

DIVIDEND DISTRIBUTION POLICY

Version 5.0

TAMILNAD MERCANTILE BANK LTD

SECRETARIAL SECTION

DIVIDEND DISTRIBUTION POLICY

Document History

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TAMILNAD MERCANTILE BANK LTD., SECRETARIAL SECTION

Dividend Distribution Policy

Sl No.	Subject	Page No.
1	Background	1
2	Applicability	1
3	Definitions	1
4	Criteria to be considered before declaration of dividend	2
5	Quantum of dividend payable	3
6	Manner of payment of dividend	4
7	Reporting & disclosure	4

DIVIDEND DISTRIBUTION POLICY

A. BACKGROUND

This Policy is formulated in accordance with Master Circular on Declaration of Dividends by Banks vide Circular no. RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated May 04, 2005 read with other associated Circulars issued by the Reserve Bank of India (“**RBI**”) and Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”).

In this context, the following policy has been framed by the Board of Directors of **Tamilnad Mercantile Bank Limited** at its meeting held on 03.08.2021, with intent 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.

B. APPLICABILITY

In accordance with LODR Regulations, Top 1000 Listed Companies based on Market Capitalization as at the end of the March 31 of every financial year are required to formulate Dividend Distribution Policy (“**Policy**”), and disclose the same on the website and Annual Report of the Bank.

C. DEFINITIONS

1. “**Applicable Laws**” shall mean the Companies Act, 2013 and Rules made thereunder, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015; as amended from time to time, Banking Regulation Act 1949 and the rules made there under and such other act, rules or regulations including the guidelines issued by the Reserve Bank of India, which provides for the distribution of Dividend.
2. ‘**Bank**’ shall mean the Tamilnad Mercantile Bank Limited
3. “**Board**” means Board of Directors of the Bank
4. ‘**CRAR**’ shall mean ratio of the Bank’s Capital to its risk weighted assets.
5. “**Dividend Payout Ratio**” shall be calculated as a percentage of ‘dividend payable in a year’ to ‘net profit during the year’.
6. ‘**NPA**’ shall mean the Non-Performing Asset

Words and expressions used and not defined herein shall have the meaning respectively assigned to them under the Banking Regulation Act, 1949, Companies Act, 2013 or other applicable laws.

D. CRITERIA TO BE CONSIDERED BEFORE DECLARATION OF DIVIDEND

1. Statutory and Regulatory Compliance

The Bank can declare dividend only after ensuring compliance with the Banking Regulation Act, 1949, various regulatory guidelines on dividend declaration issued by RBI from time to time and the provisions of the Companies Act, 2013, the Rules made thereunder and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended to the extent applicable to the banking companies.

- i. The Bank must meet the following norms before declaration of dividend -
 - 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 %.
- ii. In case the 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%.
- iii. The Bank shall comply with Section 15 and 17 of the Banking Regulation Act, 1949 relating to Restriction on payment of Dividend and Reserve Fund.
- iv. 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.
- v. The proposed dividend should be payable out of the current year's profit.
- vi. RBI should not have placed any explicit restrictions on the Bank for declaration of dividends.

No Special relaxation shall be allowed by RBI, if the Bank fails to meet any of the above eligibility criteria.

2. Financial parameters

- i. Financial performance of the Company for the year in which the dividend is sought to be declared.
- ii. Bank's long term growth plans.
- iii. Any interim dividend paid.
- iv. Basel III Capital requirements.
- v. Cash flow required to meet contingencies.
- vi. Dividend payout trends.
- vii. Such other factors and/or material events which the Board may consider.

3. Internal and external factors

The decision on payment of dividend would depend on the several internal factors such as business expansion plan, future capital requirements, shareholder expectations, adequate balances in specified reserves, as may be applicable at the time of declaration of dividend.

Apart from several internal factors, the board shall take into account; other external factors such as statutory and regulatory requirements, prevailing tax regulations, macro-economic environment, etc.

4. Utilization of retained earnings

Considering the Bank's overall growth in the future, the Bank shall utilize/allocate its retained earnings in such a manner most beneficial to interest of the Bank and its stakeholders, including, but not limited to ensuring maintenance of a healthy level of minimum capital adequacy ratios, meeting the Bank's future business growth/ expansion and strategic plans or such other purpose the Board may deem fit from time to time.

5. Circumstances under which Bank may or may not declare dividend

The Bank may not declare dividend for a particular year in case it does not meet any of the eligibility conditions, including any regulatory restrictions placed on the Bank or need of capital as may be decided by Board.

6. Parameters adopted for various class of shares

At present, the Company does not have any other class of shares (including shares with differential voting rights) except Equity shares. In the absence of any other class of shares and/or shares with differential voting rights, the entire distributable profit for the purpose of declaration of dividend is considered for the equity shareholders.

E. QUANTUM OF DIVIDEND PAYABLE

Upon fulfilling the above eligibility criteria as set out in any clause of Para D, the Banks may declare dividends subject to the following –

1. The dividend payout ratio shall not exceed 40% and shall be as per the matrix furnished in RBI circular No. RBI /2004-05/451 DBOD. No. BP. BC.88/21.02.067/2004-05 dated 04.05.2005 or such other quantum as advised by RBI from time to time. The Matrix for Dividend Payout Ratio has been furnished in **Annexure 1**.
2. Any Extra-Ordinary Profit/Income shall be excluded in the Profit of the relevant period for reckoning compliance with the prudential payout ratio.

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.
4. Dividends declared if any, shall be subject to conditions stipulated under the provisions of Section 123 of the Companies Act, 2013 and the Companies (Declaration and Payment of Dividend) Rules, 2014.

F. MANNER OF PAYMENT OF DIVIDEND

In terms of Regulation 12 of LODR Regulations, the Bank shall use any of the electronic modes of payment facility approved by the RBI for the payment of the dividends. Where it is not possible to use electronic mode, “payable-at-par” warrants or cheques will be issued to the eligible shareholders.

Further, dividend payments to security holders holding securities in physical form shall be made in accordance with SEBI (LODR) Regulations, 2015 and SEBI circulars issued from time to time.

G. REPORTING & DISCLOSURE

1. The Bank shall disclose the details of dividend declared during the accounting year to RBI as per **Annexure 2**.
2. The Bank shall declare and disclose dividend only on per share basis only as prescribed under Regulation 43 of LODR Regulations.
3. The Policy will be hosted on the website of the Bank and web-link of the same shall be provided in the Annual Report.

In the event of a conflict between the Policy and the provisions/ guidelines of the Applicable laws, then the latter shall prevail.

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

Notes:

Banks should have a **CRAR** of at least 9% for preceding two completed years and the accounting year for which it proposes to declare dividend and **Net NPA** less than 7% to be eligible to declare dividends.

In case 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%.

Annexure 2

REPORTING FORMAT FOR DECLARATION OF DIVIDEND BY BANKS

Details of dividend declared during the financial year beginning on April 1, 20__

Name of the Bank – _____

Accounting period *	Net profit for the accounting period (Rs. In Crore)	Rate of dividend	Amount of dividend (excluding dividend tax) (Rs. in Crore)	Pay out ratio
1	2	3	4	5

* Quarter or half year or year ended _____ as the case may be.