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 five hundred (presently top one thousand) listed entities based on Market Capitalization, (calculated as on March 31 of every financial year), to formulate a Dividend Distribution Policy which shall be disclosed in their annual reports and on their websites. 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.

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 500 listed entities as on March 31, 2016 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.

Our 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. 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.

III. 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, Basle 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. **In case the Bank does not meet the above eligibility criteria no special dispensation shall be available from the Reserve Bank:**
As per the guidelines dated May 04, 2005 issued by Reserve Bank of India and its Master Circular dated 01.07.2015 by Reserve Bank of India, 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 (which prohibits payment of dividend until all capitalized expenses have been written off) and Section 17 (which stipulates transfer of specified portion of profit to statutory reserve fund) of the Banking Regulation Act, 1949.

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.

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:**

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.

5. **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.

6. **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.

7. **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.

8. **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.

9. 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 timeline specified by RBI.
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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