



DIVIDEND DISTRIBUTION POLICY

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Dividend Distribution Policy

PREAMBLE

The Bank has formulated the Dividend Distribution Policy ("Policy") in compliance with the provisions of Companies Act, 2013 ("Act") and Rules made thereunder, provisions of Banking Regulation Act, 1949 and Guidelines/circulars issued by Reserve Bank of India ("RBI") and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations").

PURPOSE AND OBJECTIVE

The objective of the Policy is to appropriately reward shareholders through dividends for reposing their confidence in Bank while retaining the capital required for supporting future growth.

The Bank shall consider and comply with the policy while declaring any dividend on equity shares or preference shares issued by the Bank.

In the event of a conflict between the policy and the Regulatory guidelines, the Regulatory guidelines will prevail.

The Bank shall pay dividend on equity shares or preference shares only after ensuring compliance with the Act, Banking Regulation Act, 1949 and Guidelines/circulars issued by RBI, SEBI Listing Regulations and Secretarial Standard-3 issued by the Institute of Company Secretaries of India.

DEFINITION

- a. **Bank:** Bank means Ujjivan Small Finance Bank Limited
- b. **Board:** Board means Board of Directors of the Bank
- c. **CRAR:** It is the ratio of the Bank's capital to its risk weighted assets
- d. **Dividend:** Dividend includes interim dividend. In common parlance, Dividend' means the profit of the Bank, which is not retained in the business and is distributed among the shareholders in proportion to the amount paid up on the shares held by them.
- e. **Dividend Payout Ratio:** 'Dividend payout ratio' is calculated as a percentage of dividend payable in a year' (excluding dividend tax) to 'net profit during the year.

PRINCIPLES FOR DIVIDEND DECLARATION

The Board may consider the following internal and external factors while making any recommendation for dividend:

1. Shareholder expectations
2. Profits earned during the financial year
3. Past dividend trends
4. Optimal Capital Adequacy Ratio (CAR) subject to regulatory minimum of total and Tier I CAR
5. Expected capital requirements for planned growth
6. Additional regulatory requirements of capital in near future (if applicable)
7. Cost of raising funds from alternative sources
8. Reinvestment opportunities
9. Tax implications including dividend distribution tax
10. Such other factors/ events that the Board may consider appropriate

Dividend on Preference Shares

Perpetual Non-Cumulative Preference Shares (PNCPS) shall be entitled to and paid dividend, interim or final, at a fixed rate as per the terms of the issue (presently 11% p.a) and shall stand in priority to equity shareholders for payment of dividend. The current issue is of Non-Cumulative Preference shares, hence the dividend will be non-cumulative. The dividend will be paid out of current year's profit only. If the Bank does not have distributable profits for any financial year, the dividend shall not be accumulated or paid in future.

Dividend on Equity Shares

Equity shareholders shall be entitled to dividend, interim or final, if declared by the Board of Directors and Shareholders of the Bank, as the case may be. Equity dividend shall stand second in priority after payment of dividend to the Preference Shareholders.

The Bank may maintain a dividend pay-out ratio (excluding Dividend Distribution tax & including preferred dividend) in each financial year not exceeding 40%.

Eligibility Criteria for declaration of Dividend

[RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05:](#)

The Reserve Bank of India has prescribed several conditions for declaration of dividend including those related to capital adequacy, non-performing assets, and provisions for various expenses. The details are in the Annexure-1 to this policy

Quantum of Dividend Payable quantum of dividend

[RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05](#)

The Reserve bank of India has stipulated certain conditions including definition of dividend percentage treatment of extraordinary income, audit observations, maximum permissible range of dividend payout ratio. The details are in the Annexure-2 to the policy. These conditions are in the annexure.

MODE OF PAYMENT

As per Regulation 12 of SEBI Listing Regulations, the Bank shall use any of the electronic modes of payment facility approved by the Reserve Bank of India 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.

UTILIZATION 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.

CIRCUMSTANCES UNDER WHICH SHAREHOLDERS MAY OR MAY NOT EXPECT DIVIDEND

The Board may vary or not recommend any dividend if the eligibility criteria for recommendation of dividend has not been met by the Bank, including any regulatory restriction placed on the Bank on declaration of dividend or if the Board believes the need to conserve capital.

The Bank has a dividend stopper clause in the term sheet of 11% Perpetual Non-Cumulative Preference Shares (PNCPS) which might get triggered in certain circumstances and might prohibit the Bank from declaring dividend.

The Dividend Stopper clause is as follows:

In the event that the shareholders are not paid dividend at the Dividend Rate, there shall be no payment of discretionary dividend on equity shares until the Dividend payments to the shareholders are made in accordance with terms hereof. *Provided* that term shall in no manner operate to:

- (i) restrict the ability of the Issuer to make payments on other instruments that are non-discretionary in nature;
- (ii) restrict the payment of discretionary dividend to shareholders for a period that extends beyond the date of payment of the requisite dividend on Additional Tier 1 instruments are resumed; and
- (iii) impede the normal operation of the Issuer or any restructuring activity;

Provided further that such restriction shall in no way restrict the Issuer's right to cancel distributions/payments on the PNCPS or hinder in any manner whatsoever the re-capitalisation of the Issuer.

PARAMETERS FOR VARIOUS CLASSES OF SHARES

Presently, The Bank has issued only one class of equity shares. Hence the entire distributable profit, after deduction of Dividend declared on preference shares, if any, is considered for declaration of dividend on equity shares.

DIVIDEND POLICY RATIONALE

Our Bank has consistently shown a good profit growth year on year and the Business Plan has been formulated with a strategic intent to cover market share with profitability and in terms of branch network and customer base. Considering the said, there is certainly significant scope for the expansion.

Capital is one of the most essential drivers of growth, and in order to take care of expanded business as well as to meet requirements in light of Basel III Guidelines, it is always felt desirable to conserve the capital by placing a cap on Dividend Payouts and develop a Policy on declaration of Dividend accordingly.

Capital-raising is an intensive activity involving significant managerial bandwidth as well as considerable costs; a higher Dividend payout would lead to more frequent capital-raising.

Keeping in mind interest of the small shareholders, who prefer Dividend cash flows as well as plough-back of capital for the purpose of business, it is appropriate to link declaration of Dividend to total payout rather than rate of Dividend.

Having regard to the RBI guidelines, track record and various dimensions outlined above, the Bank arrives the payout ratio basis Net Profit earned during the year after consideration of the overall business growth/expansion and future business projections/Plans. This cap is inclusive of taxes, if any, relating to distribution of Dividend.

REVIEW AND REVISION

The Board of the Bank shall review the policy on annual basis and may make revisions or changes in the existing policy at any time during the year, if required.

DISCLOSURE & REPORTING SYSTEM

The Policy shall be disclosed on the website of the Bank and a web link shall be provided in the Annual Report.

Information on dividend paid in last five years including dividend yield and payout ratio will be made available on the website of the Bank.

The Bank shall report details of dividend within 15 days from the date of declaration of dividend declared during the accounting year as per the pro-forma furnished in Annexure- 3.

Bank shall also report the payment of dividend within 15 days of the payment of dividend.

Any payment/non-payment of Preference dividend during a financial year shall be intimated to Reserve Bank of India with a copy to Reserve Bank of India – DBS.

Annexure -1

RBI Guidelines for declaration of dividends by Banks

[RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated 4th May 2005](#)

Eligibility criteria for declaration of dividend

- i) The bank should have a CRAR of at least 9 % for preceding two completed years and the accounting year for which it proposes to declare dividend and Net NPA less than 7 %. In case any bank does not meet the above CRAR norm, but has 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 should comply with the provisions of Sections 15 and 17 of the Banking Regulation Act, 1949
- iii) 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.
- iv) The proposed dividend should be payable out of the current year's profit
- v) The RBI should not have placed any explicit restrictions on the bank for declaration of dividends

Quantum of dividend payable

The Bank if eligible to declare dividends, 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 2. [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
- iv) For 2004-05 if the Investment Fluctuation Reserve is less than 4% of securities included in the HFT & AFS categories, the dividend payout ratio shall be computed with respect to the Adjusted Net Profit. [Adjusted Net Profit = Net Profit - ({4% of (HFT + AFS)} - IFR)]

The Reserve Bank will not entertain any application for a higher dividend payout ratio than the one for which the banks qualify.

Annexure-2

Matrix of Criteria for maximum permissible range of Dividend Payout Ratio [RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated 4th May 2005](#)

Category	CRAR	Net NPA Ratio			
		Zero	More than zero but less than 3%	From 3 % to less than 5%	From 5 % to less than 7%
		Range of Dividend Payout Ratio			
A	11% or more for each of the last 3 years	Up to 40	Up to 35	Up to 25	Up to 15
B	10% or more for each of the last 3 years	Up to 35	Up to 30	Up to 20	Up to 10
C	9% or more for each of the last 3 years	Up to 30	Up to 25	Up to 15	Up to 5
D	9% or more in the Current year	Up to 10		Up to 5	Nil

Annexure-3

Reporting format for Banks declaring dividends

RBI/2004-05/451 DBOD.NO.BP.BC. 88 / 21.02.067 / 2004-05 dated 4th May 2005

Details of dividend declared during the financial year beginning on April 1, 20__

Name of the Bank : _____

Accounting Period *	Net profit for The accounting period (Rs. in Crore)	Rate of dividend	Amount dividend (excluding dividend tax) (Rs. in Crore)	Of	Pay out ratio

* quarter or half year or year ended ----- as the case may be