



## POLICY FOR DIVIDEND DISTRIBUTION

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## 1) BACKGROUND

As per Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the top one thousand listed entities based on market capitalization, shall have a Policy for Dividend Distribution.

Accordingly, the Board of Directors (the Board) of ESAF Small Finance Bank Limited (the Bank) has adopted the following policy with regard to Dividend distribution. The Stakeholder Relationship Committee of the Bank will review this policy from time to time and recommend modifications, if any, to the Board for approval.

## 2) OBJECTIVES

The objective of this Policy is to provide a framework, which will enable the Bank to balance the dual objectives of appropriately rewarding shareholders by sharing a portion of the profits and ensure that sufficient amount of profits retained in order to maintain a healthy capital adequacy ratio to support future growth in banking operations.

## 3) DEFINITIONS

**“Applicable Laws”** means the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, (“SEBI LODR”), the provisions of Companies Act, 2013 (“Companies Act”), the provisions of the Income tax Act, 1961 (“Income Tax Act”) and the rules made thereunder, each as amended (“Applicable laws”)

**“Act”** means the Companies Act, 2013;

**“BR Act”** means Banking Regulation Act, 1949;

**“Bank”** means ESAF Small Finance Bank Limited;

**“Board”** means Board of Directors of the Bank.

**“Dividend Payout Ratio”** means percentage of 'dividend payable in a year' (excluding dividend tax) to 'net profit during the year'

**“Final Dividend”** means the Dividend recommended by the Board and declared by the Members at an Annual General Meeting.

**“Interim Dividend”** means the Dividend approved by the Board during any financial year or at any time during the period from the closure of financial year till the holding of Annual General Meeting.

**“Policy”** means Policy for Dividend Distribution.

Words and expressions not defined herein shall have the meaning respectively assigned to them under the BR Act, Companies Act, 2013, or other applicable laws.

#### 4) ELIGIBILITY CRITERIA FOR DECLARATION OF DIVIDEND

The Bank shall declare dividend in accordance with the provisions of the Banking Regulation Act, 1949, applicable guidelines issued by Reserve Bank of India, relevant provisions of Companies Act, 2013 and the rules made thereunder, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time. Declaration of Dividends by bank are primarily guided by circular no. **(DBOD.NO.BP.BC.88/21.02.067/2004-05) dated May 04, 2005** issued by Reserve Bank of India. Accordingly, the Bank will be eligible to declare dividends only when it complies with the following minimum prudential requirements:

##### **The Bank should have: -**

- The minimum Capital to Risk (Weighted) Assets Ratio (“CRAR”) applicable to Small finance Banks of at least 15% for preceding two completed years and the accounting year for which it proposes to declare dividend.
- Net Non-Performing Assets (“NPAs”) less than 7%.
- Bank shall comply with the following provisions of Banking Regulation Act, 1949
  - a. ***Section 15 which provides that banking company shall not pay any dividend on its shares until all its capitalized expenses (including preliminary expenses, organization expenses, share-selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.***
  - b. ***As per section 17 of the Banking Regulation Act, 1949, which provides that scheduled commercial banks should transfer not less than 25 per cent of the ‘net profit’ (before appropriations) to the Reserve Fund before any dividend is declared.***
- The bank should 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.
- The proposed dividend should be payable out of the current year's profit.
- The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of dividends.

#### 5) QUANTUM OF DIVIDEND PAYABLE

The Bank, if it fulfils the eligibility criteria set out at para 4 above, may declare and pay dividends subject to the following:

- Banks dividend payout ratio is linked to the favorable position of Net NPA and CRAR. The dividend payout ratio shall not exceed 40%, and shall be as per the matrix as provided in the RBI circular dated May 4 2005, subject to such conditions as applicable to small finance bank. [Dividend payout ratio shall be calculated as a percentage of 'dividend payable in a year' (excluding dividend tax, if any) to 'net profit during the year'.]
- 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.
- 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 shall be suitably adjusted while computing the dividend payout ratio.

## 6) FACTORS TO BE CONSIDERED FOR DIVIDEND DECLARATION

The Board will consider the following factors while making any recommendation for dividend:

- Shareholder expectations
- Profits earned during the financial year.
- Past dividend trends.
- Optimal Capital Adequacy Ratio (CAR) subject to regulatory minimum of total and Tier I CAR.
- Expected capital requirements for planned growth
- Additional regulatory requirements of capital in near future (if applicable)
- Cost of raising funds from alternative sources
- Reinvestment opportunities
- Any applicable criteria from legal or regulatory frameworks.
- **The Annual Financial findings of Reserve Bank with regard to divergence in identification of NPAs**
- **The auditors qualifications pertaining to the statement of accounts**

## 7) INTERNAL AND EXTERNAL PARAMETERS

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 Dividend pay-out decision of any Bank depends upon certain external and internal factors as mentioned below.

### Internal Factors

- Profits earned during the year
- Present & future Capital requirements of the existing businesses;
- Expansion/ Modernization of existing businesses;

- Maintaining stable dividend pay-out over the years'
- Quantum of cash to be preserved for exigencies & contingencies
- Fresh investments into external businesses
- Any interim dividend paid;
- Tax implications if any, on distribution of dividends;
- Additional investments in subsidiaries/associates of the Bank, if any
- Any other factor as deemed fit by the Board.

#### **External Factors**

- Uncertain or recessionary economic and business conditions
- Unfavorable market conditions
- Statutory restrictions imposed by Companies Act and RBI guidelines with regard to declaration of Dividend

### **8) DECLARATION OF DIVIDEND**

The 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

i. 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 Shareholder's approval for Dividend in the Annual General Meeting, the same shall be declared as per applicable requirements.

ii. Process for approval of Payment of Interim Dividend:

Board may declare Interim Dividend, one or more times in a financial year, at its complete discretion in line with applicable laws and rules prescribed thereof, basis of profits arrived at as per quarterly (or half-yearly) financial statements

### **9) MODE OF PAYMENT**

As per Regulation 12 of the Listing Regulation, the Bank will use any of the electronic modes of payment facility approved by the Reserve Bank of India for the payment of the dividends.

Provided that where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or cheques will be issued to the eligible shareholders.

Provided further that, where the amount payable as dividend exceeds One thousand and five hundred rupees, the payable-at-par warrants or cheques shall be sent by speed post.

## 10) UNPAID DIVIDEND

All unpaid dividend shall be treated in accordance with Section 124 of the Companies Act, 2013 and other applicable laws. In case if the dividend has not been claimed by any shareholder within 30 days from the date of declaration, then the bank shall within 7 days from the expiry of 30 days transfer the unclaimed dividend to a separate account (Unpaid Dividend Account) opened by the bank. Any money that is transferred to the unpaid dividend account remains unclaimed for a period of 7 years from the date of the transfer shall be transferred to the Investor education protection fund.

## 11) CIRCUMSTANCES UNDER WHICH SHAREHOLDERS MAY OR MAY NOT EXPECT DIVIDEND

The Board of Directors may not recommend any dividend or may recommend a dividend for the financial year if: -

- Bank has reported loss for the year
- The capital adequacy matrix is weak
- Bank has significant business expansion plans
- any restriction is imposed by regulators

## 12) RETAINED EARNINGS UTILIZATION

The retained earnings of the Bank are expected to be used across general corporate purposes, including organic and inorganic growth. The Bank would utilize the retained earnings of the Bank in a manner which is beneficial to the interest of the Bank and its shareholders, but not limited to ensuring maintenance of healthy level of minimum capital adequacy ratios, Meeting the Banks enhanced capital requirements necessitated by growth, expansion and strategic plans or such other purpose the Board may deem fit from time to time.

## 13) PARAMETERS FOR VARIOUS CLASS OF SHARES

Currently, the Bank does not have any other class of shares except equity shares. The entire distributable profit for the purpose declaration of dividend is considered for the equity shareholders based on their shareholding on the record date fixed for the ascertainment of dividend entitlement.

## 14) CONFLICT IN POLICY

In the event of a conflict between this Policy and applicable laws, the applicable law shall prevail.

## 15) AMENDMENTS / MODIFICATIONS

To the extent any change or amendment is required in terms of any applicable laws or change in regulations, the regulation would prevail over the policy and the provisions contained will modified

accordingly to make it consistent with the applicable laws and regulations, and such amended policy shall be placed before the Board for its approval.

## **16) DISCLOSURES**

The Information on dividends paid will be given in the Bank's Annual Report and the policy will be available on the Bank's website.

## **17) REVIEW**

The Stakeholder relationship Committee of the Board and the Board of Directors shall review the Policy on an annual basis.

