DIVIDEND POLICY

YES Bank Limited

Approved by:

Board of Directors

Date: April 19, 2017

CIN.: L65190MH2003PLC143249

Introduction

Bank's dividend policy is designed to lay down guidelines on Dividend distribution that balances the twin objectives of appropriately rewarding shareholders through dividends and retaining healthy capital adequacy ratio to support future growth within regulatory framework. Dividend is approved by the shareholders at AGM basis board's recommendation, where shareholders have option to reduce the dividend.

Since YES bank is one of the top 500 companies as on March 31, 2016 based on market capitalization, we are required to frame a Dividend Distribution policy based on parameters specified in the SEBI regulation 43A.

Regulatory Framework

Though the dividend decision would be guided by current and prospective financial performance, it needs to be within the regulatory framework defined by underlying regulators. Below is the scope of regulatory framework, details of same can be referred in Annexure 1:

i) SEBI guidelines
ii) RBI guidelines
iii) Income Tax

Dividend Policy

Board may consider the following internal and external factors while recommending Dividend:

1. Current & prospective financial performance including Bank's Net NPA ratio
2. Past dividend payouts
3. Growth & investment opportunities
4. Current and prospective Capital ratios including future regulatory as well as growth requirements.
5. Other macro & micro economic factors
6. Regulatory requirements
7. Cost of raising capital
8. Tax implications including dividend distribution tax
9. Such other factors/ events that the bank's board may consider

In line with the objective of the policy and above parameters, the Bank may consider minimum 10% and maximum 25% dividend payout ratio of the relevant period's profits. Shareholders' approval to be sought on dividend proposal at AGM (held within six months of the end of each fiscal year). The ratio to be computed without considering tax payable on dividend payouts. Few guiding financial parameters in dividend recommendation will be as follows:

1) Banks minimum CRAR should be 12% in the current year of payout.
2) NPA ratio to be below 3%

In the event of a conflict between the policy and the Regulatory guidelines, the Regulatory guidelines will prevail.

Utilization of Retained Earnings

The Bank would employ the retained earnings for conducting activities in normal course of business including but not limited to maintaining optimum capital adequacy ratio, funding the Bank's future business growth/ expansion plans or such other purposes the Board may deem fit in the interest of the Bank and its stakeholders.

Parameters for various classes of shares

Presently, the Bank holds only one class of equity shareholders. 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.

Circumstances under which shareholders may or may not expect dividend

The Board of the Bank may vary or not recommend any dividend 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 believes the need to conserve capital. There may be regulatory obligations that the Bank has undertaken in form of dividend stopper clauses in bond issuances which might get triggered in certain circumstances and might prohibit the bank from declaring dividend.

Dividend Stopper Policy

The Bank has issued Unsecured, Non-Convertible, Subordinated Perpetual Basel-III Compliant Additional Tier I Bonds in the nature of Debentures, with a clause for exercising Full Discretion at all times to cancel coupon distributions/payments. However, if for any reason Coupons are not paid within 30 Business Days after Coupon Payment Date on Basel-III compliant Perpetual Debt Instruments (PDIs), a Dividend Stopper will apply to the Bank. The Dividend Stopper will restrict the Bank from paying dividend payments on Common Shares issued by the Bank and prohibit Bank's actions that are equivalent to the payment of a dividend such as Discretionary Share Buybacks made, if otherwise permitted. The Dividend Stopper can be lifted if majority of Basel-III compliant Perpetual Debt Instruments (PDIs) Holders approve such an action and RBI does not otherwise object, or if during the following 12 months the Bank pays all scheduled Coupons on Basel-III compliant Perpetual Debt Instruments (PDIs) in full.

Review Timelines

The policy would be reviewed minimum on an annual basis or as and when the need arises. Amendments (if any) would be approved by the Board.

Annexure 1: Regulatory Framework

i) SEBI Guidelines:

Securities and Exchange Board of India vide Gazette Notification dated July 8, 2016 has amended (Listing Obligations and Disclosure Requirements) Regulations, 2015, Regulation 43 by inserting Regulation 43A which stipulates that the top five hundred listed entities based on 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.

ii) Banking Regulation

Payment of dividends is also subject to restrictions under the Banking Regulation Act.

1) Section 15(1) of the Banking Regulation Act states that banking company can pay dividend post write-off of all its capitalized expenses (including preliminary expenses, organization expenses, share-selling commissions, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets).
2) In addition, Section 17(1) of the Banking Regulation Act requires every banking company to create a reserve fund with 20% of the profit of each year as disclosed in the profit and loss account, before declaring any dividend.
3) CRAR Eligibility to declare dividend
   Minimum CRAR of 9% in accounting year and previous two years with maximum NPA of 7%. Or minimum CAR of 9% in accounting year with maximum NPA of 5%.
4) The bank should comply with the prevailing regulations/guidelines issued by the RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to statutory reserves, etc.
5) Dividend can only be paid out of profit during the year of payout.
6) The maximum permissible dividend payout ratio is 40% of net profit in the year of payout.
7) No explicit RBI restriction should have been placed on the bank for declaration of dividends.
8) The financial statements pertaining to the financial year for dividend payout should be free from adverse qualifications by the statutory auditors on profit earned during the year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.
9) The dividend payout is linked to a matrix of the Bank's CRAR and NPA ratios as follows:

Range of Dividend Payout Ratio (of the current year's net profit) as per RBI guidelines:

		Net NPA Ratio			
Category	**Total CRAR**	**0%**	**0%-3%**	**3%-5%**	**5%-7%**
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 10	up to 5	Nil

iii) Income Tax

As per the income tax act (as on April 1, 2016) bank is liable to pay 15.0% dividend distribution tax (DDT) in respect of dividends paid. The above tax would attract additional 12.0% surcharge and 3.0% cess. Effective tax rate of DDT is 20.3576% post gross up. The DDT paid in prior periods varied in terms of rate as well as incidence and is subject to change from time to time.