

# Au Small Finance Bank Limited

## Dividend Distribution Policy

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## 1. 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 (“**Listing Regulations**”), as amended to the extent applicable to the banking companies.

Further, as per Regulation 43A of Listing Regulations, the Bank is required to formulate a dividend distribution policy containing 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:

Further, if the Bank proposes to declare dividend on the basis of parameters in addition to above or proposes to change such additional parameters or the dividend distribution policy, it shall disclose such changes along with the rationale for the same in its annual report and on its website.

## 2. 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. Compliance of the policy shall be ensured while recommending any dividend to the Board or shareholders.

## 3. Principles for dividend declaration:

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

- Shareholder expectations
- Profits earned during the financial year
- Auditors’ Report to the financial statements, including modified opinion or Emphasis of Matter, for the financial year in which the dividend is proposed
- Past dividend trends
- Current and projected capital position vis-à-vis applicable regulatory capital requirement
- Expected capital requirements as per long term growth plans
- Additional regulatory requirements of capital in near future (if applicable)
- Cost of raising funds from alternative sources
- Reinvestment opportunities
- The divergence in asset classification and provisioning for Non-Performing Assets (NPAs), including its trend, as observed under supervisory findings of the Reserve Bank
- Any applicable criteria from legal or regulatory frameworks

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

#### **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.

The Board of the Bank may vary the level of dividend or not recommend any dividend based on the capital and reserves position of the Bank. The Board may recommend lower or no dividends if it is of the view that there is a need to conserve capital. The Board may recommend higher dividends, subject to applicable regulations, if the capital and reserves position supports a higher distribution to the shareholders.

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

Pursuant 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. Eligibility criteria for declaration of dividend

The Bank shall meet the following prudential requirements, to be eligible to declare dividends:

- (i) The bank is in compliance with the applicable regulatory capital requirement as at the end of the previous financial year and shall continue to be in compliance as at the end of the financial year during which the dividend is proposed to be paid.
- (ii) The regulatory capital of the bank shall not fall below the applicable regulatory capital requirement even after the payment of dividend.
- (iii) The bank shall have positive adjusted Profit After Tax (PAT) for the financial year for which the dividend is proposed. Adjusted PAT means PAT of the financial year for which the dividend is proposed to be paid minus 50 per cent of Net NPA as on March 31 of the financial year for which the dividend is to be paid.
- (iv) The bank shall not be under any explicit restrictions for declaration of dividends from the Reserve Bank or any other authority.

## 10. Quantum of dividend payable

The Bank, subject to satisfaction of the eligibility criteria laid down in paragraph 9, may declare and pay dividend up to the limits prescribed under below table, but in aggregate not exceeding 75% of the PAT for the period for which the dividend is being proposed.

<b>Bucket</b>	<b>Tier 1 Capital Ratio as at the end of previous FY</b>	<b>Dividend allowed as a % of adjusted PAT for the period</b>
B1	Up to 7.5%	0
B2	Above 7.5% and up to 9.5%	20
B3	Above 9.5% and up to 11.5%	30
B4	Above 11.5% and up to 13.5%	40
B5	Above 13.5% and up to 15.5%	50
B6	Above 15.5% and up to 16.5%	60
B7	Above 16.5% and up to 17.5%	70
B8	Above 17.5% and up to 18.5%	80
B9	Above 18.5% and up to 19.5%	90
B10	Above 19.5%	100

## 11. Profits ineligible for payment of dividend

The following profits shall not be available for payment of dividend:

- (i) Any exceptional and / or extra-ordinary profits / income shall not be available for payment of dividend.

- (ii) If the audit report by the statutory auditor contains a modified opinion that indicates an overstatement of the PAT, the same shall not be available for payment of dividend, to the extent it is included in PAT.
- (iii) In terms of Reserve Bank of India (Small Finance Banks - Classification, Valuation and Operation of Investment Portfolio) Directions, 2025, bank shall not pay dividend out of net unrealised gains arising on fair valuation of Level 3 financial instruments (including derivatives).
- (iv) The prudential treatment of reversal of excess provision, dividend payment by the bank on reversal of such provisions and unrealized profits arising on account of transfer of loans and Security Receipts guaranteed by the Government of India shall be guided by the instructions contained in the Reserve Bank of India (Small Finance Banks – Transfer and Distribution of Credit Risk) Directions, 2025

## 12. 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 endeavor 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 and RBI Guidelines 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 interim dividend paid;
- (vii) Tax implications if any, on distribution of dividends;
- (viii) Any other factor as deemed fit by the Board.

## 13. Utilisation of retained earnings

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.

#### **14. Manner of Payment of dividend:**

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

#### **15. Reporting System**

The Bank shall report details of dividend declared as per format prescribed in Annex II of RBI (Small Finance Banks – Prudential Norms on Declaration of Dividend) Directions, 2026. The report shall be furnished to the Department of Supervision of the Reserve Bank within a fortnight of declaration of dividend.

#### **16. Income Tax on Dividend**

In terms of the provisions of the Income-tax Act, 2025, dividend paid or distributed by a Company is taxable in the hands of the shareholders. Therefore, the Bank shall deduct tax at source at the time of payment of dividend to its shareholders as per applicable provisions.

#### **17. Disclosures**

The policy shall be disclosed on the website of the Bank and a web-link shall also be provided in Bank's annual reports. Information on dividends paid in the last five years will be made available on the Bank's website.

#### **18. Policy Review**

This Policy will be reviewed annually and placed before the Board of Directors of the Bank. The Policy will also be subject to amendments necessitated due to changes in laws, rules, and regulations as and when required.

### 19. Policy Amendment Authority

Key owners responsible for Policy amendments are as follows:

Policy Owners	Role
Chief Financial Officer	Responsible for implementation of Policy. Responsible for ensuring the policy is reviewed annually

### 20. Policy Authorisation

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

#### References:

- a) The Companies act 2013 regarding Declaration of Dividend
- b) Banking Regulation Act, 1949
- c) Reserve Bank of India (Small Finance Banks – Prudential Norms on Declaration of Dividend) Directions, 2026
- d) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- e) Income Tax Act, 2025, as amended