

POLICY ON BOARD COMMITTEES



Contents

1. Introduction	3
2. Board Sub Committees	3
3. Board Nomination and Governance Committee	3
4. Board Human Resource and Remuneration Committee	6
5. Board Audit Committee	8
6. Board Related Party Transactions Review Committee	13
7. Board Integrated Risk Management Committee	17

1. Introduction

The Content of this document is extracted from the Board approved Governance Framework and board approved Terms of References (ToRs) of respective board sub committees.

2. Board Sub Committees

The Board of Directors of the Company shall appoint following Board sub committees to oversee each area,

- a. Board Nomination and Governance Committee
- b. Board Human Resource and Remuneration Committee
- c. Board Audit Committee
- d. Board Related Party transactions review committee
- e. Board Integrated Risk Management Committee

3. Board Nomination and Governance Committee

3.1. Composition

- a. The Nomination and Governance Committee (“NGC”) shall be appointed by the Board of Directors (“Board”) from among Non-Executive Directors and shall consist of not less than three (3) members, out of which minimum of two (2) members shall be independent Directors.
- b. In the event of any vacancy in the NGC resulting in the number of members being reduced to below three (3), the Board shall within three (3) months appoint such number of new members as may be required to make up the minimum number of three (3) members.
- c. The appointment of a NGC member shall automatically be terminated if the member ceases to be a Director, or as determined by the Board.

3.2. Functions

- a.** To recommend to the Board of Directors, candidates for all directorships to be filled by the shareholders or the Board of Directors. In making its recommendations, the NGC should consider the following attributes of the candidates:
 - (a)** age and gender;
 - (b)** knowledge, skills, knowledge, expertise and experience, background, character,;
 - (c)** professionalism, competence and commitment (including time commitment)
 - (d)** integrity and good repute, and
 - (e)** in the case of candidates for the position of Independent Non-Executive Directors, the NGC should evaluate the independence and objectivity to fulfil his/her responsibilities on the Board and the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.
- b.** To ensure that Directors and Senior Management are fit and proper persons to hold office as per the criteria set out in the applicable Direction/s issued by the Monetary Board of the Central Bank of Sri Lanka from time to time and the relevant Statutes.
- c.** The NGC shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the Company as a whole.
- d.** The NGC shall set the criteria, such as Academic/professional qualifications, skills, experience and key attributes required for eligibility, to be considered for appointment to the post of Director, CEO and Senior Management.
- e.** To review regularly the Board and Board Sub Committee structures, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary and to recommend directors to committees of Board.
- f.** To evaluate, propose and recommend candidates for the approval of the Board to fill Board vacancies as and when the needs arise.
- g.** To review the required mix of skills, knowledge and experience and other qualities, including core competencies which non-executive directors should bring to the Board.

- h.** To evaluate and recommend the appointment, promotion, transfer and re-designation of the Managing Director/Executive Directors.
- i.** To review and evaluate the effectiveness and performance of the Managing Director/Executive Directors including character, experience, integrity, competence and timely discharge of their duties.
- j.** To establish and implement processes for carrying out annual assessment on the effectiveness of the Board as a whole, committees of the Board and contribution of each individual Director, including Independent Non-Executive Directors and Managing Director/Executive Directors.
- k.** To review and recommend the outcome of the evaluations and assessments to the Board concerning the areas for continuous improvement.
- l.** To recommend Directors who are retiring by rotation to be placed before the shareholders for re-election taking in to account,
 - (a)** The combined Knowledge, experience, performance and contribution made by the director to meet the strategic demands of the listed entity and the discharge of the Board's overall responsibilities.
 - (b)** The number of directorships held by the Director in other listed and unlisted companies and other principal commitments.
- m.** Establish and maintain a formal and transparent procedure to evaluate, select and appoint/re-appoint Directors of the Company.
- n.** To oversee and review the Board's succession plan including the succession of Chairman of the Board and Managing Director/Executive Directors in order to maintain an appropriate balance of skills, knowledge and experience.
- o.** Upon the appointment of a new Director to the Board, the NC shall assign the responsibility to the Company Secretary to disclose to the shareholders (i) a brief resume of the Director (ii) the nature of the expertise in relevant functional areas (iii) the names of companies in which the Director holds directorships and shall communicate to the

Colombo Stock Exchange, the memberships in Board Sub Committees and whether such Director can be considered 'independent'.

- p. To ensure that induction programme is in place for newly appointed Directors with respect to the business, structure and management of the Company as well as the expectations of the Board with regard to their contribution to the Board and the Company.
- q. To review the training needs of Directors and ensure that all Directors receive appropriate continuous training programmes in order to broaden their perspective and to keep abreast with developments in the market place and of the new statutory regulatory requirements.
- r. To recommend to the Board the employment of the services of such advisers as it deems necessary to fulfill its responsibilities.
- s. To carry out such other duties or functions as may be delegated by the Board from time to time or required by the regulatory authority.
- t. To consider and examine such matters as the NGC considers appropriate.

4. Board Human Resource and Remuneration Committee

4.1. Composition

- a. The Board Human Resource and Remuneration Committee ("BHRRC"), (Committee) shall be appointed by the Board of Directors ("Board") from among their number and shall consist of not less than three (3) members, comprises exclusively of non-executive directors, a majority of whom shall be independent.
- b. In the event of any vacancy in the Committee resulting in the number of members being reduced to below three (3), the Board shall within three (3) months appoint such number of new member as may be required to make the minimum number of three (3) members.
- c. The appointment of a member shall automatically be terminated if the member ceases to be a Director, or as determined by the Board.

4.2. Functions

- a.** To recommend the Remuneration Policy of the Company relating to Executive Directors, Senior Management and fees and allowance structure for non-executive directors and amendments if any to the said Policy from time to time.
- b.** To review the performance of the Senior Management (Excluding Chief Internal Auditor, Compliance Officer and Chief Risk Officer) against the set targets and goals, which have been approved by the board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- c.** To review the Managing Director's and the Executive Directors' remuneration which should be aligned with their responsibilities and contributions including scope of service agreements, terms of employment or contract of employment/service, benefits, pension or incentive scheme entitlement, bonuses, fees and expenses and any compensation payable on termination of employment/service contract by the Company and to review changes thereto, as necessary, and recommend the same to the Board for approval.
- d.** To ensure that the remuneration framework for senior management and other employees are in place and structure to ensure that reward is measurably linked to individual's performance, skills, experience and level of responsibilities.
- e.** To oversee any major changes in employee remuneration and benefit structures throughout the Company.
- f.** To carry out such other duties or functions as may be delegated by the Board from time to time or required by the regulatory authority.
- g.** To consider and examine such matters as the Committee considers appropriate.

5. Board Audit Committee

5.1. Composition

- a. The members of the committee shall be appointed by the Main Board of Directors and shall be non-executive directors of whom a majority shall be independent.
- b. The Chairman of the committee shall be an independent non-executive director who possesses qualifications and experience in accountancy and/or audit. The members of the committee also shall possess relevant skills, knowledge and experience to discharge the committee responsibilities.
- c. The secretary shall be the chief internal auditor or such other person appointed by the committee who shall arrange meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee.
- d. The Chief Finance Officer, the Chief Internal Auditor and a representative of the external auditors may normally attend meetings.
- e. The Managing Director, Executive Directors, Chief Risk Officer, Head of Treasury and Head of IT attend Audit Committee meetings as invitees. Other board members, senior management and executives are invited as appropriate.

5.2. Functions

External (Independent) Audit

- a. The committee shall make recommendations on matters in connection with:
 - i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;
 - ii) The implementation of the Central Bank guidelines issued to auditors from time to time;
 - iii) The application of the relevant accounting standards; and

- iv)** The service period, audit fee and any resignation or dismissal of the auditor. The committee will ensure that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, the committee shall ensure that the service of the same audit firm shall not be used for more than ten (10) year consecutively.
- v)** The committee shall ensure that the audit engagement partner maintains adequate intendance and he/she shall not be a substantial shareholder, director, senior management or employee of any finance company.
- b.** The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- c.** The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity.
- d.** The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including;

 - I.** An assessment of LB Finance PLC's compliance with Directions issued under the Finance Business Act and the management's internal controls over financial reporting;
 - II.** The preparation of financial statements in accordance with relevant accounting principles and reporting obligations.
 - III.** The Coordination between Auditors where more than one Auditor is involved.
- e.** At least once in six months, the committee shall meet with the external auditors without the executive directors, senior management and employees being present.

- f. At the end of the audit each year the Committee shall, with inputs from management and the internal auditors, evaluate the performance of the external auditors and discuss the results with the external auditors.

Financial and Management Reporting

- g. The committee shall review the financial information of LB Finance PLC, in order to monitor the integrity of the financial statements of the company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on:
 - i) Major judgmental area;
 - ii) Any changes in accounting practices and policies;
 - iii) Significant adjustments arising from the audit;
 - iv) The going concern assumption;
 - v) The compliance with relevant accounting standards and other legal requirements;
 - vi) Review of quality/adequacy of monthly MIS reports to the Board; and
 - vii) Periodic review of IT systems.
- h. The committee shall discuss issues, problems and reservations arising from the interim and final audits, any matters the auditor may wish to discuss including matters that may need to be discussed without the presence of key management personnel, if necessary.
- i. The committee shall review the external auditor's management letter and the management's response thereto within 3 months of its submission and report to the Board.

The Internal Audit

- j. committee responsible to establish an independent internal audit function to provide an independent assurance to the committee on quality and effectiveness of the company's internal controls, risk management, governance system and the processes. The Chief Internal Auditor is accountable to the Committee and shall have direct access to the Chairman of the Committee and the Chairman of the Company
- k. The committee shall take the following steps with regard to the internal audit function of the company:

 - i) Annually review the structure, adequacy of the overall scope of work, resources and performance of the internal audit function of the company, and satisfy itself that the internal auditors have the necessary authority to carry out their work;
 - ii) Review the annual internal audit programme, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of internal audits. The annual internal audit programme shall take into consideration the views of management and the external auditor,
 - iii) Review the results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal auditors;
 - iv) Ensure that the internal audit function is free from any management or other restriction to carry out its work in a professional manner;
 - v) Recommend any appointment or termination of the head, senior staff members and outsourced service providers of the internal audit function;
 - vi) Review any appraisal or assessment of the performance of the Chief Internal Auditor and senior staff members of the internal audit department.

- vii)** Ensure the committee is apprised of resignations of senior staff members / outsourced service providers of internal audit department, and provide an opportunity to submit reasons for resignations
- l.** The committee shall consider the major findings of internal investigations and management's responses thereto;
- m.** The committee shall review arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.

Internal Controls and Risk management

- n.** Review the design, adequacy and effectiveness of the internal control systems, at least by annually, to provide reasonable assurance on the maintenance of proper accounting records and the reliability of financial information generated and safeguarding of the assets of the company.
- o.** Review of Internal Audit reports on reported weaknesses in the internal control system and ensure appropriate Management action to manage the material risks faced by the company;
- p.** Review the Directors' statement on internal controls over financial reporting;
- q.** Review the Risk management framework developed by the Integrated Risk Management Committee; and

Compliance

- r.** The committee shall review the statutory examination reports of CBSL and ensure necessary corrective actions are taken on a timely manner and monitor the progress of time-bound action plan, at least on quarterly basis.

Any Other Matters

- s. Perform any other activity within the purview of this Charter at the discretion of the Committee or such other activity as may be delegated by the Board from time to time.

6. Board Related Party Transactions Review Committee

6.1. Composition

- a. The Committee shall be comprised of two or more directors and shall consist of a combination of nonexecutive directors and independent non-executive directors as determined from time to time by the Board. The Board shall decide and appoint an independent non-executive director as the chairperson of the Committee provided that if the Board does not so appoint a chairperson, the members of the Committee, by a majority vote may appoint a chairperson.
- b. The membership of the Committee will be reviewed by the Board annually.
- c. Any vacancy on the Committee shall be filled by resolution of the Board at the next meeting of the Board following the occurrence of the vacancy. No member of the Committee may be removed except by majority vote of the Board.
- d. The Committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee.

6.2. Functions

- a. The Board and Committee recognize that managing relationships with Related Parties are important to the business of the Company, and that the Committee's policies and procedures should be structured to uphold good governance and the best interests of the Company.

- b.** In furtherance of this goal, the Committee shall provide independent review, approval and oversight of RPTs on the terms set forth in greater detail in the RPT Policy.
- c.** The Committee shall review the Charter and Policy annually and recommend amendments to the Charter and Policy to the Board as and when determined to be appropriate by the Committee.
- d.** The Committee will have the resources and authority to discharge its duties and responsibilities. The Committee has sole authority to retain and terminate outside counsel or other experts or consultants, as it deems appropriate to ensure that the Committee has access to sufficient knowledge or expertise to assess all aspects of proposed RPTs. The Company will provide the Committee with appropriate funding, as the Committee determines for the payment of such advisors as it deems appropriate and the administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Company and the Committee will take all necessary steps to preserve the privileged nature of those communications.
- e.** Members of the Committee are directors with oversight and review responsibilities. Members of the Committee should ensure that they have, or have access to, enough knowledge or expertise to assess all aspects of proposed Related Party Transactions, and where necessary, they should obtain appropriate professional and expert advice from an appropriately qualified person. It is not the duty or responsibility of the Committee or its members to make any determinations regarding the operational, technical or financial impacts of any proposed RPT (although such matters may be reviewed by members in other capacities as directors or members of other committees). Each member of the Committee shall be entitled to rely (absent actual knowledge to the contrary or circumstances where such reliance would be inconsistent with good faith) on (i) the integrity of those persons presenting to the Committee and (ii) the accuracy of the

information provided to the Committee, including with respect to the procedures followed in connection with a proposed transaction.

- f. The Committee will perform such other functions as assigned by law and regulations or the Board.
- g. The Committee shall take the necessary steps to avoid any conflict of interest that may arise from any transaction of the Company with any person and particularly with the related parties for the purpose of this Direction. In this regard, there shall be a named list of natural persons/ institutions identified as related parties, which is review on a quarterly basis and regularly as and when the need arises.
- h. The Committee shall ensure that the Company does not engage in business transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to other similar constituents of the Company as prescribed in the Related Party Transaction Policy.

RESPONSIBILITY OVER THE REVIEWING OF RELATED PARTY TRANSACTIONS

- i. All related party transactions shall be prior reviewed and recommended by the Committee except the Related Party Transactions that are within the covered approval level threshold mentioned in the RPT Policy.
- j. When seeking the views of the Committee for a particular RPT, the senior management shall provide to the Committee the following facts and circumstances of the proposed RPT:
 - i. the Related Party’s relationship to the Company and interest in the transaction;
 - ii. the material facts of the proposed RPT, including the proposed aggregate value of such transaction;
 - iii. the benefits to the Company from the proposed RPT;
 - iv. the availability of other sources of comparable products or services; and

- v. an assessment of whether the proposed RPT is on terms that are comparable to the terms generally available to an unaffiliated third party under the same or similar circumstances, or to employees generally.
- k. At each subsequent Committee meeting, the senior management shall update the Committee on any proposed material changes in any previously reviewed RPTs and seek approval of the Committee for such proposed material changes prior to the completion of the transaction.
- l. In determining whether to obtain the approval of the Board for a RPT, the Committee shall take into account, among other factors it deems appropriate:
 - i. the facts and circumstances provided by the senior management as set out above;
 - ii. in the event the Related Party is a director, an immediate family member of a director or an entity in which the director is a partner, shareholder or executive officer, upon consultation with the Chairman of the Board of Directors and the Chairman of the Nomination and/or Audit Committee, the impact of the proposed RPT on such director's independence, and
 - iii. whether the RPT requires immediate market disclosure, as set out in the RPT Policy.
- m. No director shall participate in any discussion of a proposed RPT for which he or she is a Related Party. However, such director, at the request of the Committee, may participate in discussions for the express purpose of providing information concerning the RPT to the Committee. Where the Committee deems it necessary considering the issues of potential conflict, which were presented to the Committee, the Committee may recommend the creation of a special sub-committee to review and approve the proposed RPT.
- n. In the event of a Recurrent Related Party Transaction, the Committee may establish guidelines for the senior management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee, on a quarterly basis, shall review and assess ongoing relationships with the Related Party to determine whether they are in compliance with the Committee's guidelines and that the particular RPT remains appropriate.

7. Board Integrated Risk Management Committee

7.1. Composition

- a. The committee shall be chaired by an independent director. The membership shall consist of at least three non-executive directors and shall include members who have experience and knowledge in banking, finance, risk management issues and practices. The Managing Director, Head of Risk Management and key management personnel supervising broad risk categories i.e. credit, market, liquidity, operational and strategic risks may attend the meetings upon invitation. The Committee shall work with key management personnel closely and make decisions on behalf of the Board, within the framework of authority and responsibility assigned to the committee. The Board may consider occasional rotation of members and of the chairperson.

7.2. Functions

- a. Committee shall establish an independent risk management function responsible for managing risk taking activities across the company.
- b. Developing risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that the Company will accept, or avoid, in order to achieve the strategic business objectives.
- c. Review and recommend at least annually, the Company's overall risk governance structure, risk management policies and Risk Appetite Statement for the approval of BOD.
- d. The Committee shall assess all material risks i.e. credit, market, liquidity, operational, strategic, compliance and technology risks of the Company at least once in two months' basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board
- e. The committee shall consider, monitor and approve, as required, the Company's material strategies, frameworks, plans, policies, processes, models, limits and regulatory

requirements in place to govern risk-taking that are consistent with the risk management strategy and the established risk appetite of the Company.

- f.** The Committee shall review the adequacy and effectiveness of all management level committees such as Credit Committee, Asset-Liability Committee, IT steering Committee to address specific risk and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- g.** The Committee shall review any issues raised by External Auditors or Internal Audit that may materially impact the Company's risk management framework or the risk management.
- h.** The Committee shall:
 - I.** receive reports from management concerning capital adequacy, asset quality, credit, market, liquidity, operational, new and emerging risks etc in order to oversee these risks and assess their effect on capital levels.
 - II.** receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them and, if thought fit, approve them;
- i.** The Committee shall take prompt corrective action to mitigate the effects of specific risk in the case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisory requirements.
- j.** The Committee shall assess all aspects of risk management including business continuity and disaster recovery plans
- k.** The Committee shall submit a risk assessment report to the Board Meeting following the BIRMC meeting seeking the Board's view, concurrence and /or specific directions.
- l.** The Committee shall oversee and review the outcomes of stress testing of the risk portfolio, including both scenario analysis and sensitivity analysis for the capital adequacy assessment process and liquidity adequacy assessment process;
- m.** The Committee shall oversee the reports from management regarding the Company's insurance strategy.

- n. The Committee shall review new product/processes of the Company and recommend the proposed product processes for Board approval.
- o. The Committee shall oversee management processes to ensure adherence to the Company's risk management policies.
- p. The Committee shall review the overall and the individual branch level risk reports on a quarterly basis.
- q. Committee shall establish an independent compliance function to assess company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations. A dedicated Compliance Officer selected from key management personnel shall carry out the compliance function and report to the Committee periodically.
- r. The Committee shall annually assess the performance of the compliance officer and the Chief Risk Officer.

Other Responsibilities

- a. Review and assess the adequacy of the Terms of Reference at least annually and recommend any proposed changes to the Board for approval. Submit this Charter to the Board for approval.
- b. Maintain minutes of meetings and periodically report to the Board on significant results of the foregoing activities.