

CHOLAMANDALAM FINANCIAL HOLDINGS LIMITED

DIVIDEND DISTRIBUTION POLICY

1. Background :

This Policy is formulated in accordance with Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), 2015 and Reserve Bank of India (RBI) guidelines on declaration of dividend by NBFCs. This policy replaces the existing policy and will be effective from 4th August 2021, being the date of its approval by the Board of Directors of the Company.

2. Objective :

The objective of this Policy is to lay down the criteria and parameters that are to be considered by the Board of Directors of the Company while deciding on the declaration of Dividend (including interim dividend) from time to time. This Policy is applicable to dividend declared/recommended on the equity shares of the Company and does not cover dividend on preference shares (excluding compulsorily convertible preference shares eligible for inclusion in Tier I Capital), if any, where the rate of dividend is governed by the terms of the issue of preference shares.

3. Parameters to be considered for declaration of Dividend :

The Board of Directors may approve interim dividend / recommend final dividend for consideration of shareholders of the Company.

Subject to the provisions of applicable laws and regulations/guidelines, the Company's dividend payout will be determined by the Board of Directors from time to time based on the available financial resources, investment requirements and other factors more fully described hereunder. Subject to these parameters, the Company would endeavour to maintain a total dividend pay-out ratio (dividend inclusive of any tax on distribution of dividend in the hands of the Company) of about 10% of the annual standalone profits after tax after excluding any exceptional and /or extra-ordinary profits/ income and any overstatement of profit leading to qualification (including 'emphasis of matter') in statutory auditor's report. Payment of dividend for any year is subject to dividend payout ceiling of 60% as prescribed by RBI. Dividend shall include both dividend on equity shares and compulsorily convertible preference shares eligible for inclusion in Tier I Capital.

Explanation: Dividend Payout Ratio means the ratio between the amount of the dividend payable in a year and the net profit as per the audited financial statements for the financial year for which the dividend is proposed. Proposed dividend shall include both dividend on equity shares and compulsory convertible preference shares eligible for inclusion in Owned Funds/ Adjusted Net Worth. In case the net profit for the relevant period includes any exceptional and/or extra-ordinary profits/ income or the financial statements are qualified (including 'emphasis of matter') by the statutory auditor that indicates an overstatement of net profit, the same shall be reduced from net profits while determining the Dividend Payout Ratio.

The Board of Directors of the Company will consider the following parameters while recommending / declaring Dividend:

3.1 Financial Parameters / Internal Factors :

1. Standalone / net operating profit after tax;
2. Operating cash flow of the Company for the year;
3. Liquidity position of the Company;
4. Resources required for funding investments, acquisitions, capital infusion, mergers and / or new businesses;
5. Cash flow required for meeting tax demands and other contingencies;
6. Regulatory (and growth requirement of) Capital Adequacy;
7. Regulatory (and growth requirement of) Solvency / Debt-Equity Ratio;
8. Trend of dividends paid in the past years;
9. Dividend receipt from companies in which the company holds shares / investments ;
10. Any windfall, extra-ordinary or abnormal gains made by the Company;
11. Supervisory findings of RBI on divergence in asset classification and provisioning for Non- Performing Assets;
12. Qualifications in the Auditor's Report to the financial statements;
13. Long term growth plans of the Company and
14. Any other factor not explicitly covered above but which is likely to have a significant impact on the Company.

3.2 External Factors:

1. Prevailing legal requirements, regulatory restrictions laid down under the applicable laws including tax laws and changes made in accounting laws;
2. Dividend pay-out ratios of Core Investment Companies in the financial services sector; &
3. Any other factor that has a significant influence / impact on the Company's working / financial position of the Company.

3.3 RBI guidelines

1. Applicable Regulatory Capital Requirement (Adjusted Net Worth and Leverage Ratio) should be complied with for each of the last three financial years including the financial year for which the dividend is proposed;
2. The Net NPA Ratio shall be less than 6% for each of the last three financial years including the financial year for which the dividend is proposed;
3. Compliance with Section 45 IC of the RBI Act, 1934 and other prevailing regulations/ or guidelines issued by RBI.
4. RBI should not have placed any explicit restriction on declaration of dividend;
5. If the conditions relating to capital requirement and NPA ratio is not met as per SI Nos. 1 & 2 above, dividend pay ratio is capped at 10% for the financial year for which the dividend is proposed if in that year the company is compliant with minimum regulatory capital requirement

and Net NPA Ratio is less than 4%.,

The Board of Directors may additionally recommend special dividend in special circumstances subject to overall regulatory ceiling.

4. Circumstances under which the shareholders may not expect Dividend:

The shareholders of the Company may not expect Dividend under the following circumstances:

- 4.1 In the event of inadequacy of profits or whenever the Company has incurred losses;
- 4.2 Significant cash flow requirements towards tax demands / or others , adversely impacting free cash flows;
- 4.3 An impending / ongoing acquisitions or investment in subsidiaries / joint ventures / other new ventures requiring significant allocation of capital;
- 4.4 Significant reduction in dividend pay out from companies in which the company has investments;
- 4.5 Any of the above referred internal or external factors and RBI guidelines compliance requirements restrain the Company from considering dividend.

5. Utilization of retained earnings :

The Company is statutorily required to declare dividend only out of the profits of the Company for the year. Profits retained in the business will be invested in the business / operations of the Company and may be used for funding acquisition(s), further investments and for all other corporate purposes.

6. Parameters to be adopted with regard to various classes of shares:

Presently, the Authorised Share Capital of the Company is divided into equity shares of Re.1/- each. At present, the issued and paid-up share capital of the Company comprises only equity shares.

The Company shall first declare dividend on outstanding preference shares, if any, at the rate of dividend fixed at the time of issue of preference shares and thereafter, the dividend would be declared on equity shares.

Currently, the Company has issued one class of equity shares with equal voting rights. As and when the Company issues different class of shares, the Board of Directors may suitably amend this Policy.

7. Procedure :

- 7.1 The dividend proposal placed before the Board for consideration shall be in terms of this Policy.
- 7.2 The Company shall ensure compliance of provisions of applicable Laws, Regulations/ Guidelines and this Policy in relation to Dividend declared by the Company.
 - 7.3 In case of interim dividend, the Board shall consider the position as of the previous quarter end and also the estimates for the balance period of the financial year under stress scenario and evaluate regulatory compliance thereof.

8. Disclosure and Reporting:

The Company shall make appropriate disclosures as required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and file necessary reports / returns as prescribed under the Companies Act, 2013.

Further, the Company shall report details of dividend declared during the year to RBI in the prescribed format within the stipulated timeline.

9. General :

- 9.1 This Policy would be subject to revision/amendment in accordance with the guidelines as may be

issued by Ministry of Corporate Affairs, Securities and Exchange Board of India, Reserve Bank of India or such other regulatory authority as may be authorized, from time to time, on the subject matter.

9.2 The Company reserves its right to alter, modify, add, delete or amend any of the provisions of this Policy.

9.3 In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.

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