

Au Small Finance Bank Limited

Dividend Distribution Policy

Version Control

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1. Objectives: The objective of the Dividend Distribution Policy of the Bank is to reward its shareholders by sharing a portion of the profits, whilst also ensuring that sufficient funds are retained for growth of the Bank. The Bank would ensure to strike the right balance between the quantum of dividend paid and amount of profits retained in the business for various purposes. The Board of Directors will refer to the policy while declaring/ recommending dividends on behalf of the Bank.

2. Regulatory Requirements: 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 in line with the Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended to the extent applicable to the banking companies.

As per Regulation 43A OF SEBI (LODR) REGULATIONS 2015

(1) *“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.*

(2) *The dividend distribution policy shall include the following parameters:*

(a) *the circumstances under which the shareholders of the listed entities may or may not expect dividend;*

(b) *the financial parameters that shall be considered while declaring dividend;*

(c) *internal and external factors that shall be considered for declaration of dividend;*

(d) *policy as to how the retained earnings shall be utilized; and*

(e) *parameters that shall be adopted with regard to various classes of shares:*

Provided that if the listed entity proposes to declare dividend on the basis of parameters in addition to clauses (a) to (e) or proposes to change such additional parameters or the dividend distribution policy contained in any of the parameters, it shall disclose such changes along with the rationale for the same in its annual report and on its website.

3. Principles for dividend declaration: The Board will consider the shareholder’s expectations, profits earned during the financial years, past dividend trends, Optimal Capital Adequacy Ratio (CAR) subject to regulatory requirements, cost of raising funds from alternative sources, reinvestment opportunities and other legal and regulatory requirements and criteria.

Since the Bank has only one class of equity shareholders, the dividend declared will be distributed equally among all the Shareholders, based on their shareholding on the record date.

4. Category of Dividends: The Companies Act provides for two forms of Dividend- Final & Interim. The Board of Directors shall have the power to recommend final dividend to the shareholders for their approval in the general meeting of the Bank. The Board of Directors shall have the absolute power to declare interim dividend during the financial year, as and when they consider it fit.

5. Process for approval of Payment of Final Dividend: Board to recommend quantum of final dividend payable to shareholders in its meeting in line with applicable laws and rules prescribed thereof, based on the profits arrived at as per the audited financial statements and post Shareholders approval for Dividend in the Annual General Meeting, the same shall be declared as per applicable requirements.

6. Process for approval of Payment of Interim Dividend: Board may declare Interim Dividend at its complete discretion in line with applicable laws and rules prescribed thereof; Based on profits arrived at as per quarterly (or half-yearly) financial statements including exceptional items; One or more times in a financial year.

7. Circumstances under which the shareholders may or may not expect dividend: The Equity Shareholders of the Bank may expect dividend only if the Bank is having surplus funds after providing all expenses, depreciation etc. and complying all other statutory requirements of the Companies Act, 2013. Bank's expansion plan and need for maintaining the Capital Adequacy Ratio at healthy level in view of regulatory requirements shall be key determining factors for declaration of dividend or non-declaration of dividend in any year.

8. The financial parameters that shall be considered while declaring dividend:

Subject to the provisions of the Companies Act, 2013, dividend shall be declared or paid only out of:

- (i) Current financial year's profit:
 - a) after providing for depreciation in accordance with law;
 - b) after transferring to reserves such amount as may be prescribed or as may be otherwise considered appropriate by the Board at its discretion.
- (ii) The profits for any previous financial year(s):
 - a) after providing for depreciation in accordance with law;
 - b) remaining undistributed; or
- (iii) out of i) & ii) both.

In computing the above, the Board may at its discretion, subject to provisions of the law, exclude any or all of (i) extraordinary charges (ii) exceptional charges (iii) one off charges on account of change in law or rules or accounting policies or accounting standards (iv) provisions or write offs on account of impairment in investments (long term or short term) (v) non-cash charges pertaining to amortisation or ESOP or resulting from change in accounting policies or accounting standards.

9. Internal and external factors that shall be considered for declaration of dividend: The decision regarding dividend pay-out is a crucial decision as it determines the amount of profit to be distributed among shareholders and amount of profit to be retained in business. The Board of Directors of the Bank will endeavour to take a decision with an objective to enhance shareholders wealth and market value of the shares. However, the decision regarding pay-out is subject to several factors. The Dividend pay-out decision of any Bank depends upon certain external and internal factors as mentioned below.

External Factors:

State of Economy - in case of uncertain or recessionary economic and business conditions, Board will endeavour to retain larger part of profits to build up reserves to absorb future shocks.

Capital Markets - when the markets are favourable, dividend pay-out can be liberal. However, in case of unfavourable market conditions, Board may resort to a conservative dividend pay-out in order to conserve cash outflows.

Statutory Restrictions - The Board will keep in mind the restrictions imposed by Companies Act with regard to declaration of dividend.

Internal Factors:

Apart from the various external factors aforementioned, the Board will take into account various internal factors while declaring Dividend, which inter alia will include:

- (i) Profits earned during the year;
- (ii) Present & future Capital requirements of the existing businesses;
- (iii) Expansion/ Modernization of existing businesses;
- (iv) Additional investments in subsidiaries/associates of the Bank, if any;
- (v) Fresh investments into external businesses;
- (vi) Any other factor as deemed fit by the Board.

10. Policy as to how the retained earnings shall be utilized: The profits earned by the Bank can both be retained in business and used for acquisitions, expansion or diversification, or it can be distributed to the shareholders. The Bank may choose to retain a part of its profits and distribute the balance among its shareholders as dividend. This Policy aims to reconcile between two ends.

11. Policy Review and Updates: This policy will be reviewed periodically as and when required and annually by the Board and the policy will be available on the Bank’s website and will also be disclosed in the Bank’s Annual Report.

12. Policy Amendment Authority: Key owners responsible for Policy amendments are as follows:

Policy Owners	Role
Company Secretary	Responsible for implementation of Policy.
Company Secretary	Responsible for ensuring the policy is reviewed annually

13. Policy Authorisation

This Policy has been approved by the Board of Directors of AU Small Finance Bank Limited

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References:

- a) Chapter VIII- Declaration and Payment of Dividend of the Companies Act 2013.
- b) Section 123 of the Companies act 2013
- c) Banking Regulation Act, 1949
- d) RBI circular on Dividend Declaration by Banks - RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05
- e) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Approving Authority	Board of Directors
Date of Approval/ Review	26 th April 2018