1.0 Introduction

The Banking Regulations require banks to adopt a policy towards dividend distribution as part of an effective capital management strategy aimed at meeting regulatory capital adequacy & buffer requirements, and providing for capital estimates based on projected asset levels.

Further, a stable, sustainable and regular dividend program is important to create confidence amongst existing & prospective shareholders and to reduce risk premium & volatility in stock prices. Therefore, a prudent Dividend policy must strive to achieve a fine balance between profit retention and rewarding the shareholders, avoiding temptation for any unsubstantiated high or low dividend program.

Generally, Dividends can be in the form of Cash Dividends or Stock Dividends. Cash Dividends are cash payments paid to holders of common shares. Common shareholders may receive Stock Dividends also, which consist of the distribution of new shares of the Bank for a given number of existing outstanding shares (also termed as bonus shares).

2.0 Policy Review Frequency

This Policy shall be reviewed at least once every three years, or earlier if required due to changes in regulatory requirements, the Bank's business strategy, risk profile, capital management framework, or any other material developments. Any proposed amendments shall be submitted to the Board of Directors for approval.

3.0 Dividend Distribution Parameters

The following minimum conditions should be satisfied before considering payment of Dividends.

1. Statutory Reserve & Other requirements should be met (Regulatory / As per Articles of Association – Article 60)
2. Retained Earnings should be positive
3. Dividends should be paid only out of realized Net profit of the period excluding material unrealized gains.

4. The Bank shall comply with all applicable CBB requirements relating to capital, liquidity, leverage and dividend distributions.
5. Compliance with regulatory liquidity ratios and requirements.

Subsequent to satisfying the minimum requirements as above, the following factors should be considered additionally by the Management while recommending the level of Dividend Payout to the Board:

a) Dividend per Share (DPS): It is the portion of the Bank's Net Profit allocated to each outstanding share of Common Stock, usually expressed as fils-per-share.

b) Dividend Payout Ratio (DPR): It is the percentage ratio of Dividends paid to the Net Profit (Earnings), in the current year. The remaining portion (1- DPR and any other appropriation) goes into Retained Earnings (is also known as the Retention Rate) to augment Tier-1 capital.

c) General Reserve to Total Assets: This ratio is useful to understand the movement of General Reserve as a percentage of Total Assets, year-over-year. The General Reserve acts as a cushion for absorbing unexpected losses occurring under extraordinary circumstances and reduces leverage / liquidity risk. The Bank shall aim to augment the level of General Reserve in accordance with asset growth, through internal funds, from time to time, and maintain the ratio in line with the industry average.

d) General Reserve to Tier-1 Capital: This ratio is helpful to know the level of General Reserve vis-à-vis Tier-1 Capital. The Bank shall aim to improve this ratio and build Tier-1 capital over time through internal funds, to be in line with the peer group banks.

e) Retained Earnings to Total Assets: This ratio indicates the level of Earnings retained internally vis-à-vis outstanding Total Assets. As in the case of the General Reserve, Retained Earnings also act as cushion for absorbing unexpected losses occurring under extraordinary circumstances and reduces leverage / liquidity risk. The Bank shall endeavor to improve this ratio over time again to be in line with the industry average.

The Bank shall continue to take appropriate measures in optimizing its profit retention levels based on the Bank's business plans, as well as striking a balance between shareholders and market expectation (e.g. declare normal or high dividend payout when there is adequate cushion in terms of capital adequacy & vice versa). The profit retention guidance level of around 40% of the profit before appropriation shall be considered as a benchmark in a normal business environment.

f) Retained Earnings to Tier-1 Capital: This ratio provides insight into the built up of Tier-1 Capital over a period of time and will be brought in line with the peer group banks.

g) Level of Tier-1 Capital: The Bank shall endeavor to maintain Tier-1 Capital Ratio at a level to comfortably meet the regulatory requirements (Pillar I & II) and in line with industry group average.

h) Earnings per share: This ratio provides an insight in to the maximum dividend which could be distributed to common equity holders. The ratio also bears correlation to the market price of a share. Therefore, the likely impact on the ratio as well as the market price of BBK's share must be analyzed while deciding on issuance of stock dividends.

i) Compound factor of future cash dividends: In the years where stock dividend is proposed, the compound factor of future cash dividends analysis would provide an insight of the estimated future cash dividends with its impact on EPS, PE ratio, dividend payout ratio, and the effect on market expectations.

j) Stress testing ratios: the impact of dividends payment on the ratios under stress testing scenarios shall be analyzed while deciding to the level of dividends to be paid.

The Bank shall propose its Dividend strategy as part of its periodic capital planning process duly considering all the above parameters, which shall be monitored closely by Executive Management and any deviations shall be reported to the Board of Directors.

Interim Dividends: the bank may consider payment of interim dividend to its shareholders from the period performance subject to approval of the Board of Directors.

4.0 Approval process

The Executive Management shall present their recommendations to the Board of Directors on the Dividend payout, after analyzing the current year's performance, duly considering the parameters stated in this Policy and the Corporate Strategic Plan document.

4.1 **CBB approval requirements/process**

The bank must obtain CBB's prior approval for any proposed cash or stock dividend before any public announcements or the Annual General Meeting. the bank must :

(a) Submit the following to CBB:

(i) The intended percentage and amount of proposed dividends.

(ii) The impact of proposed dividends on:

(a) Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Leverage Ratio (LR) showing the ratios before and after the proposed dividends;

(b) The cash flow position and shareholders' equity level before and after the proposed dividends;

(iii) Stress testing results evidencing that the proposed dividends would not lead to any breach if the regulatory requirements (CAR, LCR, NSFR and LR) in the last financial year and the next two years under normal and stressed scenarios.

(b) Satisfy the CBB of the adequacy of impairment provisions during the review of the annual/interim financial statements;

(c) Ensure that any unrealized gains arising from assets or liabilities fair value assessment are excluded from net income in the determination of the proposed dividends, given that CBB does not permit distribution of unrealized profit;

(d) Ensure that the amount of realised profits included in the retained earnings as at the year-end is sufficient to cover the proposed dividend amount; and

(e) Ensure that any negative fair value on assets held at amortized cost do not have any material adverse impact on the capital and liquidity positions where such assets may need to be liquidated before maturity to satisfy any financial obligations, including deposit withdrawals.

The Board of Directors shall consider the recommendations of the Executive Management along with CBB approval (illustrated in para 3.1) while proposing the amount of Dividend to be declared for the period and present for final approval in the Annual General Meeting.