

POLICY ON MATTERS RELATING TO THE BOARD OF DIRECTORS



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1. Introduction

The Content of this document is extracted from the Board approved Governance Framework.

2. Board Composition and Independence

2.1 General Requirements

- a. The age of a Director shall not exceed 70 years.
- b. Notwithstanding to the provision on above 7.1 (a), a director who is already holding office who attains the age of 70 years on or before 31 March 2025, may continue in office as a director exceeding 70 years of age up to maximum of 75 years of age subject to the following,
 - I. Assessment by the director of department of supervision of Non-Bank Financial institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.
 - II. Prior approval of the Monetary Board based on the assessment of the Director of supervision of Non-Bank Financial Institutions.
 - III. The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.
 - IV. The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.
- c. A director of LBF shall not hold office as a director or any other equivalent position (including alternate directors) in more than 20 companies/societies/bodies including subsidiaries and associates of the company.
- d. All the directors shall have the right to participate at meetings of the board and sub committees by audio visual means and such participation shall be taken in to account when deciding the quorum.

2.2 The Composition of the Board

- a.** The number of directors on the board shall not be less than seven (7) and not more than thirteen (13).
- b.** The total period of service of a director other than a director who holds the position of Managing Director/ Chief Executive Officer/Executive Director shall not exceed nine (9) years, subject to (c) below.
- c.** Non-executive directors, who directly or indirectly holds more than 10% of the voting rights or who appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. of finance business act direction no. 5 of 2021 Corporate Governance Provided, however number of non- executive directors eligible to exceed 9 years are limited to one-fourth ($\frac{1}{4}$) of the total number of directors of the Board.
- d.** The Board of directors shall maintain the diversity of its members to ensure effectiveness of the board. In particular, the board shall pay attention to diversity of experience, skills, competencies, age, gender, industry requirements of its members.

2.3 Executive Directors

- a.** Only an employee of LBF shall be nominated, elected and appointed, as an executive director provided that the number of executive directors shall not exceed one-half ($\frac{1}{2}$) of the total number of directors of the Board.
- b.** In the event of presence of the executive directors, MD/CEO shall be one of the executive directors.
- c.** All executive directors shall have a functional reporting line in the organizational structure of LBF.
- d.** The executive Directors are required to report to the Board of Directors through MD/CEO.
- e.** Executive Directors shall refrain from holding executive directorships in any other entity.

- f. A Non-Executive director cannot be appointed or function as the MD/CEO or executive director of LBF.

2.4 Non-Executive Directors and Independent Non-Executive Directors

- a. The number of independent directors of the Board shall be at least three or (3) one third (1/3) of the number of directors of the Board.
- b. Independent directors appointed shall be of highest caliber, with professional qualifications, proven track record and sufficient experience.

2.5 Independent Criteria

1. Independence Criteria – Direction No. 5 of 2021, Corporate Governance

In terms of the Direction No. 5 of 2021 Corporate Governance, issued by Central Bank of Sri Lanka, A non-executive director shall not be considered independent if such,

- I. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the LBF or exceeding 10% of the voting rights of any other LFC.
- II. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with LBF, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the LBF as shown in its last audited statement of financial position.
- III. Director has been employed by the LBF or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director.
- IV. Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to LBF or its affiliates during the one year preceding the appointment as director.
- V. Director has a relative, who is a director or senior management of LBF or has been a director or senior management of LBF during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of LBF or exceeding 20% of the voting rights of another LFC.

- VI.** Director represents a shareholder, debtor, or such other similar stakeholder of LBF.
- VII.** Director is an employee or a director or has direct or indirect shareholding of 10% or more of the stated capital in a company or business organization, in which any of the other directors of the LBF is employed or a director.
- VIII.** Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, which has a transaction with LBF or in which any of the other directors of LBF has a transaction aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the LBF.

2. Independence Criteria – Section 9, Corporate Governance – CSE Listing rules

- I.** has been employed by the Listed Entity during the period of three (3) years immediately preceding appointment as Director.
- II.** currently has/had during the period of three (3) years immediately preceding appointment as a Director, a Material Business Relationship with the Listed Entity, whether directly or indirectly.
- III.** currently has/had during the preceding financial year a Close Family Member who is a Director and/or CEO in the Listed Entity.
- IV.** has a Significant Shareholding in the Listed Entity.
- V.** has served an aggregate period of nine (9) years on the Board of the Listed Entity from the date of the first appointment.
- VI.** is employed in another company or business;
 - in which a majority of the other directors of the Listed Entity are employed or are directors; or
 - in which a majority of the other directors of the Listed Entity have a Significant Shareholding or Material Business Relationship; or
 - that has a Significant Shareholding in the Listed Entity or with which the Listed Entity has a Business Connection.

VII. is a director of another company;

- in which a majority of the other directors of the Listed Entity are employed or are directors; or
- that has a Business Connection in the Listed Entity or a Significant
- Shareholding.

VIII. has a Material Business Relationship or a Significant Shareholding in another company or business;

- in which a majority of the other directors of the Listed Entity are employed or are directors; and/or
- which has, a Business Connection with the Listed Entity or Significant Shareholding in the same; and/or
- where the core line of business of such company is in direct conflict with the line of business of the Listed Entity.

IX. is above the age of seventy (70) years.

2.6 Alternate Directors

- a. Appointment of alternate directors is allowed only if following conditions are met,
 - I. Such appointment is subject to the approval of Directors, Department of supervision of Non-Bank Financial Institutions.
 - II. If the current director is unable to perform the duties as a director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad.
- b. The existing directors of LBF cannot be appointed as an alternate director to another existing director of LBF.
- c. A person appointed as an alternate director to one of the directors cannot extend his role by acting as an alternate director to another director in the same Board.
- d. An alternate director cannot be appointed to represent an executive director.
- e. In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to the independent director.

2.7 Senior Directors

In the event where the chairperson is not an independent director, the board of directors shall appoint an independent director as senior director subject to CBSL approval.

The terms of reference of such senior director is as follows,

- a. The senior director shall ensure a greater independent element in proceedings of the board and in all deliberations by the board either at board meetings held as physical meetings / virtual meetings / hybrid Meetings or in resolutions circulated amongst the board.
- b. Wherever the chairman of the board of directors is not an independent director the quorum of board meetings shall be a majority of the directors which shall include the senior director.
- c. The senior director shall preserve good corporate governance in board proceedings and facilitate the effective discharge of board functions with a greater independent element, including;
 - I. The effective participation of both executive and non-executive directors whilst ensuring an independent element in those discussions and deliberations; and
 - II. The views of directors on issues under consideration are ascertained and are considered by the chairman in arriving at decisions recommendations of the board.
- d. The senior director is being appointed pursuant to Item 7(2) of the finance companies (corporate governance) direction no.03 of 2008, and the director so appointed as the senior director shall be an independent non-executive director within the meaning of the said direction no. 03 of 2008.
- e. The board may, if they so consider, approve additional remuneration to the senior director and if no such approval has been given, the senior director's remuneration shall continue on the basis of director's fees.

3. Roles and responsibilities of the Board of Directors

The Board shall assume overall responsibility and accountability for the operations of the company. In discharging its duties, the board of directors should ensure acting with due care and prudence

and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.

It is the responsibility of the board to carry out following functions,

3.1 Business Strategy and Governance framework

- a. Approving and overseeing the implementation of strategic objectives, including, the overall business strategy with measurable goals for at least next three years and update annually in light of the current developments.
- b. Approving and implementing LBF's governance framework in the light of the LBF's size, complexity, business strategy and regulatory requirements.
- c. Assessing the effectiveness of its governance framework periodically.
- d. Appointing the Chairman and the Managing Director (MD) /Chief Executive Officer (CEO) and define the roles and responsibilities.

3.2 Corporate Culture and Values

- a. Ensuring that there is a sound corporate culture within the LBF which reinforces ethical, prudent and professional behavior.
- b. Playing a lead role in establishing the LBF's corporate culture and values, including developing a code of conduct and managing conflicts of interest.
- c. Promoting sustainable finance through appropriate environmental, social and governance considerations in the LBF's business strategies.
- d. Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the LBF's performance, position and prospects in public and regulators.

3.3 Risk Appetite, Risk Management and Internal Controls

- a. Establishing and reviewing the Risk Appetite Statement (RAS) in line with LBF's business strategy and governance framework.

- b. Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.
- c. Adopting and reviewing the adequacy and the effectiveness of the LBF's internal control systems and management information systems periodically.
- d. Approving and overseeing business continuity and disaster recovery plan for the LBF to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.

3.4 Board Commitment and Competency

- a. All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the company.
- b. All members of the Board shall possess necessary qualifications, adequate skills, knowledge, and experience.
- c. The Board shall regularly review and agree the training and development needs of all the members.
- d. The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individually performance, of its Boards as a whole and that of its committees and maintain records of such assessments.
- e. The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the LBF.
- f. An independent director shall immediately disclose to the Board any change in circumstances that may affect his status as an independent director.

In such a case, the Board shall review his designation as an independent director and notify the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change his designation.

3.5 Oversight of Senior Management

- a.** Identifying and designating senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.
- b.** Defining the areas of authority and key responsibilities for the senior management.
- c.** Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the LBF's strategic objectives.
- d.** Ensuring there is an appropriate oversight of the affairs of the LBF by senior management.
- e.** Ensuring the LBF has an appropriate succession plan for senior management.
- f.** Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.

3.6 Adherence to the Existing Legal Framework

- a.** Ensuring that the LBF does not act in a manner that is detrimental to the interests of, and obligations to, depositors, shareholders and other stakeholders.
- b.** Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.
- c.** Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.

4. Key Areas assigned for the Board

- a.** Evaluating and approving of the Strategic Plan for the ensuing three-year period, setting out the Vision, Mission, Goals, Objectives and the values of LBF.
- b.** Evaluating and approving of the LBF's Annual Budget, which sets out the targets to be achieved in the ensuing year, in line with the overall framework and objectives of the strategic plan.

- c. Appointment of the MD/CEO of LBF, its key responsible personnel and the CEOs of all its Subsidiaries and determining their terms and Conditions of appointment, and the scope of their duties and responsibilities.
- d. Approval of the succession plan for the senior management including MD/CEO.
- e. Determine and approve the organization structure of LBF and subsequent amendments thereto.
- f. Evaluating and approval of any initiative to be taken by LBF with regard to any type of strategic decisions such as mergers acquisitions and amalgamations, with LBF or with any of its Subsidiaries.
- g. Appointment of Board subcommittees and defining their scope of work and the extent of delegated powers and authority for them, if any.

5. Roles and responsibilities of Chairperson

The Chairperson Shall,

- a. Provide leadership to the Board of Directors.
- b. Maintain and ensure a balance of power between executive and non- executive directors.
- c. Secure effective participation of both executive and non-executive directors.
- d. Ensure that the Board works effectively and discharges its responsibilities.
- e. Ensure that all key issues are discussed by the Board in a timely manner.
- f. Implement decisions/directions of the regulator.
- g. Prepare the agenda for each Board Meeting or delegate such function and to maintain minutes in an orderly manner to the company secretary.
- h. Not engage in activities involving direct supervision of senior management or any other day to day operational activities.
- i. Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.

- j. Annual assessment on the Performance and the contribution during the past 12 months of the Board and the MD/CEO.

6. Roles and responsibilities of Managing Director / Chief Executive Officer

The MD/CEO shall function as the apex executive – in charge of the day-to-day management of the company's operations and business.

The MD/CEO Shall,

- a. Implement business and risk strategies in order to achieve the LBF's strategic objectives.
- b. Establish a management structure that promotes accountability, and transparency throughout the LBF's operations, and preserves the effectiveness and independence of control functions.
- c. Promote, together with the Board, a sound corporate culture within the LBF which reinforces ethical, prudent and professional behavior.
- d. Ensure implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.
- e. Strengthen the regulatory and supervisory compliance framework.
- f. Address the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.
- g. Devote the whole of the professional time to the service of the LBF and shall not carry on any other business, except as a non-executive director of another company.

However, MD/CEO shall not be nominated, elected or appointed as a director of another LFC except where such LFC is the parent company, subsidiary Company or an associate company or has a joint arrangement with the LBF.

7. Performance evaluation of Board of directors

The performance of the board of directors should be evaluated along with the annual assessment of fit and propriety of the directors as follows,

Information and documentation required	Chairperson	Board of Directors	CEO
The original affidavit (As given in schedule 1 to the direction no. 6 of 2021)	X	X	X
Self-Assessment Incorporating the improvement of financial performance during past 12 months, details of any special assignments, projects carried out under the leadership and explaining the future plans to increase the value of LBF.	X	X	X
Chairperson Assessment Performance and the contribution with key achievements during the past 12 months		X	X
Non-Executive directors' assessment on the Chairperson performance Annual Independent assessment of the Chairperson's performance by the non-executive directors.	X		

8. Board Meetings and attendance

- a.** The Board shall meet at least twelve (12) times a financial at approximately monthly intervals.
- b.** A notice of at least 3 days shall be given for the scheduled board meeting. For all other board meetings, a reasonable notice shall be given.
- c.** A Director who has not attended at least eight (8) or two Third (2/3) of the meetings in the period of 12 months immediately preceding or has not attended three (3) consecutive meetings held, shall cease to be a director. Provided that participation at the Board meeting through an alternate director shall acceptable as attendance, subject to applicable directions for alternate directors.