01.005/ 2021-22 dated 02.11.2021.
- Letter of RBI relating to 'Prudential Treatment of Amalgamation Reserve' dated 18.12.2020.
- Instructions from Ministry of Finance Govt. of India vide letter dated 04th June, 2021
- RBI Master Direction on Financial Statements - Presentation and Disclosures: RBI/DOR/2021-22/83 DOR.ACC.REC.No.45/21.04.018/2021-22 dated August 30, 2021, as amended
- Banking Regulation Act, 1949 [Section 15 (1) & (2) and Section 17]

- RBI circular no. BP.BC.24/21.04.018/2000-2001 dated 23.09.2000 regarding Sections 17(1) and 11(2)(b)(ii) of Banking Regulation Act, 1949- Transfer to Reserve Funds.
- Guidelines issued by Government of India from time to time.

1.4 Review of the Policy

The Policy shall remain valid till next amendment/review pursuant to change in the Regulatory/Operational Guidelines/Annual Review.

2. Declaration of Dividend by the Bank

2.1 Policy Definition

The Dividend Distribution Policy is based on the guidelines issued by RBI, SEBI and Department of Ministry of Finance (MoF) - Government of India.

2.2 Policy Details:

2.2.1 Eligibility Criteria

Dividend payment by Banks is governed by the provisions of circular DBOD.No.BP.BC.88/21.02.067/2004-05 dated May 04, 2005 on ‘Declaration of Dividends by Banks’. The following **minimum** prudential requirements would be complied with by the Bank before declaring dividend without prior approval of RBI:

(a) The Bank should have:

- CRAR of at least 9% for preceding two completed years and the accounting year for which it proposes to declare dividend.
- Net NPA less than 7 % (subject to table under para 2.2.2 (a) on page 8).

In case, the Bank does not meet the CRAR norm but is having CRAR of at least 9% for the accounting year for which it proposes to declare dividend, it would be eligible to declare the dividend provided its Net NPA ratio is less than 5%.

(b) The Bank shall comply with the provisions of Section 15 and Section 17 of the Banking Regulation Act, 1949 as detailed hereunder:-

(i) Section 15(1) of Banking Regulation (BR) Act, 1949

Pursuant to Section 15(1) of the BR Act, 1949, no banking company shall pay any dividend on its shares until all the 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.

In terms of RBI Master Direction on Financial Statements- Presentation and Disclosures dated 30.08.2021, the intangible assets recognised and carried in the Balance Sheet of Banks in compliance with AS 26 shall attract the provisions of Section 15 (1) of Banking Regulation (BR) Act, 1949, in terms of which banks are prohibited from declaring any dividend until any expenditure not represented by tangible assets is carried in the balance sheet. Banks desirous of paying dividend while carrying any intangible assets in its books must seek exemption from section 15(1) of the Banking Regulation Act, 1949 from the Central Government.

(ii) Section 15(2) of BR Act, 1949

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

- 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.
- The depreciation, if any, in the value of its investments in shares, debentures or bonds (other than the approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company.
- 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.

(iii) Section 17 of Banking Regulation Act

(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 of BR Act and before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than twenty per cent of such profit.

Vide RBI circular no. BP.BC.24/21.04.018/2000-2001 dated 23.09.2000 read with RBI Master Direction on Financial Statements - Presentation and Disclosures dated August 30, 2021, as amended, Commercial Banks (excluding LABs and RRBs) are required to transfer not less than 25 per cent of the 'net profit' before appropriations to the Statutory Reserve.

(1A) 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 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.

(2) Where a banking company appropriates any sum or sums from the reserve fund or the share premium account, it shall, within twenty-one days from the date of such appropriation, report the fact to the Reserve Bank, explaining the circumstances relating to such appropriation:

Provided that the Reserve Bank may, in any particular case, extend the said period of twenty-one days by such period as it thinks fit or condone any delay in the making of such report.

(c) The Bank shall comply with the prevailing Regulations/Guidelines issued by RBI, including creating provisions for impairment of assets, staff retirement benefits, transfer of profits to Statutory Reserves etc.

(d) The proposed dividend on common shares and Perpetual Non-Cumulative Preference Shares (PNCPS) shall be payable out of the current year's profit.

(e) The Reserve Bank should not have placed any explicit restrictions on the Bank for declaration of dividends and any other guidelines/instructions issued by Government of India shall be complied with.

(f) RBI Framework

(i) Minimum Capital requirements: -

Basel III minimum capital conservation standards apply with reference to the applicable minimum CET1 capital and applicable CCB. In terms of Basel III Capital Regulations, CCB has been implemented from March 31, 2016 in phases and has been fully implemented as on 01.10.2021.

Minimum capital ratios	**October 01, 2021 & onwards**
Minimum Common Equity Tier 1 (CET1)	5.50
Capital Conservation Buffer (CCB)	2.50
Minimum CET1 + CCB	**8.00**
Addl. Tier I Capital	1.50
Minimum Tier 1 capital + CCB	9.50
Minimum Total Capital + CCB	**11.50**

(ii) Minimum Capital Conservation Ratio: -

Banks are required to refer the following Table for meeting the Minimum Capital Conservation Ratios at various levels of the CET 1 Capital Ratios:

Common Equity Tier 1 after including the current periods of retained earnings	**Minimum Capital Conservation Ratio (expressed as % of earnings)**
As on 01.10.2021 & onwards	
5.5% -6.125%	100%
> 6.125% -6.75%	80%
> 6.75%-7.375%	60%

Common Equity Tier 1 after including the current periods of retained earnings	Minimum Capital Conservation Ratio (expressed as % of earnings)
> 7.375% -8.0%	40%
> 8.0%	0%

For example, a bank with a Common Equity Tier 1 capital ratio in the range of 6.125% to 6.75% is required to conserve 80% of its earnings in the subsequent financial year (i.e. payout no more than 20% in terms of dividends, share buybacks and discretionary bonus payments is allowed).

Ideally, the Bank may be able to declare the dividend when CET 1 Ratio (after including the current period's retained earnings) is above 8.0%, otherwise the Bank needs to conserve Capital from its earnings indicated above and only remaining amount, if any, will be available for the distribution as Dividend.

The Common Equity Tier 1 ratio includes amounts used to meet the minimum Common Equity Tier 1 capital requirement of 5.5%, but excludes any additional Common Equity Tier 1 needed to meet the 7% Tier 1 and 9% Total Capital requirements. For example, if bank maintains Common Equity Tier 1 capital of 9% and has no Additional Tier 1 or Tier 2 capital. Therefore, the bank would meet all minimum capital requirements, but would have a zero conservation buffer and therefore, the bank would be subjected to 100% constraint on distributions of capital by way of dividends, share-buybacks and discretionary bonuses.

Definition of earnings: Earnings are defined as distributable profits before the deduction of elements subject to the restriction on distributions i.e. Dividends and share buybacks, discretionary payments on Tier-1 capital instruments and discretionary bonus payments to staff. Earnings are calculated after the tax which would have been reported had none of the distributable items been paid. As such, any tax impact of making such distributions are reversed out. If a bank does not have positive earnings and has a Common Equity Tier 1 ratio less than 8%, it should not make positive net distributions.

(iii) RBI vide its letter dated 18.12.2020 has given direction relating to the Prudential Treatment of Amalgamation Reserve, that this reserve shall not be reckoned for the regulatory computations i.e. (a) Capital Measure under the Leverage Ratio framework, (b) Capital Base under the Large Exposure Framework and (c) CET-1 Capital for discretionary payments (including dividend payment and payment of coupon on AT-1 bonds) under the Capital Conservation Buffer Framework, unless the Bank makes incremental provisions for the net NPA of the Transferor Banks of an amount at least equal to the Amalgamation Reserve recognized in the post-merger opening Balance Sheet.

(iv) Bank should not have come under the Risk Threshold as per RBI's revised Prompt Corrective Action (PCA) framework for Banks as defined in Circular RBI/2021-22/118 DOS.CO.PPG.SEC.No.4/11.01.005/2021-22 dated November 02, 2021. In case of breach of Risk Threshold 1 of Capital, asset quality and leverage (given as under), the mandatory action specified is restriction on dividend distribution/remittance of profits by the Banks:

Area	Indicator	Risk Threshold 1
Capital (Breach of either CRAR or CET 1 ratio to trigger PCA)	CRAR - Minimum regulatory prescription for Capital to Risk Assets Ratio + applicable Capital Conservation Buffer (CCB) **and / Or** Regulatory Pre-Specified Trigger of Common Equity Tier 1 Ratio (CET 1 PST) + applicable Capital Conservation Buffer (CCB)	upto 250 bps below Indicator <11.50% but >=9.00% upto 162.50 bps below Indicator <8.00 % but >= 6.375 %
Asset Quality	Net Non-Performing Advances (NNPA) ratio	>= 6.0% but < 9.0%
Leverage	Regulatory Minimum Tier 1 Leverage Ratio	Upto 50 bps below the Regulatory minimum

2.2.2 <u>Quantum of Dividend Payable</u>

The Bank, after fulfilling the eligibility criteria given above may declare dividend subject to:

(a) The Dividend Payout Ratio shall not exceed 40% and shall be as per the matrix given below:

<u>Matrix for Maximum Permissible Range of Dividend Payout Ratio</u>

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%**
			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 to20	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

[DIVIDEND PAYOUT RATIO will be calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit during the year]

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

(c) 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 the year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

(d) The amount payable should be in line with RBI framework defined in para 2.2.1 (f) on pages 6-7.

(e) Ministry of Finance (MOF) Guidelines for Minimum Dividend

The Ministry of Finance has advised Banks to pay a minimum of 20% of paid-up capital or 20% of Net Profit (whichever is higher) as dividend. They had suggested that in case any Bank is not in a position to do so, Bank should seek specific prior approval from MoF.

Further, in terms of the instructions received from Ministry of Finance, Govt. of India vide letter dated 04th June, 2021, it has been clarified that the payment of minimum dividend is subject to regulatory guidelines issued by RBI and, 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/ instructions.

Keeping in view, long term growth plan and the necessity to build Tier 1 Capital through retained profits, the MD & CEO of the Bank is authorized to take up the matter with the Ministry of Finance, Govt. of India regarding declaring a dividend which is less than the minimum required under the guidelines as well as that permissible under regulatory guidelines/ instructions.

3. Interim Dividend

Bank may also declare and pay interim dividend out of the relevant accounting period's profit without approval of the RBI, if the Bank:

- Satisfies the minimum criteria prescribed above.
- The cumulative interim dividend is within the prudential cap on dividend payout ratio computed for the relevant accounting period.
- Interim dividend(s) paid, if any, will be adjusted before computing the final dividend.

4. **Manner of Payment of dividend:**

As per Regulation 12 of SEBI (LODR) Regulations, the Bank shall use any of the electronic modes of payment 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.

Provided further that where the amount payable as dividend exceeds one thousand and five hundred rupees, the 'payable-at-par' warrants or cheques shall be sent by speed post.

5. **Reporting System**

The Bank should report details of dividend declared during the accounting year as per the proforma furnished in Annex 2 of RBI's circular no. DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated May 04, 2005.

The report should be furnished within a fortnight after declaration of dividends.

6. **Interest of all stake holders**

As per the RBI directives dated 04.05.2005, the Bank's Board shall take into account the interest of all the stake-holders and the following aspects shall be taken into account while deciding on the proposals for declaring the dividend:

- The interim dividend paid.
- The Annual Financial Inspection findings of the RBI with regard to divergence in identification of NPAs, shortfall in provisioning etc.
- The auditors' qualifications pertaining to the statement of accounts.
- The Basel III capital requirements.
- The Bank's long term growth plans.

7. **Authority to allow deviations**

a) In case where specific provision of this Policy is in conflict with any direction, notification, guidelines of the Central Government and RBI, the said direction, notification, guidelines would prevail.
b) The Board of Directors of the Bank shall be the competent authority to allow any deviation (other than regulatory guidelines) from this Policy in the matter related to dividend.

8. **Exclusions**

'Not Applicable'

Appendix

A. List of Acronyms and Definitions

Not Applicable

B. List of references including related policies/forms, RBI circulars, etc.

- RBI Circular on 'Declaration of dividends by Banks' - Circular No.: DBOD.NO.BP.BC.88/21.02.067/2004-05 dated 04.05.2005 read with Master Circular – Basel III Capital Regulations - Circular No.: DBR.No.BP.BC.1/ 21.06.201/2015-16 dated 01.07.2015 as amended by Circular No.: DBR.BP.BC.No.20/21.06.201/2018-19 dated 10.01.2019, Circular No.: RBI / 2020-21/42 DOR.BP.BC.No15/21.06.201/2020-21 dated 29.09.2020 and Circular No.:RBI/2020-21/93 DOR. CAP. BC. No. 34/21.06.201/2020-21 dated 05.02.2021.
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- Guidelines issued by Government of India from time to time.

C. Frequently Asked Questions:

Not Applicable