



DIVIDEND DISTRIBUTION POLICY

I. OBJECTIVE:

Securities and Exchange Board of India (SEBI) has, on July 08, 2016, notified the SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2016. Through this notification, SEBI has inserted Regulation 43A after Regulation 43 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 {SEBI (LODR) Regulations}. As per the regulation, the top five hundred listed entities based on market capitalization, as on March 31 of every financial year, are required to formulate a Dividend Distribution Policy which should be disclosed in their annual reports and on their website.

In terms of Regulation 43A of SEBI (LODR) Regulations, it is mandatory for the Bank to frame the Dividend Distribution Policy, as it falls within the top 500 listed entities as on March 31, 2016 in terms of market capitalization. Accordingly, the following 'Dividend Distribution Policy' has been framed, approved and adopted by the Board of Directors of the Bank.

II. POLICY:

1. **The Policy will be called as 'Federal Bank Dividend Distribution Policy'.**

2. **General Principles of the Bank regarding distribution of dividend**

The intent of the Bank is to reward the shareholders of the Bank by sharing a portion of the profits, whilst 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 set guidelines of Government and Reserve Bank of India and after taking into account the financial performance of the Bank, its future plans, internal and external factors, compliance with Companies Act 2013 and its rules, statutory restrictions, etc, for approval by the shareholders in General Meeting.

3. **Eligibility criteria for declaration of dividend**

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:

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 %.

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%.

- i) The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.
- ii) 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.
- iii) The proposed dividend should be payable out of the current year's profit.

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

4. Quantum of dividend payable:

The Bank, if it fulfils the eligibility criteria set out at paragraph No.3 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) 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 should be suitably adjusted while computing the dividend payout ratio.

5. Board oversight

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

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

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

a) 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.

b) 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:

- 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) 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
- Such other factors and/or material events which the Bank's Board may consider relevant.

c) Internal and external factors that shall be considered for declaration of dividend

Board will take into account 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.

d) Policy as to how the retained earnings shall be utilized

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.

e) Parameters that shall be adopted with regard to various classes of shares:

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.

7. Review of Policy

The Board of Directors of the Bank will review the policy annually. If the Board proposes to declare dividend on the basis of 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.

8. Disclosure of Policy

The policy will be available on the Bank's website and will also be disclosed in the Bank's Annual Report.

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)

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 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
