

Federal Bank

DIVIDEND DISTRIBUTION
POLICY

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1. **Objective**

Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter called "SEBI LODR") issued by the Securities and Exchange Board of India (SEBI) has mandated the formulation of a Dividend Distribution Policy for the top 1000 listed entities based on their market capitalization.

It is mandatory for the Bank to frame the Dividend Distribution Policy, as it falls within the top 1000 listed entities, in terms of market capitalization. Accordingly, the following 'Dividend Distribution Policy' has been framed, approved, and adopted by the Board of Directors ("Board") of the Bank. The objective of the Policy is to lay down the criteria to be considered by the Board of the Bank before recommending a dividend to its shareholders for a financial year.

This policy sets out the guiding principles and criteria that the Board will consider when recommending dividends. The intent is to reward shareholders by distributing a portion of the Bank's profits while retaining adequate funds to support growth of the Bank. Dividend recommendations will be made at the discretion of the Board in accordance with the prescribed guidelines of the Government and the Reserve Bank of India (RBI), and considering the financial performance of the Bank, its future plans, internal and external factors, and compliance with applicable laws and regulations, including SEBI LODR, the Companies Act, 2013 and its rules, and any statutory restrictions. All recommendations shall be subject to approval by the shareholders at the General Meeting.

2. **Definitions**

- (i) 'CRAR' means Capital to Risk Weighted Assets Ratio calculated in terms of Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025.
- (ii) 'Dividends' includes any interim dividend.
- (iii) 'Dividend Payout Ratio' means the ratio between the amount of the dividend payable on equity shares (including interim dividend) in a year and the net profit during the year as per the audited financial statements for the financial year for which the dividend is proposed.
- (iv) 'Extra-ordinary profits / income' shall have the same meaning as defined under applicable Accounting Standards.

As per Accounting Standard 5 - Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, Extra-ordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

- (v) 'Net Non-Performing Asset (NNPA) ratio' means ratio of NNPA to net advances.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, Banking Regulation Act, the SEBI Listing Regulations or any other applicable law or regulation, each as amended.

3. Board oversight

The interests of all stake holders and the following aspects shall be considered, while deciding on the proposals for declaring dividend:

- i) The interim dividend paid.
- ii) The findings of the Reserve Bank with regard to divergence in identification of NPAs, shortfall in provisioning, etc., during inspection for supervisory evaluation.
- iii) The auditors' qualification pertaining to the statement of accounts.
- iv) Minimum regulatory capital requirement as well as applicable capital buffers as outlined under the Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025.
- v) The Bank's long term growth plans.

While declaring dividend on equity shares, the Board shall inter-alia consider the current and projected capital position of the bank vis-à-vis the applicable capital requirements, applicable capital buffers and the adequacy of provisions, taking into account the economic environment, and the outlook for profitability.

4. Eligibility criteria for declaration of dividend

As per Reserve Bank of India (Commercial Banks – Prudential Norms on Declaration of Dividends and Remittance of Profit) Directions, 2025, Bank will be eligible to declare dividends only if it complies with the following minimum prudential requirements:

- i) CRAR of at least 9% for preceding two completed financial years and the financial year for which it proposes to declare dividend.
- ii) NPAs ratio of less than 7% for the financial year for which the bank proposes to declare dividend.
- iii) In case any bank does not meet the above CRAR norm but is having a CRAR of at least 9% for the financial year for which it proposes to declare dividend, would be eligible to declare dividend provided its NNPA ratio is less than 5%.

However, the minimum capital adequacy ratio (CRAR) for declaring dividend shall be as per the Bank's risk appetite statement, as approved periodically by the Board.

- iv) The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.

As per section 15 of the Banking Regulation Act, 1949, No banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation 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.

As per section 17 of the Banking Regulation Act, 1949, scheduled commercial banks should transfer not less than 25% of the 'net profit' (before appropriations) to the Reserve Fund before any dividend is declared.

- v) The bank should comply with the prevailing regulations/ guidelines issued by the Reserve Bank, including creating adequate provisions for impairment of assets and staff retirement benefits, and transfer of profits to Statutory Reserves.
- vi) The proposed dividend should be payable out of the current financial year's net profit only.
- vii) The Reserve Bank has not placed any explicit restrictions on the bank for declaration of dividends.

5. Quantum of dividend payable

The Bank, if it fulfils the eligibility criteria set out at para 4 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 of criteria for maximum permissible range of dividend payout ratio furnished below:

Category	CRAR	NNPA 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

- ii) If 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 shall be suitably adjusted while computing the dividend payout ratio.

- iv) In terms of Reserve Bank of India (Commercial Banks - Classification, Valuation and Operation of Investment Portfolio) Directions, 2025, a bank shall not pay dividend out of net unrealised gains arising on fair valuation of Level 3 financial instruments (including derivatives).
- v) The prudential treatment of reversal of excess provision, dividend payment by a bank on reversal of such provisions and unrealized profits arising on account of transfer of loans and Security Receipts guaranteed by the Government of India shall be guided by the instructions contained in Reserve Bank of India (Commercial Banks – Transfer and Distribution of Credit Risk) Directions, 2025.

As per the RBI Direction, when a stressed loan is transferred to an Asset Reconstruction Company (ARCs) at a sale consideration higher than the Net Book value (NBV), the bank may reverse the entire excess provision [viz. sale consideration (-) NBV] to the Profit and Loss Account in the year of transfer if the sale consideration comprises only of cash and Security Receipts (SRs) guaranteed by the Government of India. Provided that, no dividends shall be paid out of the non-cash component of the excess provision [viz. excess provision (-) cash received at the time of transfer]. Such SRs shall be valued periodically by reckoning the NAV declared by the ARC based on the recovery ratings received for such instruments. No dividends shall be paid out of such unrealised gains recognised in the Profit and Loss Account on account of fair valuation of such investments.

- vi) The dividend declaration shall be subject to compliance with the applicable specific restrictions related to capital conservation buffer in terms of Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025.

As per the RBI Direction, The Bank shall maintain a Capital Conservation Buffer (CCB) of 2.5%, comprised of Common Equity Tier (CET) 1 capital, above the regulatory minimum capital requirement 9%. CET1 shall first be used to meet the minimum capital requirements (including the 7% Tier 1 and 9% total capital requirements, if necessary), before the remainder can contribute to the CCB requirement. The Bank shall not distribute capital in case the capital level falls within this range. The prescribed minimum capital conservation ratios (“MCCR”) corresponding to the range of CET1 ratios are as below:

CET 1 Ratio after including the current periods retained earnings	MCCR (as a percentage of earnings)
5.5% - 6.125%	100%
>6.125% - 6.75%	80%
>6.75% - 7.375%	60%
>7.375% - 8.00%	40%
>8.00%	0%

For example, if the CET1 ratio of the Bank is in the range of 6.125% to 6.75%, the Bank is required to conserve 80% of its earnings in the subsequent financial year (i.e., distribution as prescribed by the RBI not more than 20%).

6. Interim Dividend

Bank may also declare and pay interim dividends out of the relevant financial year's profit if the minimum criteria prescribed in para 4 above and the other requirements prescribed in para 5 above are satisfied, and the cumulative interim dividend(s) are within the prudential cap on dividend payout ratio prescribed by RBI, computed for the relevant financial year.

7. 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 such as liquidity management related requirements, market sentiments, temporary shortage of funds for significant capital expansion plans, etc.

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:

- Financial performance of the Bank for the year for which a dividend is recommended.
- 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, if any) recommended for the year to the net profit for that year)
- Cost of raising funds from alternate sources of capital
- Corporate actions including mergers/demergers, acquisitions and additional investments including expansion plans and investment in subsidiaries/associates of the Bank.
- 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 consider various internal factors, such as business growth plans, future capital requirements etc.

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.

8. Amendments / Modifications:

To the extent any change/amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the policy and the provisions in the policy would be modified in due course to make it consistent with law. Such amended policy shall be placed before the Board for noting and necessary ratification. In the event of a conflict between this policy and the extant regulations, the regulations shall prevail.

9. Review of Policy

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

10. Disclosures & Reporting

The policy will be available on the Bank's website and a web-link will be provided in the Bank's Annual Report. Information on dividends paid in the last five years, including dividend yield and payout ratio will be made available on the Bank's website. The Bank on declaring dividend shall report the details of dividend declared during the financial year to RBI within a fortnight after declaration of dividend, to the Department of Regulation, Central Office, Reserve Bank of India.