IDFC FIRST Bank Limited

Dividend Distribution Policy

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

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Status:

Revision History			
Version	**Revision Date**	**Revised by**	**Revision Description**
1.0	25-10-2016		Adoption of Policy
1.1	10-05-2019	Finance	Incorporation of revised guidelines/ notifications issued by the RBI, SEBI
1.2	22-05-2020	Finance	Annual Review of Policy
1.3	08-05-2021	Finance	Annual Review of Policy
1.4	30-04-2022	Finance	Annual Review of Policy
1.5	29-04-2023	Finance	Annual Review of Policy
1.6	27-04-2024	Finance	Annual Review of Policy

DIVIDEND DISTRIBUTION POLICY

Contents:

1. Background

"Dividend" means the net 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. Under the Companies Act, 2013 (the "**Companies Act**"), 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 to maintain a healthy capital adequacy ratio of the Bank for supporting future growth.

2. Need and Objective of Dividend Distribution Policy

Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**") stipulates that top 1000 listed entities by market capitalization (calculated as on March 31 of every financial year) shall formulate a Dividend Distribution Policy ("the Policy") which shall be disclosed on their website and a web-link shall also be provided in their annual reports.

The 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.

3. Regulatory Compliance

The Bank can declare dividend only after ensuring compliance with the Banking Regulation Act, 1949 ("**Banking Regulation Act**"), various regulatory guidelines on dividend declaration issued by Reserve Bank of India ("**RBI**") from time to time and the provisions of the Companies Act, the Rules made thereunder and the SEBI Listing Regulations as amended to the extent applicable to the banking companies. The Bank shall declare and disclose the dividend on per share basis only.

4. Eligibility criteria for declaration of dividend as per RBI

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 is eligible to declare dividends only when it complies with the following minimum prudential requirements.

Given below are the eligibility criteria for banks 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 as to payment of dividend) and Section 17 (Reserve Fund) of the Banking Regulation Act. As per Section 15 of the Banking Regulation Act, 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, banks can declare dividend without writing off:
  - the depreciation, if any, in the value of its investments in approved securities, where such depreciation is not capitalised or accounted for as loss.
  - The depreciation, if any, 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 of the Banking Regulation Act, 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 etc.

- The proposed dividend should be paid only out of current year's net profit.

- Before declaring dividend, the Bank should also ensure that there are no other explicit restrictions placed by the RBI on the bank(s) for declaration of dividends.

- In case the Bank does not meet any of the above criteria, then, the Bank cannot declare any dividend for that particular year.

5. 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 prescribed in the earlier section of this Policy (dividend payout ratio shall be calculated as a percentage of dividend payable in a year 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.

6. 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
- Restrictions if any by the regulatory bodies like RBI, if any

7. Circumstances under which shareholders may or may not expect dividend

The Bank may declare dividend after complying with all the requisite laws.

However, the Board of the Bank may decide to not recommend any dividend if the eligibility criteria for recommendation of dividend have not been met by the Bank, including any regulatory restriction placed on the Bank on declaration of dividend, or in the event of inadequacy of profits or whenever the Bank has incurred losses or if the Board strongly believes the need to conserve capital for growth or other exigencies.

The Board of Directors has the privilege of deciding whether there are unfavorable internal / external conditions and take necessary decisions.

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 or in the event of inadequacy of profits or whenever the Bank has incurred losses. The Board of Directors has the privilege of deciding whether there are unfavorable internal / external conditions and take necessary decisions.

8. 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.

9. Parameters with regards to various classes of shares

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

10. Payment of dividend to shareholders

For the payment of the dividends, the Bank shall use any of the electronic mode of payment facilities as approved by the RBI, in the manner specified in Schedule I of SEBI Listing Regulations.

Provided that where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or cheques may be issued. Further, 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.

11. Overriding Provisions

In case of any discrepancies between RBI norms and any other Act, the RBI norms will override the provisions of any other Act. However, in case there are some conditions that restricts the Bank from declaring dividend which are stipulated in the Companies Act or other applicable regulations which are not there in the RBI guidelines, the Bank shall comply with such other regulations on prudent basis.

12. Amendments / Modifications

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.

13. Review of Policy

The Board of Directors of the Bank shall 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.

14. 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 within a fortnight after the declaration of dividend. In terms of SEBI Listing Regulations, prior and post intimation is required to be made to Stock Exchanges for proposal/ recommendation of dividend by the Board of the Bank.