

DIVIDEND POLICY



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1. Background

People's Leasing & Finance PLC (PLC/ the Company) was incorporated in 1995 as a fully owned subsidiary of the People's Bank in order to carry out leasing business. It was felt that this structure would be more beneficial to the People's Bank as opposed to carrying out its leasing operations as a department within PB, as a number of other banks, including the Bank of Ceylon had chosen to do. PLC having listed on the Colombo Stock Exchange in November 2011 currently has a shareholder base over 10,000 with 75% majority holding of People's Bank. As a non- bank financial institution PLC is presently regulated by the Central Bank of Sri Lanka and the Colombo Stock Exchange. All shareholders including the major shareholder, People's Bank desires a fair return for their investment in PLC by way of dividend payments. In this context, this document articulates the policy followed by PLC in distributing its profits as dividends to its shareholders.

2. Objective of the PLC Dividend Policy

The dividend policy of the Company is to distribute to its shareholders surplus funds from its distributable profits, as may be determined by the Board of Directors, subject to:

- a) The recognition of profit and availability of cash for distribution
- b) Any banking or other funding requirements by which the Company is bound from time to time
- c) The operating and investment needs of the Company
- d) The anticipated future growth and earnings of the Company
- e) Adherence with the capital adequacy requirements
- f) Provisions of the Company's Articles of Association
- g) Emerging trends in Dividend payouts in the industry
- h) Any relevant applicable laws.

3. Specific considerations of the PLC Dividend Policy

Dividend Policy of PLC takes in to account the following key considerations;

- What are the needs of shareholders?
- What are the opportunities for profitable reinvestment of surplus free cashflow?
- How stable and secure is the balance sheet and profits?
- What are the dividend payout policies of other companies in the same sector and industry?
- What is the prevalent tax law and how are dividends treated?
- What regulatory requirements including solvency, liquidity and Capital Adequacy that the Company needs to observe and the effect of these on the current and projected performance of the company?

4. Dividend Policy Statements

The dividend policy of PLC is to distribute to its shareholder all funds surplus to the current and future operating needs of the Company as determined by the Board of Directors of PLC.

- a. The solvency, liquidity and Capital Adequacy requirements as laid down by the CBSL and the Companies Act.
- b. Any other regulatory or other funding covenants by which the Company is bound from time to time.

5. Dividend Declaration Process

Dividend declaration process is slightly different for an interim dividend from the final dividend. Whilst all other steps remains same for both interim and final dividend, it is required to obtain the approval of shareholders in terms of the Articles of Association of the Company for the declaration of final dividend. Process to be followed in both interim and final dividend are as follows:

1. Management's recommendation for interim/final dividend including the proposed amount to be paid as dividend and mode of payment (whether a cash dividend or a scrip dividend) is required to submit to the Board of Directors to obtain approval to initiate the process.
2. In accordance with the Guideline on Declaration of Dividends or Repatriation of Profits

issued on 31 January 2023 by the Central Bank of Sri Lanka, the Company is required to submit following reconciliations and computations for the month of April 2023 approved by the Board of Directors and the Board Audit Committee at the time of making the request to the Director of Department of Supervision of Non-bank Financial Institutions for declaration of dividends;

- a. Prudential ratios stated in the Finance Companies (Liquid Assets) Direction No. 04 of 2013, or as amended , after adjusting for the proposed dividends;
 - b. Prudential ratios stated in the Finance Business Act Direction No. 03 of 2018 on Capital Adequacy Requirements (CAR), or as amended , after adjusting for the proposed dividends;
 - c. Core Capital as stated in the Finance Business Act Direction No. 02 of 2017 on Minimum Core Capital, or as amended , after adjusting for the proposed dividends;
 - d. Perform stress test on liquidity, earnings and capital adequacy taking into consideration the material risks that the Company is exposed to in line with dynamics of macroeconomic conditions and projected business plans for the next three years and submit the results together with supporting assumptions and workings.
3. Reconciliations and computations prepared by the Accounts Department as per CBSL requirements should be submitted for the approval of the Board Audit Committee.
 4. Upon receiving the approval of Board Audit Committee Reconciliation on Profit before dividend should be submitted for the approval of Board of Directors.
 5. Board approved reconciliation should be submitted to the Department of Supervision of Non-Bank Financial Institutions of CBSL to obtain the required approvals for the dividend declaration.
 6. After obtaining approval of the CBSL Board of Directors will be declared the interim/final dividend.
 7. In terms of the provisions of Listing Rule 7.1, immediately upon authorizing a dividend distribution an announcement to the Exchange should be made by the Company Secretary.
 8. Accordance with Section 57 of the Companies Act, No 07 of 2007 the Company should carry out a solvency test prior to declaring the dividend and should submit a certified

copy of the certificate of solvency issued by the Auditor General.

9. As per the Articles of Association of the Company shareholder approval is required to declare the final dividend.
10. Cash dividend should be distributed among shareholders through the Company Registrar.
11. Dividends shall be paid to shareholders after deduction of withholding and any other taxes based on the existing tax legislation.
12. If the proposed dividend is a scrip dividend following procedure should be followed:
 - a) Initial process up to taking approval from the CBSL is similar to the process of cash dividend.
 - b) Advice should be sought from the Exchange Control since shares may have to allocate to non-resident shareholders and approval for the same should be sought if required by them.
 - c) Final computation should be done considering the latest available market price of the share before obtaining the Board's consent for the declaration of dividend. (Some Companies are using the closing market price of the share in the closest date to the Board resolution on scrip dividend is approved whereas some companies are using the average market price during the closest date to the Board resolution is approved.) The proportion in which the scrip dividend shares are expecting to issue will be decided accordingly. It is also required to decide the manner in which the fractions are to be dealt with.
 - d) Approval of the Board of Directors of the Company should be sought for the declaration of scrip dividend.
 - e) Announcement should be made on the Colombo Stock Exchange upon receiving the Board approval and a certified copy of the Solvency Certificate should be forwarded to the Exchange as soon as the same is issued.
 - f) According to continuous listing requirements it is required to submit following documents to the Exchange when further issuing shares in a way of a scrip dividend:
 - Listing Application

- A circular to shareholders, if approval of the shareholders is required to issue shares by way of a scrip dividend, in terms of the Articles of Association of the Company.
 - The Notice of General Meeting, if approval of the shareholders is required to issue shares by way of a scrip dividend in terms of the Articles of Association of the Company.
 - A copy of the Board Resolution certified by the Company Secretary recommending the issue and the listing of the shares arising from the scrip dividend and confirmation by the Board that in its opinion the consideration for which the shares are to be issued is fair and reasonable to the Company and to all existing shareholders.
 - Where the issue of shares by way of a scrip dividend requires the approval of the shareholders of the Company, an extract of such Article certified to be a true copy by the Company Secretary.
 - The Company is required to pay the Exchange Rs. 200,000/- or 0.01% of the value of Securities issued, whichever is higher, subject to a maximum of Rs. 500,000/- for further issue of shares by way of a Scrip dividend.
- g) In terms of the Articles of Association of the Company it is required to obtain the approval of shareholders for the final dividend paid as scrip dividend.
- h) Since the approval of the shareholders is required for the scrip dividend which is the final dividend for the financial year, the Company has to allot the shares issued by way of the scrip dividend on the date on which the related resolution is passed by the shareholders at a meeting. The Company has to complete direct uploads to the relevant CDS accounts within seven (7) Market Days from and excluding the date on which the relevant resolution is passed by the shareholders at the meeting.
- i) The Ex-Dividend ('XD') date will be the Market Day immediately following the date on which the related resolution is passed by the shareholders at the meeting.

6. Payment of Cash Dividend

As required by Article 14 unless otherwise directed any dividend may be paid by cheque or warrant sent by post to the registered address of the shareholders entitled thereto or, in the case of joint-holders, to the registered address of that one whose name stands first on the register in respect of the joint-holding.

7. Method of Dealing with any Unclaimed Dividend by Shareholders

In terms of Article 15 all dividends unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for six (6) years after having been declared shall be forfeited and shall revert to the Company.

8. The Company will not declare any Dividend(s) where:

- There are reasonable grounds for believing that the Company is or would be, after a Dividend payment, unable to pay its liabilities or discharge its obligations as and when they become due;
- Pursuant to Dividend decision date, the Company is insolvent or bankrupt in accordance with the provisions of insolvency or bankruptcy law, or where, as a result of paying Dividends, the Company would be rendered insolvent or bankrupt;
- Prior to the Dividend decision date, the net asset value of the Company is less than its Articles of Association capital, reserve fund and the excess of the liquidation value over the nominal value of the outstanding preferred shares as set forth in the Articles of Association; or
- There is any other prohibition by any law.

9. Exceptions

Any exceptions to this policy must be approved by the Board with a proper justification.

10. Review

This policy will be periodically reviewed by the Board with the next review due within two years of the date of approval of this policy.

11. Board Approval

This policy document was approved by the Board of Directors on 26 May 2023.