Utkarsh Small Finance Bank

DIVIDEND DISTRIBUTION POLICY

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1. Background

This dividend distribution policy ("**Policy**") is formulated in accordance with regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("**Listing Regulations**"), which shall be shall be disclosed on the website of Utkarsh Small Finance Bank Limited ("**Bank**") and a web-link shall also be provided in the Annual Report of the Bank.

2. Object

The object of this Policy is to provide parameters to be considered by the Board of Directors of the Bank ("**Board**") before declaring or recommending dividend and aims to maintain a balance between rewarding shareholders through dividend and also ensuring that sufficient funds are retained for the growth of the Bank.

3. Scope

The Policy covers the following:

i. Dividend to equity shareholders of the Bank:

The Bank currently has only one class of equity shares and accordingly, the dividend will be distributed equally among all the equity shareholders, based on their shareholding on the record date. The parameters for payment of dividend in respect of any other class of shares will be as per the respective terms of issue and in accordance with the applicable regulations and will be determined, if and when the Bank decides to issue other classes of shares.

ii. Interim dividend:

The interim dividend, if any, shall be declared by the Board.

iii. Final dividend:

Recommendation, if any, shall be made by the Board, in the board meeting that considers and approves the annual financial statements, subject to approval of the shareholders of the Bank.

The dividend as recommended by the Board shall be approved/declared in the annual general meeting.

4. Parameters to be considered before recommending dividend

Statutory and Regulatory Compliance:

The Bank shall declare dividend only after ensuring compliance with the provisions of the Banking Regulation Act, 1949, as amended, regulatory guidelines/ circulars on dividend declaration issued by the Reserve Bank of India from time to time, provisions of the Companies Act, 2013 and rules made thereunder, each as amended from time to time, Listing Regulations and any other regulations as may be applicable from time to time.

Financial parameters such as:

i. Profits earned during the financial year;

ii. Accumulated reserves;

iii. Profitability outlook for the coming years;

iv. Dividend payout trends;

v. Tax implications, if any, on distribution of dividends;

vi. Cost of raising funds from alternate sources of capital;

vii. Expansion or modernisation of existing businesses;

viii. Optimal Capital Adequacy Ratio (CAR) subject to regulatory minimum of total and Tier 1 CAR;

ix. Other factors and/or material events which the Board may consider.

Internal factors:

i. Any interim dividend paid;

ii. Reinvestment opportunities;

iii. Restrictions on payment of dividend under agreements/ contracts (for e.g. loan agreements) entered into by the Bank;

iv. Corporate actions including mergers/demergers, acquisitions, etc.

External factors:

i. Significant changes in the macro-economic and market conditions;

ii. Shareholder expectations including individual shareholders;

iii. Changes in taxation, regulation and government policies.

5. Circumstances under which the shareholders of the Bank may or may not expect dividend

The Bank may not distribute dividend or may distribute a reduced quantum of dividend when there is absence or inadequacy of profits. Further, if one or more of the criteria for recommendation of dividend is not fulfilled by the Bank, including any regulatory restriction placed on the Bank on declaration of dividend, or if the Board is of the view that it would be prudent to conserve capital for expansion of business or other exigencies, which shall be stated by the Board, dividend may not be declared or the Bank may declare reduced dividend.

6. Utilisation of Retained Earnings

The retained earnings of the Bank would be used across general corporate purposes and growth. The Board may decide to employ the retained earnings in ensuring maintenance of an optimal level of capital adequacy, meeting the Bank's future growth/expansion plans, other strategic purposes and/or distribution to shareholders, subject to applicable regulations.

7. Mode of payment of dividend

No dividend shall be paid by a company in respect of any share therein except to the registered shareholder of such share or to his order or to his banker and shall not be payable except in cash:

Provided that any dividend payable in cash may be paid by cheque or warrant or in any electronic mode to the shareholders entitled to the payment of the dividend.

In accordance with **Regulation 12** of the Listing Regulations, the Bank shall use any of the electronic modes of payment facility approved by the RBI, in the manner specified in Schedule – I of the Listing Regulation, for the payment of the dividends. Where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or cheques will be issued to the eligible shareholders. Further, where the amount payable as dividend exceeds Rs. 1,500, the payable-at-par warrants or cheques shall be sent by speed post.

The amount of the dividend declared by the Bank, including interim dividend, shall be deposited in a scheduled bank in a separate account within 45 days from the date of declaration of such dividend.

8. Conflict

In the event of a conflict between this Policy and the extant regulations, the regulations shall prevail.

9. Declaration of Dividend

The Bank's Board of Directors shall take into account the interests of all stake holders and the following aspects while deciding on the proposals for declaring dividend:
a) the interim dividend paid,
b) the Annual Financial Inspection findings / Observations in Risk Assessment Report (RAR) of the Reserve Bank with regard to divergence in identification of NPAs, shortfall in provisioning, etc.,
c) the auditors' qualifications pertaining to the statement of accounts
d) the Basel II capital requirements, and
e) the Bank's long term growth plans.

While declaring dividend on equity shares, it shall be the responsibility of the Board of Directors to inter-alia consider the current and projected capital position of the Bank vis-à-vis the applicable capital requirements and the adequacy of provisions, taking into account the economic environment and the outlook for profitability.

The Board of Directors may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the AGM out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.

A. Eligibility Criteria:

The Bank would be eligible to declare dividends only after compliance with the following minimum prudential requirements:

i) The Bank shall have:

- 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 %.
- 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%.

ii) The Bank shall comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949.

iii) 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.

iv) The proposed dividend shall be payable out of the current year's profit.

v) The Reserve Bank should not have placed any explicit restrictions on the Bank for declaration of dividends.

B. Quantum of Dividend Payable:

The Bank, after fulfilling the above eligibility criteria, may declare and pay dividends, subject to the following:
i) The dividend payout ratio shall not exceed 40 % and shall be as per the matrix furnished in Annex 1 of the RBI circular no. RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated May 04, 2005.
[Dividend payout ratio shall be calculated as a percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'.]

(ii) In case the profit for the relevant period includes any extra-ordinary profits/ income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with the prudential payout ratio.

(iii) 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.

10. Review and amendment

The Board shall review this Policy annually and make amendments to the Policy, as required, to make it consistent with the laws or regulations applicable from time to time.

In case the Board proposes to declare the dividend on the basis of criteria(s) in addition to those specified in this Policy, or proposes to modify the parameters, it shall disclose such changes along with the rationale for the same on the Bank's website and the web-link should be provided in the annual report.

11. Disclosure

The Bank shall disclose this Policy on its website and a web-link shall also be provided in the Annual Report of the Bank.