IOB
DIVIDEND DISTRIBUTION POLICY

INVESTOR RELATIONS CELL

CENTRAL OFFICE

IOB DIVIDEND DISTRIBUTION POLICY

I. NEED AND OBJECTIVE OF THE POLICY:

Securities and Exchange Board of India (SEBI) has on July 08, 2016, inserted Regulation 43A in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR), which requires the Top one thousand listed entity based on Market Capitalization, (calculated as on March 31 of every financial year), 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. The Dividend Distribution Policy shall include the following parameters:

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

Provided that if the listed entity proposes to declare dividend on the basis of parameters in addition to clauses (a) to (e) or proposes to change such additional parameters or the dividend distribution policy contained in any of the parameters, it shall disclose such changes along with the rationale for the same in its annual report and on its website.

However, in case of Public Sector Banks (being Listed Entities), distribution of dividend is governed by any directions/communications received from Reserve Bank of India/Government of India/Ministry of Finance from time to time.

Any additional requirement mandated as per the guidelines of the RBI, SEBI or Ministry of Finance that are communicated subsequent to the adoption of the policy shall automatically form part and parcel of the Policy and the Bank shall have to comply with all such additional requirements.

In terms of Regulation 43A of SEBI (LODR) Regulations, it is mandatory for our Bank to frame the Dividend Distribution Policy, as our Bank falls within the top 1000 listed entities as on March 31, 2023 in terms of Market Capitalization and our shares are listed in BSE & NSE Limited. Accordingly, the following 'Dividend Distribution Policy' has been framed and been approved and adopted by the Board of Directors of the Bank.

Indian Overseas Bank is formed under the provisions of Banking Companies (Acquisitions and Transfer of Undertakings) Act, 1970, is following the guidelines of Reserve Bank of India (RBI) and Government of India in respect of dividend payments.

II. LIST OF RBI CIRCULARS/GOI COMMUNICATION COVERED IN THE POLICY:

No	Circular/Communication No	Subject
1	DOR.ACC.REC.7/21.02.067/2021-22 dated 22.04.2021	Declaration of Dividends by Banks
2	DOS.CO.PPG.SEC.No.4/11.01.005/2021-22 dated 02.11.2021	Prompt Corrective Action (PCA) Framework for Scheduled Commercial Banks
3	DOR.BP.BC.NO.64/21.02.067/2019-20 dated 17.04.2020	Declaration of Dividends by Banks (Revised)
4	DBS.CO.PPD.BC.No.8/11.01.005/ 2016 – 17 dated April 13, 2017	Revised Prompt Corrective Action (PCA) framework for Banks
5	DBR.No.BP.BC.1/21.06.201/2015-16 dated 01.07.2015 and further amendments from time to time.	Master Circular – Basel III Capital Regulations
6	DBR.No.BP.BC.71/21.06.201/2014-15 dated February 5, 2015 and amended from time to time	Guidelines for implementation of Countercyclical Capital Buffer (CCCB)
7	DBOD.No.BP.BC.88/21.02.067/2004-05 dated 04.05.2005	Declaration of Dividends by Banks
8	GOI letter No F.No.10/3/2010 dated 18th January, 2013	Declaration of Dividend by the Public Sector Banks for the year

III. DEFINITIONS:

a) Dividend	Dividend includes interim dividend. In common parlance, 'Dividend' means the profit of the Bank, which is not retained in the business and is distributed among the shareholders in proportion to the amount paid up on the shares held by them.
b) CRAR	It is the ratio of the Bank's capital to its risk weighted assets.
c) Dividend Payout Ratio	'Dividend Payout Ratio' is calculated as a percentage of 'dividend payable in a year (excluding dividend tax) to 'net profit during the year'.
d) Board	'Board' means Board of Directors of the Bank constituted in terms of Section 9(3) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

IV. POLICY:

1. The Policy will be called as "**IOB 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, interim dividend paid, its future plans, annual financial inspection finding of the RBI with regard to divergence in identification of NPAs, shortfall in provisioning, auditor's qualification pertaining to the statement of accounts, Basel III Capital requirement, internal and external factors, statutory restrictions etc. for declaration by the shareholders in general meeting. The Board may also declare interim dividend at its discretion.

3. **The declaration of dividend is governed by the provisions of the RBI Circular DBOD.No.BP.BC.88/21.02.067/2004-05 dated May 04, 2005 on 'Declaration of Dividends by Banks'**

   As per the circular~~,~~ the Bank will be eligible to declare dividends only when it complies with the following minimum prudential requirements.

   i. The Bank should have:

   - CRAR of at least 9% **plus applicable CCB** for preceding two completed years and the accounting year for which it proposes to declare dividend.
   - Net NPA less than 7%.

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

   ii. The Bank shall comply with the provisions of Sections 15 of the Banking Regulation Act, 1949 as detailed hereunder.

   - **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 (updated as on December 13, 2022), the intangible assets recognized 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.

- **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-

1) 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.

2) 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.

3) The bad debts, if any, in any case where adequate provision for such debts have been made to the satisfaction of the auditor of the banking company.

- **Section 17 of Banking Regulation Act:**

1) In terms of Section 17(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.

   <u>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 30.08.2021 (updated as on December 13, 2022), 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.</u>

2) In terms of Section 17(1A), notwithstanding anything contained in Section 17(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 Section 17(1), together with the amount in the share premium account is not less than the paid-up capital of the banking company.

3) In terms of Section 17(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.

iii. The Bank shall 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 of India should not have placed any explicit restrictions on the Bank for declaration of dividends.

In case any bank does not meet the above eligibility criteria no special dispensation shall be available from the Reserve Bank.

Additionally, the Bank shall also be required to comply with the following RBI Guidelines:

i. Minimum Capital requirements: -

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

Regulatory Capital	As % of RWAs
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 Ratio	7.00
Minimum Tier 1 capital + CCB	9.50
Minimum Total Capital + CCB	**11.50**

ii. Minimum Capital Conservation Ratio: -

The Bank is required to maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 9%. Capital distribution constraints will be imposed on the Bank when capital level falls within this range. The Bank is 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)
5.5% -6.125%	100%
> 6.125% -6.75%	80%
> 6.75%-7.375%	60%
> 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, a 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 deemed to have a zero-conservation buffer for the purpose of declaration of dividend, share-buybacks and discretionary bonuses and therefore, the Bank would be subjected to 100% constraint on distributions of capital by way of dividends, share-buybacks and discretionary bonuses.

Earnings mean 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 is 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. **The 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:

Parameter	Indicator	Risk Threshold 1	Risk Threshold 2	Risk Threshold 3
(1)	(2)	(3)	(4)	(5)
Capital (Breach of either CRAR or CET 1 ratio)	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 the indicator prescribed at column (2) Upto 162.50 bps below the indicator prescribed at column (2)	More than 250 bps but not exceeding 400 bps below the indicator prescribed at column (2) More than 162.50 bps below but not exceeding 312.50 bps below the indicator prescribed at column (2)	In excess of 400 bps below the indicator prescribed at column (2) In excess of 312.50 bps below the indicator prescribed at column (2)
Breach of either CRAR or CET 1 ratio to trigger PCA				
Asset Quality	Net Non-Performing Advances (NNPA) ratio	>=6.0% but <9.0%	>=9.0% but <12.0%	>=12.0%
Leverage	Regulatory minimum Tier 1 Leverage Ratio	Upto 50 bps below the regulatory minimum	More than 50 bps but not exceeding 100 bps below the regulatory minimum	More than 100 bps below the regulatory minimum.

4. **Quantum of dividend payable**:

A. **RBI guidelines**: The Bank, if it fulfills 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 1.

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.

iv. In case of nonpayment of interest on Basel-III compliant bonds or non-achievement of the Basel-III CRAR ratio including CCB, RBI puts restrictions on the dividend in the Master Circular on Basel III Capital Regulations issued for this purpose.

B. **Government of India guidelines for Minimum Dividend:**

As per extant guidelines of Government of India, the Bank is required to pay a minimum dividend of 20% of its equity (i.e., paid up capital) or 20% of its post–tax profits, whichever is higher. In case, any Bank decides to pay interim dividend, the total dividend to be paid by the Bank based on the annual results should be as per the above guidelines. Further, any relaxation from the provisions of these instructions requires specific prior permission of the Government.

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.

5. **Interim Dividend:**

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

a) Satisfies the minimum criteria prescribed above.

b) The cumulative interim dividend is within the prudential cap on dividend payout ratio computed for the relevant accounting period.

c) Interim dividend(s) paid, if any, will be adjusted before computing the final dividend.

6. **Internal and External Factors:**

The dividend payout decision of the Bank will also depend on certain external factors such as the state of the economy of the country, statutory and regulatory provisions, tax regulations, etc., as may be applicable at the time of declaration of the dividend. Apart from the aforesaid external factors, Board will also take into account various internal factors, such as business growth plans, future capital requirements, replacement of capital assets, etc. The decision of the Board regarding dividend shall be final.

7. **Utilization of Retained Earnings:**

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

8. **Provisions with regard to various classes of shares:**

The Bank currently has only one class of shares, namely Equity Shares. In case of issuance of any other class of shares in future, the parameters shall be decided suitably by the Bank at the appropriate time.

9. **Manner of Payment of dividend**

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

10. **Disclosure and Reporting:**

a) The Policy will be disclosed on the website of the Bank and a web link shall be provided in the Annual Report.

b) The Bank shall report the details of dividend declared during the accounting year to RBI 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 shall be furnished within a fortnight after the declaration of dividend.

c) The Bank shall declare and disclose the dividend on per share basis only as specified under SEBI (LODR) Regulations.

10. Validity and Review of Policy

The Policy will be in force, until further amendments made by Regulatory Authorities. In the event of any discrepancy or inconsistency between the Policy and Regulatory guidelines, the regulatory guidelines will prevail.

The Board will review / renew the Policy on an annual basis and if found essential may amend the Policy from time to time.

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Annexure - 1

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

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