



# **IDFC FIRST Bank Limited**

## **Dividend Distribution Policy**

**In terms of Regulation 43A of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

## DIVIDEND DISTRIBUTION POLICY

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## 1. Background

“Dividend” means the profit of the Bank, which is not retained by the Bank and is distributed among the shareholders in the proportion of their shareholding. The term dividend includes interim dividend.

Dividend is recommended by the Board of Directors of the Bank. Final Dividend is declared after the approval of the shareholders at the Annual General Meeting, which is required to be held within six months from the end of the financial year. Under the Companies Act, 2013, the shareholders can decrease the rate of dividend proposed by the Board of Directors; however, they cannot increase the same. The Board of Directors can declare interim dividend between two annual general meetings without declaring them at an annual general meeting.

This policy sets out principles to determine the amounts that can be distributed to equity shareholders as dividend by the Bank. The Bank proposes to have a dividend distribution policy that balances the dual objectives:

1. Appropriate reward to shareholders through dividends and
2. Retaining capital in order to maintain a healthy capital adequacy ratio of the Bank to support future growth.

Also, it is equally important that shareholders who have invested in IDFC FIRST Bank have visibility on cash flows from IDFC FIRST Bank through its dividend distribution policy.

## 2. Need and Objective of Dividend Distribution Policy

SEBI vide its notification dated July 8, 2016 has amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”) by inserting regulation 43A and made it mandatory to have a Dividend Distribution Policy (“the policy”) in place. The regulation stipulates top 500 listed entities to formulate and disclose their Dividend Distribution Policy in their annual reports and on their website.

The dividend distribution policy shall include the following parameters:

- a) the circumstances under which the shareholders may or may not expect dividend;
- b) the financial parameters that will be considered while declaring dividend;
- c) internal and external factors that will be considered for declaration of dividend;
- d) policy as to how the retained earnings will be utilized; and
- e) parameters that will be adopted with regards to various classes of shares.

It is also prescribed that if the company proposes to declare dividend on the basis of parameters other than those mentioned in the policy or proposes to change its dividend distribution policy then the company is required to disclose the same along with its rationale in its annual report and on its website.

### 3. Provisions of the Companies Act, 2013 regarding dividend

The Company has to comply with the provisions of the Companies Act before declaring any dividend.

- **Section 51:** The Company may pay dividends in proportion to the amount paid-up on each share.
- **Section 123:** This section provides that the Company can pay dividend only out of profits of the current financial year or any of the previous financial years. The Company may transfer appropriate amount of profits to the reserve before declaring any dividend. The Company cannot declare or pay any dividend from its reserves other than free reserves. The Board of Directors of the Company can declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is declared. The section prohibits the Company from declaring any dividend on equity shares on violation of the provisions of Section 73 and Section 74 (regarding payment of deposits).
- **Section 134(3)(k):** The Board of Directors of the Bank must state in the director's report, the amount of dividend, if any, it recommends to be paid to the shareholders.
- **Section 124:** In case where the Company declares dividend but the same has not been claimed by the entitled shareholder, within 30 days from the date of declaration, then the Company shall within 7 days from the date of expiry of 30 days, transfer the total unpaid or unclaimed dividend amount to a special account in any scheduled bank called "Unpaid Dividend Account". Any money that is transferred to the Unpaid Dividend Account remains unpaid or unclaimed for a period of 7 years from the date of such transfer shall be transferred to Investor Education and Protection Fund.

### 4. Provision regarding declaration of dividend in the case of absence or inadequate profits

In case when there is absence or inadequate profits, then the Company can declare dividend only after complying with the provision of the Companies Act. The Companies (Declaration and Payment of Dividend) Rules, 2014 lays down certain conditions regarding payment of dividend out of surplus in the absence of adequate or absence of profits in any year. These conditions are as follows:

- The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year.
- The total amount to be drawn from such accumulated profits shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statements.
- The amount so drawn shall first be utilized to set off the losses incurred for the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

- The balance of reserves after such withdrawal shall not fall below fifteen percent of its paid-up share capital as appearing in the latest audited financial statements.

## 5. Eligibility criteria for declaration of dividend as per RBI

The Banks which follow the below prudential requirements will be eligible to declare dividend:

- 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 and net NPA ratio less than 7%.
- In case the Bank does not meet the above CRAR norm, but is having CRAR of at least 9% for the accounting year for which it proposes to declare dividend, it may declare dividend provided the Bank's Net NPA ratio is less than 5%.

### Matrix of Criteria for maximum permissible range of Dividend Payout Ratio:

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

- The Bank should comply with the provisions of Section 15 (Restrictions on payment of dividend) and Section 17 (Creation of Reserve Fund) of the Banking Regulation Act, 1949. As per Section 15, banks cannot pay dividend until all its capitalised expenses (including preliminary expenses, organisation expenses, share-selling commission, brokerage, losses incurred, any other item of expenditure not represented by tangible assets) have been completely written off. However, the banks can declare dividend without writing off:
  - ▶ the depreciation in the value of its investments in approved securities, where such depreciation is not capitalised or accounted for as loss.
  - ▶ the depreciation in the value of its investments in shares, debentures, bonds and bad debts, provided adequate provision for such depreciation / bad debts is made to the satisfaction of the auditors.

As per Section 17, every banking company is required to transfer a sum equivalent to not less than 25% of the profits of each year as disclosed in the Profit and Loss Account before declaration of dividend to the Reserve Fund known as Statutory Reserve Account.

- The Bank should comply with the prevailing regulations / guidelines issued by the RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to statutory reserves and investment fluctuation reserve, as applicable etc.
- The proposed dividend should be paid only out of current year's profit.
- Before declaring dividend, the Bank should also ensure that there are no other explicit restrictions placed by the RBI.
- In case the Bank does not meet any of the above criteria, then, the Bank cannot declare any dividend for that particular year.

## **6. Quantum of dividend payable by the Bank**

If the Bank fulfils the above eligibility criteria, then the Bank may declare dividend, subject to the following:

- The dividend payout ratio shall not exceed 40% and shall be as per matrix furnished in Annexure 1 of RBI Circular No. RBI / 2004-05 /451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated May 04, 2005 (dividend payout ratio shall be calculated as a percentage of dividend payable in a year excluding dividend tax to net profit earned during the year).
- 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.
- The financial statements pertaining to the financial year, for which the bank is declaring 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.

## **7. Factors affecting the Bank's approach to dividend payout**

Dividend is declared after considering the impact of following factors which include:

- Stakeholder's expectations
- Business cycles, boom and depression
- Change in Government Policies and general macro-economic conditions, particularly those affecting earnings
- Changes in various legal and regulatory frameworks
- Health of overall Banking Industry
- Overall performance of the Bank

- Amount of profits retained for meeting the business requirements of the Bank
- Amount of interim dividend paid by the Bank during the year
- The Annual Financial Inspection findings of the RBI with regard to divergence in identification of NPAs, shortfall in provisioning, etc.
- Basel III capital requirements and Bank's long term growth plans.
- Past dividend trends
- The auditor's qualification pertaining to the statement of accounts and its impact on the distributable profits

## 8. Circumstances under which shareholders may or may not expect dividend

The Bank can declare dividend after complying with all the applicable laws. However, the Board of Directors may decide not to declare any dividend in case they feel that there are unfavorable internal / external conditions or the Bank has better opportunity in reinvesting the funds. The Board of Directors has the privilege of deciding whether there are unfavorable internal / external conditions and take necessary decisions.

## 9. Policy as to how the retained earnings shall be utilized

The Bank may utilize its retained earnings in the manner which is beneficial to the interest of the Bank and its stakeholders. Retained earnings helps in maintaining a healthy capital adequacy ratio and supports the future growth.

## 10. Parameters with regards to various classes of shares

Currently, since the Bank has only one class of equity shareholders, the dividend declared will be equally distributed among all the shareholders based on the shareholding on the record date.

## 11. Various dividend approaches that are deliberated while finalizing dividend distribution policy are

Approach	How Computed	Advantages	Disadvantages
<b>Constant Dividend Approach</b>	A fixed dividend rate maintained each year	<ul style="list-style-type: none"> <li>▶ No uncertainty about amount of dividend</li> <li>▶ Increase in dividends sends positive signals about the Bank</li> <li>▶ Ideal for those seeking steady income</li> <li>▶ Gives impression of a strong and healthy Bank</li> </ul>	<ul style="list-style-type: none"> <li>▶ Could put pressure on the Bank's liquidity</li> <li>▶ In challenging periods may not be feasible to provide constant dividends which will disappoint the shareholders</li> </ul>

<b>Constant Payout Approach</b>	Ratio of dividend per share to earnings per share is constant	<ul style="list-style-type: none"> <li>▶ No strain on the Bank's liquidity since dividends are linked to profits</li> </ul>	▶ Market speculation due to anticipation of profits and dividends
<b>Constant Dividend Plus Approach</b>	Fixed low dividend always paid plus additional dividend in the years of good profit	<ul style="list-style-type: none"> <li>▶ Minimum return is guaranteed</li> <li>▶ Dividends are also linked to profits. Hence best of both plans</li> </ul>	
<b>Residual Approach</b>	Dividends are paid out of profits after transferring appropriate amount to statutory and other reserves and after providing for upcoming capital expenditure	<ul style="list-style-type: none"> <li>▶ Banks with more investment opportunities have a lower payout than other Banks having low investment opportunities</li> </ul>	

## 12. Overriding Provisions

In case of any discrepancies between RBI norms and any other Act, then RBI norms will override the provisions of any other Act.

## 13. Recommendations

The Bank has a consistent dividend distribution policy that balances the dual objective of appropriately rewarding shareholders through dividends and retaining capital, in order to maintain a healthy capital adequacy ratio to support the future growth.

It is recommended that the Bank will pay 80% to 100% of its distributable profits as dividend after transferring to statutory and other reserves with dividend pay-out ratio (inclusive of taxes) in the range of 15% to 30% of the Profit after tax, subject to profit retention requirement, posed by investment fluctuation reserve, Capital Conservation Buffer (CCB) consideration under Basel III and other applicable guidelines and setting aside capital for meeting Bank's long term growth plans.

## 14. Revision of policy

The policy could be revised / amended in accordance with the guidelines as may be issued by the Ministry of Corporate Affairs, Securities Exchange Board of India or such other regulatory authority, from time to time on the subject matter.



The Bank reserves its right to alter, modify, add, delete or amend any or all clauses of this policy in accordance with the provisions of applicable law/ act / regulation or otherwise.

In case of any amendment, clarification, circular etc. issued under any Applicable law/Regulations which is not consistent with any of the provisions of this policy, then such amendment, clarification, circular, shall prevail upon the provisions hereunder and this policy shall be deemed to be amended accordingly from the effective date as laid down under such amendment, clarification, circular etc.

## **15. Reporting System**

As per Regulation 33 of Listing Regulations, the Bank is required to disclose the amount of dividend distributed / proposed for distribution per share in the quarterly financial results. The Bank shall also report the details of dividend declared during the accounting year to the RBI as per proforma furnished in Annexure I within a fortnight after the declaration of dividend.

**Annexure I****Reporting format for banks declaring dividend**  
**Details of dividend declared during the financial year .....****Name of the Bank: IDFC FIRST Bank Limited**

Accounting period *	Net profit for the accounting period (₹ in crore)	Rate of dividend	Amount of dividend (excluding dividend tax) (₹ in crore)	Payout ratio
1	2	3	4	5

\* Quarter or half year or year ended .....