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पंजाब नैशनल बैंक
punjab national bank

Finance Division, Share Department
Head Office: New Delhi

DIVIDEND DISTRIBUTION POLICY

OBJECTIVE

The objective of Dividend Distribution Policy is to maintain equilibrium between retention of profit to enhance value and also to meet long term growth plans of the bank and rewarding its shareholders with optimum amount for reposing their confidence in our bank.

Various regulatory guidelines are to be complied by the Bank to be eligible to declare any dividend. Following are the brief guidelines/requirements of the regulators/authorities for Dividend Distribution Policy:

RBI GUIDELINES

A. Declaration of dividends by banks:

(Cir No.: DBOD.NO.BP.BC.88/21.02.067/2004-05 dated 04.05.2005 read with Cir. No.: DBR.No.BP.BC.1/21.06.201/2015-16 dated 01.07.2015 as amended by Cir. No.: DBR.BP.BC.No.20/21.06.201/2018-19 dated 10.01.2019)

1. Eligibility Criteria

The following **minimum** prudential requirements would be complied with by the Bank before declaring dividend without prior approval of RBI:

(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 % (subject to table 2 (I)).

In case the bank does not meet the CRAR norm but is having CRAR of at least 9% plus applicable CCB (10.875% for 31.03.2019 and 11.50% for 31.03.2020) for the accounting year for which it proposes to declare dividend, it would be eligible to declare the dividend provided its Net NPA ratio is less than 5%.

(II) The bank shall comply with the provisions of Section 15 and Section 17 of the Banking Regulation Act, 1949.

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Section 15(1) Of Banking Regulation (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.

Section 15(2) Of BR Act, 1949

Notwithstanding anything to the contrary contained in sub section (1) or in the Companies Act, 1956 (1 of 1956), a banking company may pay dividends on its shares without writing off-

- 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.

- 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.

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

Section 17of Banking Regulation Act deals with the transferring of profit to the Statutory Reserve Fund.

(III) The bank shall comply with the prevailing regulations/guidelines issued by RBI, including creating provisions for impairment of assets and staff retirement benefit, transfer of profits to Statutory Reserves etc.

(IV) The proposed dividend on common shares and perpetual non-cumulative preference shares (PNCPS) shall be payable out of the current year's profit.

(V) The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.

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B. In terms of RBI circular DBR.No.BP.BC.1/21.06.201/2015-16 dated 01.07.2015 (read with RBI circular DBR.BP.BC.No.20/21.06.201/2018-19 dated 10.01.2019) on Basel III Capital Regulations, Capital Conservation Buffer (CCB) has been implemented from March 31, 2016 in phases and will be fully implemented as on 31.03.2020. The Transitional Arrangements are as under:

Transitional Arrangements for Scheduled Commercial Banks

Minimum capital ratios	**March 31, 2017**	**March 31, 2018**	**March 31, 2019**	**March 31, 2020**
Minimum Common Equity Tier 1 (CET1)	5.50	5.50	5.50	5.50
Capital Conservation Buffer (CCB)	1.25	1.875	1.875	2.50
Minimum CET1 + CCB	6.75	7.375	7.375	8
Addl. Tier I Capital	1.50	1.50	1.50	1.50
Minimum Tier 1 capital + CCB	8.25	8.875	8.875	9.00
Minimum Total Capital + CCB	10.25	10.875	10.875	11.50

Further, RBI circular also stipulates that currently, dividend payment by banks is governed by the provisions of circular DBOD.No.BP.BC.88/21.02.067/2004-05 dated May 04, 2005 on ôDeclaration of Dividends by Banksö Basel III framework also imposes certain constraints on distributions (i.e. payment of dividend or bonuses in any form etc.) in case the capital level of banks falls within the stipulated range as prescribed by the capital buffers framework (i.e. capital conservation and countercyclical buffers etc.). It is clarified that the dividend payment by banks would be governed by the interaction of both these guidelines, as the capital buffer framework has kicked-in.

C. Bank should not have come under Risk Threshold as per RBIÆs Prompt Corrective Action (PCA) framework for Banks as defined in their circular DBS.CO.PPD.BC.No.8/11.01.005/2016-17 dated April 13, 2017 wherein it has provided the revised PCA framework for banks. In case of breach of risk threshold1 of Capital, asset quality, profitability and leverage ratios (given as under), the mandatory action specified is restriction on dividend distribution/remittance of profits by the Banks:

Area	**Indicator**	**Risk Threshold 1**
Capital **(Breach of either CRAR**	CRAR- Minimum regulatory prescription for capital to risk assets ratio + applicable capital conservation buffer (CCB)	upto 250 bps below Indicator

or CET 1 ratio to trigger PCA)	current minimum RBI prescription of 10.875% (9% minimum total capital plus 1.875% of CCB as on March 31, 2018) **And/Or** Regulatory pre-specified trigger of Common Equity Tier 1 (CET 1min) + applicable capital conservation buffer(CCB) current minimum RBI prescription of 7.375% (5.5% plus 1.875% of CCB as on 31.03.2018)	<10.875% but >=8.375% upto 162.50 bps below Indicator <7.375% but >= 5.75%
Asset Quality	Net Non-performing advances (NNPA) ratio	>=6.0% but <9.0%
Profitability	Return on assets (ROA)	Negative ROA for two consecutive years
Leverage	Tier 1 Leverage ratio	<=4.0% but > = 3.5% (leverage is over 25 times the Tier 1 capital)

2. **Quantum Of Dividend Payable**

(As per Cir. No. : DBOD.NO.BP.BC.88/21.02.067/2004-05 dated 04.05.2005, ñDeclaration of dividends by banksò)

Bank, after fulfilling the eligibility criteria given above may declare dividend subject to:

(I) The dividend payout ratio shall not exceed 40% and shall be as per the matrix given below:

Matrix 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 to20	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

(Dividend payout ratio will 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 exceptional/extra-ordinary profits/income, the payout ratio shall be computed after excluding such exceptional/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 the year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

3. Ministry of Finance (MOF) guidelines for Minimum Dividend

Ministry of Finance has advised banks to pay a minimum of 20% of capital or 20% of Net Profit (whichever is higher) as dividend. They have further suggested that in case any bank is not in a position to do so, Bank should seek specific prior approval from them.

Keeping in view long term growth plan and the necessity to build Tier I Capital through retained profit MD & CEO is authorized to take up with Ministry Of Finance for declaring a lower dividend than above or non-payment of dividend.

4. Interim Dividend

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

- Satisfies the minimum criteria prescribed above.
- The cumulative interim dividend is within the prudential cap on dividend payout ratio computed for the relevant accounting period.
- Interim dividend(s) paid, if any, will be adjusted before computing the final dividend.

5. Disclosures as per SEBI guidelines

(a) As per RBI guidelines, the proposed dividend on common shares and perpetual non-cumulative preference shares (PNCPS) should be payable out of the current year's profit as per eligibility criteria mentioned above. The Banks is abiding by the RBI guidelines and hence, the shareholders may not expect dividend in case of inadequacy of profits, CRAR remaining below 9% plus applicable CCB and /or net NPA above 7%.

(b) The extant financial parameters as per RBI and MoF guidelines shall be considered while declaring dividend.
(c) The factors that shall be considered for declaration of dividend are:–
   (i) Internal – Adequate profitability of the Bank, CRAR and NPA levels and
   (ii) External – RBI and MoF guidelines for declaring dividend.
(d) As per extant guidelines of RBI/government of India/Acts/Regulations, the retained earnings shall be transferred to various reserves.
(e) At present the bank has only one class of shares i.e. ordinary shares.

6. Interest of all stake holders

As per the RBI directives, Bank's Board shall take into account the interest of all the stake-holders and the following aspects shall be taken into account while deciding on the proposals for declaring the dividend:

- The interim dividend paid.
- The Annual Financial Inspection findings of the RBI with regard to divergence in identification of NPAs, shortfall in provisioning etc.
- The auditors' qualifications pertaining to the statement of accounts.
- The Basel III capital requirements.
- The bank's long term growth plans.

7. Review of the Policy

This policy will be applicable for a period up to 31.03.2020 with the provision that the policy shall remain in force till a new policy is framed due to:

- Change in the existing mandatory/regulatory guidelines.
- Any other specific reason requiring change in policy.

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