

ANNEXURE II

DIVIDEND DISTRIBUTION POLICY

Version No. 2.0

2018-19

BALANCE SHEET AND CENTRAL ACCOUNTS SECTION  
FINANCIAL MANAGEMENT AND SUBSIDIARIES WING

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LIST OF RBI CIRCULARS/GOI COMMUNICATION COVERED IN THE POLICY

SI No	Circular/Communication No	Subject
1	DBR.No.BP.BC.1/21.06.201/2015-16 dated 01.07.2015	Master Circular – Basel III Capital Regulations
2	DBR.No.BP.BC.71/21.06.201/2014-15 dated February 5, 2015	Guidelines for implementation of Countercyclical Capital Buffer (CCCB)
3	DBOD.No.BP.BC.88/21.02.067/2004-05 dated 04.05.2005	Declaration of Dividends by Banks
4	GOI letter No F.No.10/3/2010 dated 18th January, 2013	Declaration of Dividend by the Public Sector Banks for the year 2012-13
5	DBS.CO.PPD.BC.No.8/11.01.005/2016 – 17 dated April 13, 2017	Revised Prompt Corrective Action (PCA) framework for banks
6	GOI letter No F.No.7/38/2014 dated 24th January, 2018	Capital infusion and PSB Reforms Agenda



## 1. Preface

The Board of Directors (the “Board”) of Canara Bank has adopted the following policy and procedures with regard to Distribution of Dividend in accordance with SEBI Notification on Listing Obligations And Disclosure Requirements) (Second Amendments) Regulations, 2016. The policy shall be subject to review/ratification in accordance with the procedure set forth below.

## 2. Legal Framework

Securities and Exchange Board of India (SEBI) vide Gazette Notification dated 02.09.2015 notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and these are effective from 01.12.2015.

In exercise of the power conferred by section 11, 11A(2) and 30 of SEBI Act, 1992 read with section 31 of SCRA, 1956, SEBI has made amendments to Regulation 43 and issued Gazette Notification dated 08.07.2016.

As per the amended regulations, **the top five hundred listed entities based on the market capitalization (calculated as on March 31 of every financial year) shall formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites.** SEBI, vide the said Gazette Notification, provided the parameters for drawing the Dividend Distribution Policy.

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

The following Guidelines/Communications have been considered for formulating this Policy:

### RBI Circulars:

- ✓ DBOD.No.BP.BC.88/21.02.067/2004-05 dated 04.05.2005 on Declaration of Dividends by Banks;
- ✓ DBR.No.BP.BC.1/21.06.201/2015-16 dated 01.07.2015 on Basel III;
- ✓ DBR.No.BP.BC.71/21.06.201/2014-15 dated February 5, 2015 on Guidelines for implementation of Countercyclical Capital Buffer (CCCB)
- ✓ DBS.CO.PPD.BC.No.8/11.01.005/2016-17 dated April 13, 2017 on Revised Prompt Corrective Action (PCA) framework for Banks



**Government of India:**

F.No.10/3/2010 on Declaration of Dividend for the year 2012-13 dated 18<sup>th</sup> January, 2013  
F.No.7/38/2014 dated 24th January, 2018 on Capital infusion and PSB Reforms Agenda.

**3. Objective**

The policy is framed as per requirements of the Listing Regulations entered into by the Bank with the Stock Exchanges effective from 1<sup>st</sup> December 2015. Regulations 43A required the top five hundred listed entities based on market capitalization shall formulate a dividend distribution policy. Canara Bank, being one of the top five hundred listed companies is also required to have the policy on distribution of dividend.

**4. Scope of Application**

The policy shall be applicable for the purpose of distribution of dividends by Bank including interim dividends on equity share capital of the Bank.

**5. Definitions**

**5.1 “Audit Committee of the Board (ACB)”** means Committee of Board constituted by the Board of Directors as per the guidelines of the Reserve Bank of India (RBI) and the Government of India (GOI). The ACB provides direction as well as overseeing the operation of the total audit function of the Bank, which includes the organization, operationalisation and quality control of internal audit and inspection within the Bank and follow up on the statutory/external audit of the Bank.

**5.2 “Board”** means Board of Directors of the Bank in terms of Section 9 (3) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

**5.3 “Bank”** shall mean “Canara Bank” constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970;

**5.4 “Listing Agreement”** shall mean the listing agreement for equity executed by the Bank with Bombay Stock Exchange (BSE) Limited and National Stock Exchange of India Limited (NSE), as per the SEBI (LODR) regulations 2015, where the equity share of the Bank is listed.

**5.5 “Dividend”** includes Interim Dividend and Final Dividend.



5.6 "Policy" means Dividend Distribution Policy which herein after shall be referred as "DD Policy".

5.7 "Reserve Bank of India" shall mean Reserve Bank of India as constituted under the Reserve Bank of India Act, 1934

## 6. Policy

Bank can declare and distribute dividend subject to the fulfillment of following conditions:

### 6.1 Eligibility Criteria:

6.1.1 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.
- ✓ Net NPA less than 7%.

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

Provided, Banks are 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%. The distribution constraints imposed on banks when their capital levels fall into the range increase as the banks' capital levels approach the minimum requirements. During the Basel III transition period, banks may refer to the Table given below for meeting the minimum capital conservation ratios at various levels of the Common Equity Tier 1 capital ratios.

Minimum capital conservation standards for individual bank			
Common Equity Tier 1 Ratio after including the current periods retained earnings			Minimum Capital Conservation Ratios (expressed as % of earnings)
As on March 31, 2016	As on March 31, 2017	As on March 31, 2018	
5.5% - 5.65625%	5.5% - 5.8125%	5.5% - 5.96875%	100%
>5.65625% - 5.8125%	>5.8125% - 6.125%	>5.96875% - 6.4375%	80%
>5.8125% - 5.96875%	>6.125% - 6.4375%	>6.4375% - 6.90625%	60%
>5.96875% - 6.125%	>6.4375% - 6.75%	>6.90625% - 7.375%	40%
>6.125%	>6.75%	>7.375%	0%



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.

Provided further that, Banks incorporated in India having international presence is required to maintain adequate capital under Countercyclical Capital Buffer (CCCB) as prescribed by the host supervisors in respective jurisdictions. Banks will be subject to restrictions on discretionary distributions (may include dividend payments, share buybacks and staff bonus payments) if they do not meet the requirement on countercyclical capital buffer which is an extension of the requirement for capital conservation buffer (CCB). Assuming a concurrent requirement of CCB of 2.5% and CCCB of 2.5% of total RWAs, the required conservation ratio (restriction on discretionary distribution) of a bank, at various levels of CET1 capital held is illustrated in the following Table:

Individual bank minimum capital conservation ratios, assuming a requirement of 2.5% each of capital conservation buffer and CCCB	
Common Equity Tier 1 Ratio bands	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
>5.5% - 6.75%	100%
>6.75% - 8.0%	80%
>8.0% - 9.25%	60%
>9.25% - 10.50%	40%
>10.50%	0%

The CET 1 ratio bands are structured in increments of 25% of the required CCB and CCCB prescribed by the Reserve Bank of India at that point in time.

**Also, the declaration of dividend is further subject to the restrictions imposed by RBI vide its Circular DBS.CO.PPD. BC.No.8/11.01.005/2016-17 dated April 13<sup>th</sup> 2017 on "Revised Prompt Corrective Action Framework" (PCA). The provisions of the revised PCA framework will be effective from April 1, 2017 based on the financials of the banks for the year ended March 31, 2017.**

**The Revised Prompt Corrective Action (PCA) framework for Banks had given the indicators to be tracked for Capital, asset quality and profitability. Based on the indicators mentioned in the Circular, risk thresholds have been classified into three categories as given in the table below and the mandatory action that would be taken when a bank breaches the said risk threshold.**





The various indicators for classifying under risk thresholds:

Area	Indicator	Risk Threshold1	Risk Threshold2	Risk Threshold3
Capital (Breach of either CRAR or CET1 would trigger PCA)	CRAR( including CCB)	<10.25% but $\geq$ 7.75%	<7.75 but $\geq$ 6.25%	-
	<i>And/or</i>			
	CET1 capital( including CCB)	<6.75% but $\geq$ 5.125%	<5.125% but $\geq$ 3.625%	<3.625%
Asset quality	Net NPA Ratio	$\geq$ 6.0% but <9.0%	$\geq$ 9.0% but <12.0%	$\geq$ 12.0%
Profitability	Return on Assets	Negative ROA for two consecutive years	Negative ROA for three consecutive years	Negative ROA for four consecutive years
Leverage	Leverage Ratio	$\leq$ 4.0% but $\geq$ 3.5%	< 3.5%	--

Based on the various risk thresholds, certain mandatory and discretionary actions would be initiated against Banks. The mandatory actions amongst others include the restriction on dividend distribution if the Bank falls in any one of the risk threshold.

- 6.1.2 The bank should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949
- 6.1.3 The bank should 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
- 6.1.4 The proposed dividend should be payable out of the current year's profit.
- 6.1.5 The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.
- 6.1.6 **Bank can not make any dividend payment without Government's prior approval and no such payment shall be made in case the Bank is in loss.**
- 6.1.7 The declaration of dividend shall be further subject to any Directions or Communications issued by RBI/Government of India/Ministry of Finance from time to time.



## 6.2 Quantum of Dividend Payable:

6.2.1 The dividend payout ratio shall not exceed 40 % and shall be as per the matrix furnished herein below.

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

**\*As per recent RBI circular on Prompt Corrective Action (PCA), Bank should have minimum CRAR and CET1 ratio of 10.25% and 6.75% respectively and maximum Net NPA ratio of 6% to become eligible for dividend distribution.**

[Dividend payout ratio shall be calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'.]

6.2.2 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

6.2.3 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.

6.3 As per the extant guidelines of Government of India, the Banks are required to pay a minimum dividend of 20% of their equity (i.e paid up capital) or 20% of their post-tax profits whichever is higher. **However, Government of India vide its recent communication dated January 24, 2018 directed the Bank not to make any dividend payment without Government's prior approval and no such payment shall be made in case the Bank is in loss.**



- 6.4 The quantum of the dividend shall be subject to the fulfillment of the criteria as enumerated in Point No 6.1 above and the limit (Maximum/Minimum); if any; as stipulated by Gol/RBI/Other regulator from time to time.
- 6.5 Bank may declare Interim Dividend based on profitability. In such case it will be adjusted while declaring final dividend and the total dividend to be paid by the Bank including interim dividend shall be subject to the limit (Maximum/Minimum) and other conditions as stipulated herein in this policy.

## 7. Procedures:

- 7.1 BSCA Section, FM & S Wing shall recommend the Dividend payout ratio to the Board of Directors subject to the fulfillment of policy guidelines as explained in Point No 6 above.
- 7.2 BSCA Section, FM & S Wing should take into account the following aspects while deciding on the proposals for declaring dividend:
- ✓ The interim dividend paid;
  - ✓ The RBS, RBI findings with regard to divergence in identification of NPAs, shortfall in provisioning etc.
  - ✓ The auditors qualification pertaining to statement of accounts
  - ✓ The banks long term growth plan
  - ✓ Basel and other regulatory requirements
- 7.3 Company Secretary, Secretarial Department, shall ensure the compliance of procedural aspects of distribution of Dividend as enumerated in Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/80.

## 8. Disclosure

- 8.1 Necessary disclosures shall be made in the Annual Report as required under Regulation 43A of SEBI Notification on Listing Obligations And Disclosure Requirements) (Second Amendments) Regulations, 2016.
- 8.2 The Bank shall disclose the policy on Dividend Distribution on its website and a web link thereto shall be provided in the Annual Report.

## 9. Records relating to Disclosure and Distribution of Dividend

All records pertaining to distribution of Dividend and disclosures, shall be preserved for a period of eight years from the end of the financial year to which it relates and shall be kept in the custody of the Company Secretary, Secretarial Department or any other person authorized by the Board for the purpose.



**10. Interpretation**

In any circumstances where the terms of these policies and procedures differ from any existing or newly enacted law, rule, regulation or standard governing the Bank, the law, rule, regulation or standard will take precedence over these policies and procedure until such time as these policies and procedures are changed to confirm to the law, rule, regulation or standard.

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