

## **Dividend Distribution Policy of Midland Bank PLC. (MDB)**

### **Annexure-A**

#### **Introduction**

**The Dividend Distribution Policy of Midland Bank PLC.** prescribes a set of principles/guidelines in relation to declaration and payment of dividend and matters incidental thereto or connected therewith. Midland Bank PLC. always believes in optimising shareholders' wealth while considering the regulatory directives, Requirement of Capital to Risk-weighted Asset Ratio (CRAR) and other subsequent effects. This policy is designed to lay down the guidelines on dividend distribution that serves multiple objectives of appropriately rewarding shareholders through dividend, minimizing tax burden effects and retaining strong CRAR to support future growth within regulatory framework. The said policy is formulated for ensuring proper distribution of declared dividend to the shareholders of the Bank. The Senior Management Team (SMT) is responsible to review the policy, which would finally be approved by the Board of Directors. Major highlights of the Dividend Distribution Policy of MDB are as follows:

**MDB Dividend Distribution Policy** will provide guidelines in the matter while the Board of Directors may consider the following internal and external factors while recommending dividend:

- i) Current and prospective financial performances
- ii) Past dividend payout
- iii) Growth and investment opportunities
- iv) Asset quality considering Bank's non-performing loans (NPLs) ratio
- v) Current and prospective CRAR, including future growth requirements
- vi) Other Macro and Micro economic factors
- vii) Regulatory requirements
- viii) Cost of raising capital
- ix) Tax implications, including dividend distribution tax
- x) Such other factors/events that the Board of Directors may consider

#### **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 and also ensure compliance with the following laws and regulations:

- i) Bank Company Act, 1991 and amended thereon
- ii) Companies Act, 1994
- iii) The Income Tax Ordinance, 1984 and amendment thereon
- iv) Bangladesh Bank circulars/guidance
- v) Bangladesh Securities and Exchange Ordinance 1969, Bangladesh Securities and Exchange Rules 1987, Bangladesh Securities and Exchange Act 1993, Bangladesh Securities and Exchange Commission (Public Issue) Rules 2015 and relevant Circular, Guideline, Notification and Directives issued by BSEC from time to time regarding declaration and distribution of dividend.

Shareholders' approval to be sought on dividend proposal at the Annual General Meeting (AGM). The dividend payout ratio to be computed without considering tax payable on dividend payouts. Few guidance of financial parameters in dividend recommendation will be as follows:

- i) Cash dividend is preferred at least once in consecutive 2 years to avoid the Bank shifting to "Z Category" as per BSEC Order (vide letter no SEC/CMRRCD/ 2009-193/08, dated September 01,2020).
- ii) Cash dividend ratio will be higher or equal to the stock dividend ratio to avoid excess tax expenditure as per section 16(F) of ITO 1984.

- iii) Maximum dividend payout ratio will be 70% on net profit after tax to avoid excess tax expenditure as per section 16(G) of ITO 1984.
- iv) The dividend payout ratio and process will follow the guidelines given by Bangladesh Bank from time to time.

In the event of a conflict between the policy and the regulatory guidelines, the guidelines of the primary regulator i.e. Bangladesh Bank will prevail. However, the Board of Directors of the Bank will have the discretion to declare dividend considering the bank's need of capital, future growth plan and sustainability.

### Internal Policy of MDB

Dividend Distribution Policy of Midland Bank PLC. is developed considering the long, medium and short term impacts on shareholders' value, stock price and local legislation and so on. The primary focus areas are as follows:

- i) **Capital Adequacy:** Stock dividend enhances the Capital Base and strengthens bank's capacity. MDB pursues a policy of continued enhancements of its Capital Base.
- ii) **Retained Earnings:** The reserve will help to increase the Capital to Risk-weighted Asset Ratio (CRAR) and ensure Bank's balance sheet growth, or such other purposes, the Board of Directors may deem fit in the interest of the Bank and its stakeholders.
- iii) **Liquidity:** Stock dividend is a good source of fund and as such one of the most potential sources of liquidity.
- iv) **Dilution of Earnings per share (EPS):** The bank will prioritise the balance between issuance of stock and cash dividends to maintain a steady growth of EPS. Stock dividend enhances number of shares which results in dilution of EPS, thus barring the growth of EPS. Such factors will be considered while determining dividend declaration.
- v) **Shareholder Expectations:** Shareholders often prefer cash payout than stock dividend. Cash dividend generate higher return on investment than stock dividend, if the market value and face value of the shares are similar or closer. Although, dividend will be declared considering other factors, like bank's capital need and regulatory requirements, etc.

### Procedure for payment of dividend

Decision regarding dividend distribution of the bank will be guided by regulatory rules and directives. Dividend would be recommended by the Board of Directors based on the audited financial statements of the Bank. The following guidelines shall be followed:

- i) Dividend shall be approved by the Shareholders at the Annual General Meeting (AGM) on the basis of recommendation of the Board of Directors, but no dividend shall exceed the amount recommended by the Board of Directors.
- ii) All requisite approvals and clearances, where necessary shall be obtained before declaration of dividend.
- iii) No dividend shall be paid other than out of profits of the Bank. No dividend shall be declared out of the capital reserve account, or the revaluation reserve account, or any unrealized gain, or out of profit earned prior to the incorporation of the company (if any), or through reducing paid-up capital or through doing anything so that the post-dividend retained earnings become negative or a debit balance.

### Final dividend

The Board of Directors of the Bank shall recommend final dividend for the shareholders on the basis of annual audited financial statements and declare the shareholders who shall be entitled to such dividend. The decision about recommending, or not recommending final dividend and entitlement for such dividend, if recommended, cannot be changed prior to holding the AGM.

In case of declaration of stock dividend for the year, the Bank shall explain the reason for declaring stock dividend and utilisation of such retained amount as capital (stock dividend) shall be disclosed in the annual report.

## **Entitlement to dividend**

The Shareholders whose names would appear in the Register of Members of the Bank and/or in the Depository on the 'Record Date' would be entitled to receive the dividend of the Bank.

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## **Payment of dividend**

MDB shall pay off the dividend to the entitled shareholders, within 30 (thirty) days from the date of approval by shareholders in the AGM, complying the guidelines of Bangladesh Bank and Bangladesh Securities and Exchange Commission (BSEC) as the case may be.

## **Cash dividend**

Cash dividend shall be distributed in the following manner and procedures:

- i) MDB shall pay off cash dividend within stipulated time to the entitled shareholders and an amount equivalent to the declared cash dividend payable for the concerned year shall be kept in a separate bank account with MDB.
- ii) MDB shall pay off cash dividend directly to the bank account of the entitled shareholders as available in the BO account maintained with the depository participant (DP), or the bank account as provided by the shareholders in paper form, through Bangladesh Electronic Funds Transfer Network (BEFTN).
- iii) MDB may pay off such cash dividend through bank transfer, or any electronic payment system as recognised by Bangladesh Bank, where not possible to pay off through BEFTN.
- iv) Upon receiving the claim on cash dividend from a stock broker or a merchant banker or a portfolio manager for margin client or customer who has debit balance or margin loan, or as per intention of the client of stock broker or merchant banker or portfolio manager, MDB shall pay off such cash dividend to the Consolidated Customers' Bank Account (CCBA) of the stock broker, or to the separate bank account of the merchant banker or portfolio manager through BEFTN.
- v) In case of non-availability of bank account information, or if not possible to distribute cash dividend through BEFTN, or electronic payment system, MDB shall issue cash dividend warrant and shall send it by post to the shareholders designated address.
- vi) MDB shall pay off cash dividend after deducting applicable tax (AIT).

## **Stock dividend**

MDB shall credit stock dividend directly to the BO account or issue the bonus share certificate of the entitled shareholders, as applicable, within stipulated time of declaration, or approval, or record date, as the case may be, subject to clearance of the exchange(s) and the Central Depository Bangladesh Limited (CDBL). MDB shall follow the provisions of BSEC and/or guidelines of Bangladesh Bank for issuance of bonus shares (if any).

MDB shall maintain a Suspense BO Account for undistributed, or unclaimed stock dividend, or bonus shares and shall also follow under mentioned procedures for ensuring the rightful ownership:

- i) MDB shall send at least 3 (three) reminders to the entitled shareholders.
- ii) The Suspense BO Account shall be held under the Block Module and such undistributed/unclaimed stock dividend/bonus shares shall not be transferred in any manner except for the purpose of allotting the bonus shares as and when the allottee approaches to the issuer.
- iii) Any corporate benefit in terms of shares accrued on such undistributed/unclaimed stock dividend/bonus shares shall be credited to the Suspense BO Account.

- iv) MDB shall, upon receiving application from the allottee and after proper verification of identity and his entitlement, credit the bonus shares lying with the Suspense BO Account to the BO account of the allottee, or issue bonus shares to the allottee, as applicable, within 15 (fifteen) days of receiving application with an intimation to the Bangladesh Securities and Exchange Commission (BSEC) and Dhaka Stock Exchange PLC. (DSE) and Chittagong Stock Exchange PLC. (CSE).
- v) Any voting rights on such undistributed/unclaimed stock dividend/bonus shares shall remain suspended till the rightful ownership claim of the shareholders is established.

### **Unpaid/Unclaimed dividend**

MDB shall not forfeit any unclaimed cash dividend/stock dividend/bonus shares till the claim becomes barred by the law of land in force or imposition of any injunction by the court on the entitlements of dividends. MDB shall follow the rules and regulations of the regulators issued from time to time regarding payment of unclaimed/unpaid cash dividend and stock dividend to the entitled shareholders.

MDB shall maintain detailed information of unpaid/unclaimed cash dividend and rationale thereof, as per BO account (number-wise or name-wise or folio number-wise) of the shareholders, and shall also disclose the summary of aforesaid information in the annual report and shall also report in the statements of financial position (Quarterly/annually) as a separate line item '**Unclaimed Dividend Account**'. MDB shall publish the year-wise summary of its unpaid/unclaimed cash/stock dividend in its website.

### **Submission of dividend distribution compliance report**

MDB shall submit a dividend distribution compliance report to the BSEC, DSE & CSE in a specified format issued by the regulator (s) within stipulated time of completion of dividend distribution to the entitled shareholders.

### **Conclusion**

MDB will revise and adopt appropriate dividend policy as and when required to revise due to change of laws and in compliance with the circulars/notifications/directives as per industry best practices under the regulatory framework.