

SRI LANKA RELATED SERVICES PRACTICE STATEMENT 4752 (Revised)

ENGAGEMENTS TO REPORT ON THE COMPLIANCE WITH THE CORPORATE GOVERNANCE DIRECTIVE ISSUED BY THE CENTRAL BANK OF SRI LANKA FOR FINANCE COMPANIES

(Effective for engagements commencing on or after 15 December, 2023)

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Introduction

- 1 The purpose of this Sri Lanka Related Services Practice Statement 4752 (Revised) (SLRSPS 4752 (Revised)) is to establish Standards and provide guidance on the directions issued by the Central Bank of Sri Lanka (CBSL), on Corporate Governance for Licensed Finance Companies, Section 3(2) of the Corporate Governance Direction, No. 05 of 2021 issued under the Finance Business Act, No. 42 of 2011. These directions require the external auditor of the finance company to report on the finance company's compliance with the corporate governance directions in the corporate governance reports published by the finance companies after 15 December 2023.
- 2 The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) was requested by the CBSL to develop a guidance to practitioners to comply with the above direction. CA Sri Lanka considered international practice and technical guidance in audit practices to formulate an "agreed upon procedure" under the principles set out in Sri Lanka Standards on Related Services 4400 (Revised) (SLSRS 4400 (Revised)).
- 3 CA Sri Lanka believes this practice statement will provide a useful guidance to practitioners. This guidance also illustrates the responsibilities of auditors and directors in fulfilling the requirements enunciated by the above direction issued by the CBSL. In addition, illustrations of an engagement letter, report and an annexure to the report on factual findings are provided to assist the practitioners in reporting requirements.

Illustration of an engagement letter for agreed-upon procedures engagement to comply with the Corporate Governance Direction No.05 of 2021 issued for Finance Companies issued under the Section 12 of Finance Business Act, No. 42 of 2011 issued by the Central Bank of Sri Lanka

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement to comply with the Corporate Governance Direction No.05 of 2021 issued for Finance Companies issued under the Section 12 of Finance Business Act, No. 42 of 2011 issued by the Central Bank of Sri Lanka. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the Sri Lanka Standard on Related Services (SLSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which does not require us to be independent.

An agreed-upon procedures engagement performed under SLSRS 4400 (Revised) involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your company is meeting the compliance requirements of the directive on corporate governance issued by the Central Bank of Sri Lanka.¹ Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you any material matters that come to our attention. Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

We have agreed to perform the following procedures and report to you the findings resulting from our work: (Describe where relevant the timing and extent of the procedures to be performed in annexure 'A' including specific reference, where applicable, to the identity of documents and records to be reviewed, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures are to be performed between [Date] and [Date].

Our Agreed-Upon Procedures Report

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report].

Timing

Estimated timing for the engagement is [Estimated time] assuming no unprecedented delays.

The procedures are to be performed between [Date] and [Date] assuming no unprecedented delays.

Fees

Our fees excluding Taxes and out of pocket expenses will be [Amount].

Our fees are based on the estimate of time required by the individuals assigned to complete the engagement. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required and any additional work that may be required after we issue the report will be charged on an hourly basis.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

¹ In this case, the engaging party is also the intended user.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm's name]

Acknowledged and agreed on behalf of [Engaging party's name] by:

[Signature]

[Name and Title]

[Date]

Illustration of a report of factual findings in connection with the corporate governance direction issued by the Central Bank of Sri Lanka

AGREED-UPON PROCEDURES REPORT ON COMPLIANCE REQUIREMENTS OF THE DIRECTIVE ON CORPORATE GOVERNANCE ISSUED BY THE CENTRAL BANK OF SRI LANKA

To [Addressee] The Board of Directors

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting [Engaging Party] in determining whether your company is meet the compliance requirements of the directive on corporate governance issued by the Central Bank of Sri Lanka and may not be suitable for another purpose. This report is intended solely for [Engaging Party] and [Intended Users], and should not be used by, or distributed to, any other parties.

Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Sri Lanka Standard on Related Services (SLSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements in the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies Sri Lanka Standard on Quality Control (SLSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the compliance requirements of the directive on corporate governance issued by the Central Bank of Sri Lanka.

(List the results of the procedures performed)

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

Agreed upon procedures to be followed by the practicing auditor

Appendix A

NOTE: The below mentioned numbering is used to coincide with the “section 2” of the Finance Companies (Corporate Governance) Direction, No. 5 of 2021 amendment issued by the Central Bank of Sri Lanka.

1 Board’s Overall Responsibilities

1(1) Confirm that the Board’s overall responsibility and accountability for the operations of the Finance Company (FC), are established by setting up the strategic direction, governance framework, corporate culture and compliance with regulatory requirements, by carrying out the following procedures:

- Obtain approved board policy
- Read and understand policy to determine whether Board is assigned with the expected level of responsibility.
- Read the meeting minutes of the Board/Board sub committees to understand execution of the assigned responsibilities.

1(2) Business Strategy and Governance Framework

a) Confirm the Board has approved and overseen the implementation of overall business strategy, by carrying out the following procedure:

- Read board minutes and note whether measurable goals for next three years have been set and updated the same annually in view of the developments in the business environment.

b) Confirm the Board has approved and implemented governance framework commensurate with the FC’s size, complexity, business strategy and regulatory requirements.
By carrying out the following procedure:

- Read the approved governance framework.

c) Confirm the Board has assessed the effectiveness of its governance framework, by carrying out the following procedure:

- Read board minutes and note whether Board has assessed the effectiveness of its governance framework periodically.
- Document the month and year it was last assessed.

d) Confirm the Board has appointed the Chairperson and the Chief Executive Officer (CEO) and defined their roles and responsibilities, by reading the Terms of Reference/ Job Description for Chairperson and CEO.

1(3) Corporate Culture and Values

a) Confirm the Board has adopted a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior by carrying out the following procedure:

- Read Board Audit committee meeting minutes to determine whether Board has given due priority to establish: independent and adequately resourced internal audit; compliance and risk management functions; together with monitoring and implementing the code of conduct.
- Read the approved Code of Conduct and together with monitoring and implementing the code

of conduct.

- Board Audit committee meeting minutes to note whether Board has given due priority to establish:
 - independent and adequately resourced internal audit;
 - compliance and risk management functions;
 - a process to monitor and implement the code of conduct.
- b)
 - Read the Board meeting minutes and determine the Board has played a lead role in establishing the FC's corporate culture and values,
 - Confirm whether the Board has approved the code of conduct in compliance with the section 14.1 of Corporate Governance Direction.
 - Confirm that a written and approved process is set up to:
 - manage conflicts of interest
 - record breaches of code of conduct; and
 - record actions taken on such breaches
- c) Observe the Board has promoted sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.
- d) Confirm the Board has approved the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the FC's performance, position and prospects in public and regulators.

1(4) Risk Appetite, Risk Management and Internal Controls

- a)
 - Inspect the Board has established and reviewed the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework.
 - Read Board meeting minutes to understand whether the Board has used RAS in relevant key discussions.
- b)
 - Observe the Board has implemented appropriate systems and controls to identify, mitigate and managed risks prudently.
 - Read the previous year's External Auditor's certification and Directors' Responsibility Statement on Internal Control Systems Over Financial Reporting and determine whether matters noted have been actioned with appropriate timelines.
 - Read the previous year's External Auditor's Management Letter and determine whether matters noted have been actioned with appropriate timelines.
- c)
 - Confirm the Board has adopted and reviewed the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically.
 - Read the meeting minutes of the Board/ Board sub-committees to determine whether measures have been/ are being taken to address the concerns identified by the regulators, external or internal auditors on the internal control systems and management information systems.
- d)
 - Confirm the Board has approved and overseen business continuity and disaster recovery plan for the FC.
 - Inquire and document the latest BCP testing conducted by the FC.

1(5) Board Commitment and Competency

- a) Observe all members of the Board devote sufficient time on dealing with the matters relating to

affairs of the FC by carrying out the following procedures:

- Read the Board meeting minutes and confirming attendance of members of the Board.
- Read the attendance records provided by the Board secretary and confirm attendance of members of the Board.
- b) Confirm that all members of the Board possess necessary qualifications, adequate skills, knowledge, and experience.
 - By reading the profile provided by the Board secretary
 - In respect of the Board members approved during the year, read the Fitness and propriety letter from CBSL along with the affidavits/declarations submitted to the regulator.
- c) Inspect the Board has regularly reviewed and agreed the training and development needs of all the members, by carrying out the following procedures:
 - Observe the assessment of the training needs of Board
 - Read the relevant documents to note actual training and development activities taken place during the year
- d)
 - Confirm the Board has adopted a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and observe whether the FC has maintained records of such assessments.
 - Read relevant records of such assessments conducted during the year.
- e)
 - Read the Board approved procedure established to enable the Board to seek external independent professional advice and determine whether the areas where Board will seek such advice, exemptions and the details of procedure are included.
 - Observe whether the Board has resolved to obtain external independent professional advice in line with established procedure by reading the Board meeting minutes.

1(6) Oversight of Senior Management

- a) Obtain the latest Board approved senior management list and observe whether the Board has identified and designated senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.
- b) Inspect the job descriptions of the senior management or any other relevant document that defines the areas of authority and key responsibilities for the senior management.
- c)
 - Read the Nomination Committee meeting minutes and observe approval of the senior management members to such roles.
 - Read other relevant documents that carry information about approved senior management members that possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.
- d) Observe whether the Board ensures that there is an appropriate oversight of the affairs of the FC by senior management.
For eg: Read org chart
Read board papers submitted
Delegated authority approval.
- e)
 - Confirm the Board has approved the succession plan for senior management.
 - Read of the succession plan and note it adequately covers key positions and its

appropriateness.

- f) Confirm the Board meets the senior management regularly to review policies, establish lines of communication and monitor progress towards strategic objectives, by reading the Board minutes and sub-committee meeting minutes

1(7) Adherence to the Existing Legal Framework

- a) Confirm the Board ensures that the FC does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders, by carrying out the following procedures.
- Read relevant Board minutes and sub-committee meeting minutes.
 - Observe whether relevant minutes refers to follow-up procedures of noted non-compliances
 - Observe that internal audit process and compliance process have been established
- b) Inspect the Board adheres to the regulatory environment and ensure compliance with relevant laws, regulations, directions and ethical standards, by reading the relevant minutes of internal audit process and compliance process that includes specific planned work to establish compliance in relation to relevant laws, regulations, directions and ethical standards.
- c) Observe the Board acts 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, by carrying out the following:
- Read legal correspondences
 - Read minutes of meetings related to risk management process

2 Governance Framework

- 2(1)** • Confirm the Board has developed and implemented a governance framework in line with the CBSL directions and including but not limited to the following.

- a) role and responsibilities of the Board
- b) matters assigned for the Board.
- c) delegation of authority.
- d) composition of the Board.
- e) the Board's independence.
- f) the nomination, election and appointment of directors and appointment of senior management.
- g) the management of conflicts of interests
- h) access to information and obtaining independent advice.
- i) capacity building of Board members,
- j) the Board's performance evaluation.
- k) role and responsibilities of the chairperson and the CEO.
- l) role of the company secretary,
- m) Board sub committees and their role; and

n) limits on related party transactions.

- Read the relevant policies/ procedures connected with the approved governance framework and evidence for appointment of sub committees established to implement the board governance framework.

3 Composition of the Board

- 3(1)** Confirm the Board's composition to ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC.
- 3(2)** Confirm number of directors on the Board which shall not be less than seven (07) and not more than thirteen (13).
- 3(3)** Confirm whether the total period of service of a director other than a director who holds the position of CEO/executive director, shall not exceed nine years, subject to direction 3.4.
- 3(4)**
- Confirm whether is there any non-executive director who holds office exceeding 9 years of service.

If yes, confirm whether the FC has obtained prior approval from the Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3.

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

- Confirm whether the number of non- executive directors eligible to exceed 9 years (*if any*) are limited to one-fourth (1/4) of the total number of directors of the Board.

3(5) Executive Directors

- a)**
- Confirm whether, only an employee of a FC has been nominated, elected and appointed, as an executive director of the FC.
 - Confirm whether the number of executive directors has not exceeded one-third (1/3) of the total number of directors of the Board.
 - Read of contract of employment for executive directors, if any.
- b)** Confirm whether FC has appointed any executive director or as senior management, who is a shareholder who directly or indirectly holds more than 10% of the voting rights of the FC.

Confirm whether are there existing executive directors with a contract of employment and functional reporting line and existing senior management who are allowed to continue as an executive director/senior management until the retirement age of the FC and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3.

Confirm whether are there any existing executive directors without a contract of employment and functional reporting line.

If yes, confirm whether such executive director step down from the position of executive director from the effective date of this direction and observe whether he/she has reappointed as a non-executive director subject to provisions contained in direction 4.2 and 4.3.

- c)** Confirm whether the CEO is one of the executive directors and is designated as the managing director of the FC, in the event of having executive directors on the Board.

- d) Observe whether all Executive directors have a functional reporting line in the organization structure of the FC.
- e) Observe whether executive directors are required to report to the Board through the CEO by reading the latest approved organization structure.
- f) Confirm whether Executive directors have refrained from holding executive directorships or senior management positions in any other entity through a written confirmation by the Board secretary.

3(6) Non-Executive Directors

- a)
 - Observe by reading the fitness and propriety approval from CBSL along with the affidavits/declarations submitted to the regulator, whether non-executive directors possess credible track records,
 - By reading the profile provided by the Board secretary understand if Non-executive directors have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct.
- b) Obtain the confirmation from company secretary if a non-executive director is appointed or functions as the CEO/executive director of the FC.

3(7) Independent Directors

- a) Confirm the number of independent directors of the Board, which shall be at least three (03) or one-third (1 / 3) of the total number of directors, whichever is higher.
- b)
 - Observe by reading the fitness and propriety approval from CBSL along with the affidavits/declarations submitted to the regulator, whether independent directors possess proven track records.
 - By reading the profile provided by the Board secretary determine whether independent directors have necessary skills, competency and experience.
- c)
 - Inspect the independence criteria of independent non-executive directors.

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 FC or exceeding 10% of the voting rights of any other FC.

ii. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.

iii. Director has been employed by the FC 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 the FC 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 the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC.

vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC.

vii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, in which any of the other directors of the FC is employed or is 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 the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), 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 FC.

- Obtain confirmation from the Board secretary to this extent.
- d) • Confirm whether the nomination committee and Board have determined whether there is any circumstance or relationship, which is not listed at direction 3.7, which might impact a director's independence, or the perception of the independence.
- Obtain confirmation from the Board secretary to this extent.
- e) • Confirm whether independent directors have immediately disclosed to the Board on any change in circumstances that may affect the status as an independent director.
- Confirm whether the Board has reviewed such director's designation as an independent director and observe whether it has been notified to the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation.

3(8) Alternate Directors

- a) • Confirm whether FC has appointed any alternate directors. If yes, confirm whether such representation is allowed in this Direction.

Representation through an alternate director is allowed only;

i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and

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.

- Observe by reading the fitness and propriety approval from CBSL for Alternate Directors along with the affidavits/declarations submitted to the regulator.
- b) • Observe whether any existing directors of the FC are appointed as an Alternate Director to another existing FC as director.
- Observe whether a current existing director of the Board is not appointed as an Alternate Director as the objective is to appoint a person outside the existing Board.
- c) Report any person appointed as an alternate director to one of the directors who has also extended the role as an alternate director to another director in the same Board.
- d) Confirm whether any alternate director is appointed to represent an executive director.
- e) Confirm whether the alternate director who is appointed to represent an independent director, meets with the criteria for independent directors.

3(9) Cooling off Periods

- a) • Confirm whether is there a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC.
- Observe whether if there is any variation thereto in exceptional circumstances where expertise of

such persons requires to reconstitute a Board of a FC which needs restructuring, and confirm that it has made with prior approval of the Monetary Board.

- Observe by reading the fitness and propriety approval from CBSL for such Directors.
- b) • Confirm whether a director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent under the provisions of this Direction.
- Observe by reading the fitness and propriety approval from CBSL for such Directors.

3(10) Common Directorships

- Confirm whether any director or a senior management of a FC has nominated, elected or appointed as a director of another FC except where such FC is a parent company, subsidiary company or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f).
- Observe the same by reading Directors interest declaration.
- Obtain confirmation from the Board secretary to this extent.

- 3(11)**
- Observe the Board has determined the appropriate limits for directorships that can be held by directors.
 - Confirm any director of a FC holds office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.
 - Obtain confirmation from the Board secretary to this extent.

4 Assessment of Fitness and Propriety Criteria

- 4(1)**
- Confirm whether the nominated, elected or appointed director of the FC or who continues as a director of such FC is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.
 - Observe by reading the fitness and propriety approval from CBSL for such matter.
 - Read the Nomination committee minutes to determine such matter.

- 4(2)** Confirm any person serving as a director of the FC who is over the age of 70 years. (Note: A Director will be allowed to exceed 70 years only up to 31.03.2025.)

- 4(3)** Report any director who exceeds 70 years of age up to maximum of 75 years of age subject to the following,

a) Assessment by the Director/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.

b) Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a).

c) The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.

d) The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.

5 Appointment and resignation of directors and senior management

- 5(1)**
- Inspect whether the appointments, resignations or removals are made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons [KRP]) Direction.
 - Observe the CBSL approval for resignation/retirement or removal of a member of the Board or CEO.
 - Observe whether resignation/retirement or removal of KRP informed to CBSL.

6 The Chairperson and the CEO

- 6(1)**
- Observe whether there is a clear division of responsibilities between the chairperson and CEO and note that responsibilities of each person are set out in writing.
 - Observe this matter by reading the ToR of chairman and CEO.
- 6(2)** Observe the chairperson is an independent director, subject to 6.3 below.
- 6(3)**
- Confirm whether the Board has appointed one of the independent directors as a senior director, with suitably documented terms of reference, in case where the chairperson is not independent, to ensure a greater independent element.
 - Observe whether Senior director has served as the intermediary for other directors and shareholders.
 - Confirm Non-executive directors including senior director shall assess the chairperson's performance at least annually.
- 6(4) Responsibilities of the Chairperson**
- Confirm the responsibilities of the chairperson which at least include the following:
 - a) Provide leadership to the Board.*
 - 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 the Board works effectively and discharges its responsibilities.*
 - e) Ensure 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 and may delegate the function of preparing the agenda and to maintaining 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 CEO.

- Read board minutes to determine this aspect
- Read the approved Code of conduct to determine this aspect
- Observe the ToR of chairman, special Directions issued by the DSNBFI and the implementation status of the same and Annual Assessment of the Chairman

6(5) Responsibilities of the CEO

- Confirm the CEO has functioned as the apex executive-in-charge of the day-to-day management of the FC's operations and business.

The responsibilities of the CEO shall at least include:

- a) Implementing business and risk strategies in order to achieve the FC's strategic objectives.*
 - b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions.*
 - c) Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.*
 - d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.*
 - e) Strengthening the regulatory and supervisory compliance framework.*
 - f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.*
 - g) CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10.*
- For Eg:

- Read TOR or job description of the CEO
- Read minutes of relevant Board meetings including Budget/Strategy discussions meetings to determine this aspect.
- Read the ToR / Job Description of CEO, Directions issued by the Director, SNBFI and the actions initiated by the CEO to maintain the level of compliance with the same etc.

7 Meetings the Board

- 7(1)**
 - Confirm the Board has met at least twelve times a financial year at approximately monthly intervals.
 - Obtain a list of agenda items from the Board secretary that were subject to circulation of papers and determine such matters that led to circulation was practical in that circumstances.
- 7(2)**
 - Observe the Board has ensured that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings.
 - Read the Board meeting minutes that refers to this aspect.
- 7(3)**
 - Confirm whether at least 3 days' notice has been given for a scheduled Board meeting.
 - Observe whether reasonable notice has been given for all other Board meetings.

- 7(4) • Observe whether a director has devoted sufficient time to prepare and attend Board meetings and actively contributed by providing views and suggestions, by reading Board meeting minutes.
- 7(5) • Confirm whether a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one fourth (1/4) of the number of directors that constitute the quorum at such meeting are independent directors.
- Obtain confirmation from the Board secretary to this extent.
- 7(6) • Confirm whether the chairperson has held meetings at least twice a year, only with the non-executive directors, without the executive directors being present, as necessary.
- 7(7) • Inspect whether a director has abstained from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested.
- If yes, confirm whether he has not be counted in the quorum for the relevant agenda item in the Board meeting.
- 7(8) • Inspect whether FC has ceased to be a director who has not attended at least two-thirds (2 /3) of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held.

Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance, subject to applicable directions for alternate directors.

7(9) **Scheduled Board Meetings and Ad Hoc Board Meetings**

Observe whether, for the scheduled meetings, FC has encouraged the participation in person and for ad hoc meetings, participation through electronic means is acceptable where director cannot attend on a short notice.

8 **Company Secretary**

- 8(1) a) • Confirm the Board has appointed a company secretary.
- Read TOR or job description of the Company Secretary.
- Observe by reading the fitness and propriety approval from CBSL for Company Secretary.
- b) • Confirm the Board has appointed its company secretary, subject to relevant transitional provision, and complying with such requirements in the Companies Act, No. 07 of 2007.
- Observe the appointed the company secretary is an employee of FC and shall not become an employee of any other institution.
- 8(2) Confirm all directors have access to advice and services of the company secretary with a view to ensure the Board procedures, laws, directions, rules and regulations are followed.
- 8(3) Observe the company secretary is preparing the agenda, in the event chairperson has delegated carrying out such function.
- 8(4) Observe the company secretary has maintained minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.
- 8(5) Observe the company secretary is maintaining minutes following the proper procedure laid down in the Articles of Association of the FC.

- 8(6) • Observe whether minutes of the Board meetings has recorded in sufficient detail to ascertain whether the Board acted with due care and prudence in performing its duties.

The minutes of a Board meeting shall clearly include the following:

(a) a summary of data and information used by the Board in its deliberations;

(b) the matters considered by the Board;

(c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual director;

(d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions;

(e) the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; and

(f) the decisions and Board resolutions.

- 8(7) Observe whether the minutes are open for inspection at any reasonable time, on reasonable notice by any director.

9 Delegation of Functions by the Board

- 9(1) • Confirm the Board has approved a Delegation of Authority (DA)
- Confirm Board has given clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC.
- 9(2) Observe all the functions to be carried out by sub committees are covered by the Board itself, in the absence of sub committees.
- 9(3) Observe the Board has established appropriate senior management level subcommittees if determined by the Board as required, with appropriate DA to assist in Board decisions.
- 9(4) Confirm the Board has not delegated any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
- 9(5) • Confirm the Board has reviewed the delegation processes in place on a periodic basis, to ensure that they remain relevant to the needs of the FC.
- Document the last approved date for DA limits.

10 Board Sub-Committees

10(1)a) For FCs with asset base of more than Rs. 20 bn

- Confirm FC has established a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee.

For FCs with asset base of less than Rs. 20 bn

- Confirm FC has established at least BAC, BIRMC and Related Party Transactions Review Committee.
- Confirm whether BAC and BIRMC meetings have been held at least quarterly, by referring to meeting minutes.

- Confirm whether other committees have met at least annually, by referring to meeting minutes.
- b) • Inspect each Board sub-committee has a board approved written terms of reference specifying clearly its authority and duties.
- Document the last approved date of terms of reference.
- c) Confirm the Board has presented a report at the annual general meeting of the FC on the performance of duties and functions of each Board sub-committee.
- d) • Confirm whether each sub-committee has appointed a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee.
- Note the comprehensiveness of meeting minutes maintained by the sub-committee secretary.
- e) Confirm each Board sub-committee consists of at least three Board members and is only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee.
- f) • Observe the Board have considered occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives.
- Observe if the Board has adopted an internal policy or incorporated necessary Terms and Conditions in the TOR on rotating the committee members.

10(2) Board Audit Committee (BAC)

- a) • Confirm whether the chairperson of BAC is an independent director who possesses qualifications and experience in accountancy and/or audit.
- Obtain a confirmation from the Board secretary to this extent .
- b) • Confirm the composition of BAC which includes non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC.
- Obtain a confirmation from the Board secretary to this extent.
- c) Confirm whether the secretary to the BAC is the Chief Internal Auditor (CIA). (Note: This is not a mandatory requirement).
- d) **External Audit Function**
 - i) Confirm the BAC has made recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.
 - ii) Confirm whether the Engagement of an audit partner has not exceeded 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.

Confirm whether, FC has not used the service of the same external audit firm for not more than ten years consecutively.

 - iii) Confirm whether the Audit partner of an FC has not be a substantial shareholder, director, senior management or employee of any FC.

iv) Observe the committee has reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.

v) Confirm whether the Audit partner has not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out.

Inspect the BAC has developed and implemented a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.

vi) Confirm whether that, before the audit commences, the BAC has discussed and finalised with the external auditors the nature and scope of the audit, including:

(i) an assessment of the FC's compliance with Directions issued under the 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; and (iii) the co-ordination between auditors where more than one auditor is involved.

vii) Observe the BAC has reviewed the financial information of the FC, in order to monitor the integrity of the financial statements of the FC in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.

viii. Confirm the BAC has discussed issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of senior management, if necessary.

ix) Confirm the BAC has reviewed the external auditor's management letter and the management's response thereto within 3 months of submission of such, and report to the Board.

(Note the transitional provisions given for Section 10 of the Direction until 07.07.2024.)

- e)
 - Confirm the BAC has at least annually conducted a review of the effectiveness of the system of internal controls.
 - Confirm the FC has obtained a report reviewing the effectiveness of the internal control system.
- f)
 - Observe the BAC has ensured that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the FC.
 - Confirm BAC follows up the internal audit findings, supervisory findings by reading the meeting minutes.

g) Internal Audit Function

i) Confirm the committee has established an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations Direction or as amended) that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes.

ii)

- Confirm the internal audit function has a clear mandate, be accountable to the BAC, and be independent.

- Confirm if the Internal Audit Department has adequate resources, expertise and authority to carry out assignments of special nature (e.g., statutory reporting, IS auditing, Gold Loans/ Pawning etc.) effectively.
- Confirm whether the reporting line of the Internal Audit Department is to the Chairman of BAC
- Observe that the internal audit function has sufficient expertise and authority within the FC to carry out their assignments effectively and objectively.

iii) Confirm the BAC shall take the following steps with regard to the internal audit function of the FC:

(i) Review the adequacy of the scope, functions and skills and resources of the internal audit department and ensure the internal audit department has the necessary authority to carry out its work.

(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit.

(iii) Assess the performance of the head and senior staff members of the internal audit department.

(iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.

(v) Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.

(vi) Examine the major findings of internal investigations and management's responses thereto.

- h)**
- Inspect the BAC has reviewed the statutory examination reports of the Central Bank of Sri Lanka (CBSL).
 - Observe necessary corrective actions have been taken in a timely manner and monitored the progress of implementing the time bound action plan quarterly.
 - Read the BAC meeting minutes, and determine the progress is reported regularly of rectifying supervisory concerns raised by CBSL examiners.

i) Meetings of the Committee

i) Confirm the BAC has met as specified in 10.1 above, with due notice of issues to be discussed and has recorded its conclusions in discharging its duties and responsibilities.

ii) Confirm whether the other Board members, senior management or any other employee can attend meetings upon the invitation of the committee when discussing matters under their purview.

iii) Confirm the BAC has met at least twice a year with the external auditors without any other directors/senior management/ employees being present.

iv) Read the attendance reports and observe the required participation of the required members

10(3) Board Integrated Risk Management Committee (BIRMC)

- a)**
- Confirm the BIRMC is chaired by an independent director.
 - Confirm the Board members appointed to BIRMC are non-executive directors with knowledge and experience in banking, finance, risk management issues and practices.

- Confirm whether that the CEO and Chief Risk Officer (CRO) can attend the meetings upon invitation.
 - Observe the BIRMC has worked with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee, by reading reports submitted by BIRMC to the Board
 - Observe the Terms of Reference of BIRMC regarding the appropriateness of the members and their appointment.
- b)** Confirm the secretary to the committee is the CRO.
- c)**
- Observe the committee has assessed the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the FC at least on 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.
 - Read IRMC meeting minutes, Risk Appetite Statement and risk reports submitted to IRMC and observe the assessment of the impact of risks by the BIRMC.
- d)**
- Read the FC's Risk Appetite Statement (RAS) and determine if it which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives.
 - By reading the risk framework and minutes and risk management reports:
 - Confirm the RAS has included quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices.
 - Observe the RAS has defined the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision making and establishing the means to raise risk issues and strategic concerns throughout the FC.
- e)** Confirm the BIRMC has reviewed the FC's risk policies including RAS, at least annually.
- f)** By reading the risk policy/framework, observe the BIRMC has reviewed the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- g)** By reading the approved BCP and DRP, confirm the committee has assessed all aspects of risk management including updated business continuity and disaster recovery plans.
- h)** Confirm that BIRMC has annually assessed the performance of the compliance officer and the CRO.
- i) Compliance Function**
- i. Confirm BIRMC has established an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.
 - ii. Confirm whether for FCs with asset base of more than Rs. 20 bn, has a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management to carry out the compliance function and report to the BIRMC directly.
 - Observe the compliance officer has not have management or financial responsibility related to any operational business lines or income-generating functions, and there has not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or

any other senior management has not served as the compliance officer.

iii) Confirm whether for FCs with asset base of less than Rs. 20bn, has an officer with adequate seniority considered to be senior management has appointed as compliance officer avoiding any conflict of interest.

iv) Confirm the BIRMC has ensured responsibilities of a compliance officer would broadly encompass the following:

(i) develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements;

(ii) ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;

(iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;

(iv) understand and apply new legal and regulatory developments relevant to the business of FC;

(v) secure early involvement in the design and structuring of new products and systems, to ensure conformity with the regulatory requirements, internal compliance and ethical standards;

(vi) highlight serious or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and

(vii) maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity.

- Observe the reporting line of the Compliance Officer (whether to BIRMC or to any other officer).
- Read the Job Description of the Compliance Officer to ensure that s/he is not assigned with management or financial responsibility related to any operational business lines or income-generating functions.

j) Risk Management Function

i) Confirm BIRMC has established an independent risk management function responsible for managing risk-taking activities across the FC.

ii) Confirm whether for FCs with asset base of more than Rs.20 bn, has a separate risk management department and a dedicated CRO considered to be senior management to carry out the risk management function and report to the BIRMC periodically.

iii) Observe the CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.

iv) Confirm the BIRMC has ensured that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: (i) various potential risks and frauds; (ii) possible sources of such risks and frauds; (iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing; (iv) effective measures to control and mitigate risks at prudent levels; and (v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.

v) Observe the CRO has participated in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and made recommendations on risk

management.

vi) Confirm the CRO has maintained an updated risk register, which has submitted to the BIRMC on a quarterly basis.

vii) Confirm the BIRMC has submitted a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.

viii) Read the Job Description of the CRO to determine the reporting line, job role, responsibilities in line with the stated requirements.

10(4) Nomination Committee

- a) Confirm the Nomination committee has constituted with non-executive directors and the majority are independent directors.
- Confirm whether an independent director has chaired the committee.
 - Observe whether the CEO can present at meetings by invitation of the committee.
- b) Confirm whether the company secretary has appointed as the secretary to the nomination committee.
- c) • Confirm the committee has implemented a formal and transparent procedure to select/appoint new directors and senior management.
- Confirm whether the Senior management has appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer.
- d) • Observe the committee has ensured that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.
- Observe by reading the fitness and propriety approval from CBSL.
- e) • Confirm the selection process has included reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.
- Read the TOR of Nominations Committee to determine coverage of above.
- f) • Observe the committee has taken all reasonable steps to ensure that the Board composition was 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 FC as a whole.
- Read the contents of board meeting minutes to determine whether each member actively contributes for decision making and to ensure that no single person dominates the decisions.
- g) Confirm the committee has set the criteria, such as qualifications, experience and key attributes required for eligibility, which to be considered for appointment to the post of CEO and senior management.
- h) Confirm the committee has assigned the responsibility to the company secretary to disclose below to shareholders, upon the appointment of a new director to the Board;
- (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 or memberships in Board committees; and (iv) whether such director can be considered as independent.
- i) Observe the committee has considered and recommended (or not recommend) the reelection of current directors, taking into account the combined knowledge, performance towards strategic

demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.

- j)
 - Observe the committee has considered and recommended from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management.
 - Read the approved succession plan to determine the above.
- k) By reading the minutes of Nominations Committee,
 - Confirm whether a member of the nomination committee has not participated in decision making relating to own appointment/ reappointment.
 - Confirm the Chairperson of the board has not chaired the committee when it is dealing with the appointment of the successor.

10(5) Human Resource and Remuneration Committee

- a) By reading the TOR of HRRC observe the following:
 - Confirm the Human Resources and Remuneration committee is chaired by a non-executive director.
 - Confirm whether the majority of the members are non-executive directors.
- b) Confirm whether the company secretary has appointed as the secretary to the human resource and remuneration committee.
- c)
 - Observe the committee has determined the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors.
 - Observe if the remuneration policy has been approved by the board.
 - Documents the recent most date of approval of the remuneration policy.
- d)
 - Confirm whether the FC has a formal and transparent procedure in developing the remuneration policy.
 - Observe whether the Terms of Reference of the Human Resource and Remuneration Committee, if applicable, have provided adequate guidelines for developing and updating the remuneration policy.
- e)
 - Observe whether the committee has recommended the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC.
 - Confirm whether the policy was subject to periodic review of the Board, including when material changes are made.
 - Confirm whether the board approval has been granted to periodic revisions
- f) Observe whether the remuneration structure was in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.
- g)
 - Confirm the committee has reviewed the performance of the senior management (excluding chief internal auditor, compliance officer, 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.

- Observe whether the goals in the Goal Statements are compared with performance evaluation forms of the members of senior management.
- h) Observe the committee has ensured that the senior management has abstained from attending committee meetings, when matters relating to them are being discussed.

11 Internal Controls

- 11(1) By observing the presence of the internal audit charter, audit committee charter, operational risk management framework, updated Organization Chart with clear reporting lines, delegation of authorities, detailed manuals for operations:
- Confirm FCs adopts well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks.
- 11(2) By reading the internal audit plan, reports and timeliness of submissions, and observing the mechanism established to collect and monitor the operational risks in terms of Key Risk Indicators (KRIs), and maintenance of database of KRIs:
- Observe that FC has a proper internal control system which: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies.
- 11(3) Observe whether all employees are given the responsibility for internal controls as part of their accountability for achieving objectives, by reading a sample of letter of employment/ appointment letters to verify that a term/clause is contained in such letters assigning the responsibility for internal controls at all level employees.

12 Related Party Transactions

- 12(1) • Inspect whether the Board has established a policy and procedures for related party transactions, which covers the following.
- a) All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.*
- b) All related party transactions shall be prior reviewed and recommended by the RPTRC.*
- c) The business transactions with a related party that are covered in this Direction shall be the following:*
- i. Granting accommodation.*
 - ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable.*
 - iii. Providing financial or non-financial services to the FC or obtaining those services from the FC.*
 - iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.*

This aspect is subject to transitional provision given until 01.07.2024.

- 12(2)**
- Observe the Related Party Transactions committee has taken the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction.

In this regard, observe whether there is a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.

a) Directors and senior management.

b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.

c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.

d) Directors and senior management of legal persons in paragraph (b) or (c).

e) Relatives of a natural person described in paragraph (a), (b) or (d).

f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.

- Observe evidence obtained from the Company secretary to determine whether:
 - i) the list of related parties is updated frequently to capture the changes in such parties; and
 - ii) appropriate information and the duly completed declarations from applicable persons (KRPs) are collected from the related parties to confirm the relationship and transactions.

- 12(3)** Confirm the committee has ensured that the FC 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 FC.

For the purpose of this paragraph, "more favorable treatment" shall mean:

a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee.

b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.

c) Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties.

d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or

e) Maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.

13 Group Governance

13(1) Responsibilities of the FC as a Holding Company

- a)** By reading the following :
- Appointment of directors
 - Board agenda includes discussion
 - Monthly reports to CFO

- Observe whether the FC has exercised adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them.
- b) • Confirm the Board of the FC has:
 - i) Ensured that the group governance framework clearly defined the roles and responsibilities for the oversight and implementation of group wide policies.
 - ii) Ensured that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework.
 - iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries.
 - iv) Assessed whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and
 - v) By reading the following :
 - Governance framework of the group
 - Code of conduct of the group
 - Group internal audit scope
 - Group risk management framework
 - Observe that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements.
- c) • Observe whether the FC, as the apex entity, has ensured that the group structure does not undermine its ability to exercise effective oversight.
 - Observe the Board has established a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls.
- d) Observe the Board and senior management of the FC has validated that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed.
- e) By reading the latest group structure obtained from the Board secretary/ CFO, confirm the FC has avoided setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.

13(2) Responsibilities as a Subsidiary

Confirm whether the FC has discharged its own legal and governance responsibilities, if the FC is a subsidiary of another financial institution subject to prudential regulation.

14 Corporate Culture

- 14(1) Confirm whether a FC has adopted a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.
- 14(2) Inspect the FC has maintained records of breaches of code of conduct and addressed such breaches in a manner that upholds high standards of integrity.
- 14(3) • Observe whether a FC has established a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed.

- Observe whether employees are able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal.
- Confirm whether the BAC shall review the policy periodically.

15 Conflicts of Interest

- 15(1)a)**
- Observe whether relationships between the directors have not exercised undue influence or coercion.
 - Confirm whether a director has abstained from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director has not be counted in the quorum for the relevant agenda item in the Board meeting.
- b)**
- Confirm whether the Board has a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties.

The policy for managing conflicts of interest shall,

i. Identify circumstances which constitute or may give rise to conflicts of interests.

ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.

iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest.

iv. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest.

v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and

vi. Articulate how any non-compliance with the policy to be addressed.

16 Disclosures

16(1) Confirm the Board has ensured that:

)

(a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that

(b) such statements are published in the newspapers in Sinhala, Tamil and English.

Confirm the Board has ensured that at least following disclosures are made in the Annual Report of the FC.

i) Financial statements

In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,

- A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.
- A statement of responsibility of the Board in preparation and presentation of financial statements.

ii) Chairperson, CEO and Board related disclosures

- Name, qualification and a brief profile.
- Whether executive, non-executive and/or independent director.
- Details of the director who is serving as the senior director, if any.
- The nature of expertise in relevant functional areas.
- Relatives and/or any business transaction relationships with other directors of the company.
- Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity.
- Number/percentage of board meetings of the FC attended during the year; and
- Names of board committees in which the director serves as the Chairperson or a member.

iii) Appraisal of board performance

An overview of how the performance evaluations of the Board and its committees have been conducted.

iv) Remuneration

- A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non- financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation).
- The aggregate values of remuneration paid by the FC to its directors and senior management.

v) Related party transactions

- The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board.
- Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital.
- The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.

vi) Board appointed committees

The details of the chairperson and members of the board committees and attendance at such meetings.

vii) Group structure

- The group structure of the FC within which it operates.
- The group governance framework.

viii) Director's report

A report, which shall contain the following declarations by the Board:

- The FC has not engaged in any activity which contravenes laws and regulations.
- The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.
- The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.
- The business is a going concern with supporting assumptions; and
- The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.

ix) Statement on internal control

- A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.
- The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.
- A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.
- A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions.

x) Corporate governance report

Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.

xi) Code of conduct

- FC's code of business conduct and ethics for directors, senior management and employees.
- The Chairperson shall certify that the company has no violations of any of the provisions of this code.

xii) Management report

- Industry structure and developments
- Opportunities and threats
- Risks and concerns
- Sustainable finance activities carried out by the company
- Prospects for the future

xiii) Communication with shareholders

- The policy and methodology for communication with shareholders.
- The contact person for such communication.

Questionnaire for compliance officers of finance companies

Annexure A

NOTE: The below mentioned numbering is used to coincide with the “section 2” of the Finance Companies (Corporate Governance) Direction, No. 5 of 2021 amendment issued by the Central Bank of Sri Lanka.

1	Board’s Overall Responsibilities	Complied	Not Complied	N/A	Reference
1(1)	<p>Confirm that the Board’s overall responsibility and accountability for the operations of the Finance Company (FC), are established by setting up the strategic direction, governance framework, corporate culture and compliance with regulatory requirements, by carrying out the following procedures:</p> <ul style="list-style-type: none"> • Obtain approved board policy • Read and understand policy to determine whether Board is assigned with the expected level of responsibility. • Read the meeting minutes of the Board/Board sub committees to understand execution of the assigned responsibilities. 				
1(2)	Business Strategy and Governance Framework				
a)	<p>Confirm the Board has approved and overseen the implementation of overall business strategy, by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read board minutes and note whether measurable goals for next three years have been set and updated the same annually in view of the developments in the business environment. 				
b)	<p>Confirm the Board has approved and implemented governance framework commensurate with the FC’s size, complexity, business strategy and regulatory requirements by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read the approved governance framework. 				
c)	<p>Confirm the Board has assessed the effectiveness of its governance framework, by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read board minutes and note whether Board has assessed the effectiveness of its governance framework periodically. • Document the month and year it was last assessed. 				
d)	<p>Confirm the Board has appointed the Chairperson and the Chief Executive Officer (CEO) and defined their roles and responsibilities, by reading the Terms of Reference/ Job Description for Chairperson and CEO.</p>				
1(3)	Corporate Culture and Values				
a)	<p>Confirm the Board has adopted a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior by carrying out the following procedure:</p>				

		<ul style="list-style-type: none"> • Read Board Audit committee meeting minutes to determine whether Board has given due priority to establish: independent and adequately resourced internal audit; compliance and risk management functions; together with monitoring and implementing the code of conduct. • Read the approved Code of Conduct and together with monitoring and implementing the code of conduct. • Board Audit committee meeting minutes to note whether Board has given due priority to establish: <ul style="list-style-type: none"> – independent and adequately resourced internal audit; – compliance and risk management functions; – a process to monitor and implement the code of conduct. 				
	b)	<ul style="list-style-type: none"> • Read the Board meeting minutes and determine the Board has played a lead role in establishing the FC's corporate culture and values, • Confirm whether the Board has approved the code of conduct in compliance with the section 14.1 of Corporate Governance Direction. • Confirm that a written and approved process is set up to: <ul style="list-style-type: none"> – manage conflicts of interest – record breaches of code of conduct; and – record actions taken on such breaches 	–			
	c)	Observe the Board has promoted sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.				
	d)	Confirm the Board has approved the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the FC's performance, position and prospects in public and regulators.				
1(4)		Risk Appetite, Risk Management and Internal Controls				
	a)	<ul style="list-style-type: none"> • Inspect the Board has established and reviewed the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework. • Read Board meeting minutes to understand whether the Board has used RAS in relevant key discussions. 				
	b)	<ul style="list-style-type: none"> • Observe the Board has implemented appropriate systems and controls to identify, mitigate and managed risks prudently. • Read the previous year's External Auditor's certification and Directors' Responsibility Statement on Internal Control Systems Over Financial Reporting and determine whether matters noted have been actioned with appropriate timelines. 				

		<ul style="list-style-type: none"> Read the previous year's External Auditor's Management Letter and determine whether matters noted have been actioned with appropriate timelines. 				
	c)	<ul style="list-style-type: none"> Confirm the Board has adopted and reviewed the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically. Read the meeting minutes of the Board/ Board sub-committees to determine whether measures have been/ are being taken to address the concerns identified by the regulators, external or internal auditors on the internal control systems and management information systems. 				
	d)	<ul style="list-style-type: none"> Confirm the Board has approved and overseen business continuity and disaster recovery plan for the FC. Inquire and document the latest BCP testing conducted by the FC. 				
1(5)		Board Commitment and Competency				
	a)	<p>Observe all members of the Board devote sufficient time on dealing with the matters relating to affairs of the FC by carrying out the following procedures:</p> <ul style="list-style-type: none"> Read the Board meeting minutes and confirming attendance of members of the Board. Read the attendance records provided by the Board secretary and confirm attendance of members of the Board. 				
	b)	<p>Confirm that all members of the Board possess necessary qualifications, adequate skills, knowledge, and experience.</p> <ul style="list-style-type: none"> By reading the profile provided by the Board secretary In respect of the Board members approved during the year, read the Fitness and propriety letter from CBSL along with the affidavits/declarations submitted to the regulator. 				
	c)	<p>Inspect the Board has regularly reviewed and agreed the training and development needs of all the members, by carrying out the following procedures:</p> <ul style="list-style-type: none"> Observe the assessment of the training needs of Board. Read the relevant documents to note actual training and development activities taken place during the year. 				
	d)	<ul style="list-style-type: none"> Confirm the Board has adopted a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and observe whether the FC has maintained records of such assessments. Read relevant records of such assessments conducted during the year. 				

	e)	<ul style="list-style-type: none"> Read the Board approved procedure established to enable the Board to seek external independent professional advice and determine whether the areas where Board will seek such advice, exemptions and the details of procedure are included. Observe whether the Board has resolved to obtain external independent professional advice in line with established procedure by reading the Board meeting minutes. 				
1(6)		Oversight of Senior Management				
	a)	Obtain the latest Board approved senior management list and observe whether the Board has identified and designated senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.				
	b)	Inspect the job descriptions of the senior management or any other relevant document that defines the areas of authority and key responsibilities for the senior management.				
	c)	<ul style="list-style-type: none"> Read the Nomination Committee meeting minutes and observe approval of the senior management members to such roles. Read other relevant documents that carry information about approved senior management members that possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives. 				
	d)	Observe whether the Board ensures that there is an appropriate oversight of the affairs of the FC by senior management. For eg: Read org chart Read board papers submitted Delegated authority approval				
	e)	<ul style="list-style-type: none"> Confirm the Board has approved the succession plan for senior management. Read of the succession plan and note it adequately covers key positions and its appropriateness. 				
	f)	Confirm the Board meets the senior management regularly to review policies, establish lines of communication and monitor progress towards strategic objectives, by reading the Board minutes and sub-committee meeting minutes.				
1(7)		Adherence to the Existing Legal Framework				
	a)	<p>Confirm the Board ensures that the FC does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders, by carrying out the following procedures.</p> <ul style="list-style-type: none"> Read relevant Board minutes and sub-committee meeting minutes. Observe whether relevant minutes refer to follow-up 				

		<p>procedures of noted non-compliances.</p> <ul style="list-style-type: none"> Observe that internal audit process and compliance process have been established. 				
	b)	Inspect the Board adheres to the regulatory environment and ensure compliance with relevant laws, regulations, directions and ethical standards, by reading the relevant minutes of internal audit process and compliance process that includes specific planned work to establish compliance in relation to relevant laws, regulations, directions and ethical standards.				
	c)	<p>Observe the Board acts 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, by carrying out the following:</p> <ul style="list-style-type: none"> Read legal correspondence. Read minutes of meetings related to risk management process. 				
2	Governance Framework					
2(1)		<ul style="list-style-type: none"> Confirm the Board has developed and implemented a governance framework in line with the CBSL directions and including but not limited to the following. <ul style="list-style-type: none"> a) role and responsibilities of the Board b) matters assigned for the Board. c) delegation of authority. d) composition of the Board. e) the Board's independence. f) the nomination, election and appointment of directors and appointment of senior management. g) the management of conflicts of interests h) access to information and obtaining independent advice. i) capacity building of Board members, j) the Board's performance evaluation. k) role and responsibilities of the chairperson and the CEO. l) role of the company secretary, m) Board sub committees and their role; and n) limits on related party transactions. Read the relevant policies/ procedures connected with the approved governance framework and evidence for appointment of sub committees established to implement the board governance framework. 				

3	Composition of the Board					
3(1)		Confirm the Board's composition to ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC.				
3(2)		Confirm number of directors on the Board which shall not be less than seven (07) and not more than thirteen (13).				
3(3)		Confirm whether the total period of service of a director other than a director who holds the position of CEO/executive director, shall not exceed nine years, subject to direction 3.4.				
3(4)		<p>Confirm whether is there any non-executive director who holds office exceeding 9 years of service.</p> <p>If yes, confirm whether the FC has obtained prior approval from the Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3.</p> <p><i>Non-executive directors,</i> <i>- who directly or indirectly holds more than 10% of the voting rights or</i> <i>- who appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence</i></p> <p>Confirm whether the number of non- executive directors eligible to exceed 9 years (<i>if any</i>) are limited to one-fourth (1/4) of the total number of directors of the Board.</p>				
3(5)		Executive Directors				
	a)	<ul style="list-style-type: none"> Confirm whether, only an employee of a FC has been nominated, elected and appointed, as an executive director of the FC. Confirm whether the number of executive directors has not exceeded one-third (1/3) of the total number of directors of the Board. Read of contract of employment for executive directors, if any. 				
	b)	<p>Confirm whether FC has appointed any executive director or as senior management, who is a shareholder who directly or indirectly holds more than 10% of the voting rights of the FC.</p> <p>Confirm whether are there existing executive directors with a contract of employment and functional reporting line and existing senior management who are allowed to continue as an executive director/senior management until the retirement age of the FC and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3.</p> <p>Confirm whether are there any existing executive directors without a contract of employment and functional reporting line.</p>				

		If yes, confirm whether such executive director step down from the position of executive director from the effective date of this direction and observe whether he/she has reappointed as a non-executive director subject to provisions contained in direction 4.2 and 4.3.				
	c)	Confirm whether the CEO is one of the executive directors and is designated as the managing director of the FC, in the event of having executive directors on the Board.				
	d)	Observe whether all Executive directors have a functional reporting line in the organization structure of the FC.				
	e)	Observe whether executive directors are required to report to the Board through the CEO by reading the latest approved organization structure.				
	f)	Confirm whether Executive directors have refrained from holding executive directorships or senior management positions in any other entity through a written confirmation by the Board secretary.				
3(6)		Non-Executive Directors				
	a)	<ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL along with the affidavits/declarations submitted to the regulator, whether non-executive directors possess credible track records, By reading the profile provided by the Board secretary understand if Non-executive directors have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct. 				
	b)	Obtain the confirmation from company secretary if a non-executive director is appointed or functions as the CEO/executive director of the FC.				
3(7)		Independent Directors				
	a)	Confirm the number of independent directors of the Board, which shall be at least three (03) or one-third (1 / 3) of the total number of directors, whichever is higher.				
	b)	<ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL along with the affidavits/declarations submitted to the regulator, whether independent directors possess proven track records. By reading the profile provided by the Board secretary determine whether independent directors have necessary skills, competency and experience. 				
	c)	<ul style="list-style-type: none"> Inspect the independence criteria of independent non-executive directors. <p><i>A non-executive director shall not be considered independent if</i></p>				

		<p><i>such:</i></p> <p><i>i. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC.</i></p> <p><i>ii. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.</i></p> <p><i>iii. Director has been employed by the FC 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.</i></p> <p><i>iv. Director has been an advisor or consultant or principal consultant/ advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as director.</i></p> <p><i>v. Director has a relative, who is a director or senior management of the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC.</i></p> <p><i>vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC.</i></p> <p><i>vii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, in which any of the other directors of the FC is employed or is a director.</i></p> <p><i>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 the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), 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 FC.</i></p> <ul style="list-style-type: none"> • Obtain confirmation from the Board secretary to this extent. 				
	d)	<ul style="list-style-type: none"> • Confirm whether the nomination committee and Board have determined whether there is any circumstance or relationship, which is not listed at direction 3.7, which might impact a director's independence, or the perception of the independence. • Obtain confirmation from the Board secretary to this extent. 				
	e)	<ul style="list-style-type: none"> • Confirm whether independent directors have immediately disclosed to the Board on any change in circumstances that may affect the status as an independent director. 				

		<ul style="list-style-type: none"> Confirm whether the Board has reviewed such director's designation as an independent director and observe whether it has been notified to the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation. 				
3(8)		Alternate Directors				
	a)	<ul style="list-style-type: none"> Confirm whether FC has appointed any alternate directors. If yes, confirm whether such representation is allowed in this Direction. <p><i>Representation through an alternate director is allowed only;</i></p> <p><i>i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and</i></p> <p><i>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.</i></p> <ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL for Alternate Directors along with the affidavits/declarations submitted to the regulator. 				
	b)	<ul style="list-style-type: none"> Observe whether any existing directors of the FC are appointed as an Alternate Director to another existing FC as director. Observe whether a current existing director of the Board is not appointed as an Alternate Director as the objective is to appoint a person outside the existing Board. 				
	c)	Report any person appointed as an alternate director to one of the directors who has also extended the role as an alternate director to another director in the same Board.				
	d)	Confirm whether any alternate director is appointed to represent an executive director.				
	e)	Confirm whether the alternate director who is appointed to represent an independent director, meets with the criteria for independent directors.				
3(9)		Cooling off Periods				
	a)	<ul style="list-style-type: none"> Confirm whether is there a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC. Observe whether if there is any variation thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of a FC which needs restructuring, and confirm that it has made with prior approval of the Monetary Board. 				

		<ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL for such Directors. 				
	b)	<ul style="list-style-type: none"> Confirm whether a director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent under the provisions of this Direction. Observe by reading the fitness and propriety approval from CBSL for such Directors. 				
3(10)		Common Directorships				
		<ul style="list-style-type: none"> Confirm whether any director or a senior management of a FC has nominated, elected or appointed as a director of another FC except where such FC is a parent company, subsidiary company or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f). Observe the same by reading Directors interest declaration. Obtain confirmation from the Board secretary to this extent. 				
3(11)		<ul style="list-style-type: none"> Observe the Board has determined the appropriate limits for directorships that can be held by directors. Confirm any director of a FC holds office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC. Obtain confirmation from the Board secretary to this extent. 				
4		Assessment of Fitness and Propriety Criteria				
4(1)		<ul style="list-style-type: none"> Confirm whether the nominated, elected or appointed director of the FC or who continues as a director of such FC is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended. Observe by reading the fitness and propriety approval from CBSL for such matter. Read the Nomination committee minutes to determine such matter. 				
4(2)		Confirm any person serving as a director of the FC who is over the age of 70 years. (Note: A Director will be allowed to exceed 70 years only up to 31.03.2025.)				
4(3)		Report any director who exceeds 70 years of age up to maximum of 75 years of age subject to the following, <i>a) Assessment by the Director/Department of Supervision of</i>				

		<p><i>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.</i></p> <p><i>b) Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a).</i></p> <p><i>c) The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.</i></p> <p><i>d) The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.</i></p>				
5	Appointment and resignation of directors and senior management					
5(1)		<ul style="list-style-type: none"> Inspect whether the appointments, resignations or removals are made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons [KRP]) Direction. Observe the CBSL approval for resignation/retirement or removal of a member of the Board or CEO. Observe whether resignation/retirement or removal of KRP informed to CBSL. 				
6	The Chairperson and the CEO					
6(1)		<ul style="list-style-type: none"> Observe whether there is a clear division of responsibilities between the chairperson and CEO and note that responsibilities of each person are set out in writing. Observe this matter by reading the ToR of chairman and CEO. 				
6(2)		Observe the chairperson is an independent director, subject to 6.3 below.				
6(3)		<ul style="list-style-type: none"> Confirm whether the Board has appointed one of the independent directors as a senior director, with suitably documented terms of reference, in case where the chairperson is not independent, to ensure a greater independent element. Observe whether Senior director has served as the intermediary for other directors and shareholders. Confirm Non-executive directors including senior director shall assess the chairperson's performance at least annually. 				
6(4)		Responsibilities of the Chairperson				
		<ul style="list-style-type: none"> Confirm the responsibilities of the chairperson which at least include the following: 				

		<p><i>a) Provide leadership to the Board.</i></p> <p><i>b) Maintain and ensure a balance of power between executive and non-executive directors.</i></p> <p><i>c) Secure effective participation of both executive and non-executive directors.</i></p> <p><i>d) Ensure the Board works effectively and discharges its responsibilities.</i></p> <p><i>e) Ensure all key issues are discussed by the Board in a timely manner.</i></p> <p><i>f) Implement decisions/directions of the regulator.</i></p> <p><i>g) Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary.</i></p> <p><i>h) Not engage in activities involving direct supervision of senior management or any other day to day operational activities.</i></p> <p><i>i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.</i></p> <p><i>j) Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO.</i></p> <ul style="list-style-type: none"> • Read board minutes to determine this aspect. • Read the approved Code of conduct to determine this aspect. • Observe the ToR of chairman, special Directions issued by the DSNBFI and the implementation status of the same and Annual Assessment of the Chairman. 				
6(5)		Responsibilities of the CEO				
		<ul style="list-style-type: none"> • Confirm the CEO has functioned as the apex executive-in-charge of the day-to-day management of the FC's operations and business. <p>The responsibilities of the CEO shall at least include:</p> <p><i>a) Implementing business and risk strategies in order to achieve the FC's strategic objectives.</i></p> <p><i>b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions.</i></p> <p><i>c) Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.</i></p>				

		<p><i>d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.</i></p> <p><i>e) Strengthening the regulatory and supervisory compliance framework.</i></p> <p><i>f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.</i></p> <p><i>g) CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10.</i></p> <p>For Eg:</p> <ul style="list-style-type: none"> • Read TOR or job description of the CEO • Read minutes of relevant Board meetings including Budget/Strategy discussions meetings to determine this aspect. • Read the ToR / Job Description of CEO, Directions issued by the Director, SNBFI and the actions initiated by the CEO to maintain the level of compliance with the same etc. 				
7	Meetings the Board					
7(1)		<ul style="list-style-type: none"> • Confirm the Board has met at least twelve times a financial year at approximately monthly intervals. • Obtain a list of agenda items from the Board secretary that were subject to circulation of papers and determine such matters that led to circulation was practical in that circumstances. 				
7(2)		<ul style="list-style-type: none"> • Observe the Board has ensured that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings. • Read the Board meeting minutes that refers to this aspect. 				
7(3)		<ul style="list-style-type: none"> • Confirm whether at least 3 days' notice has been given for a scheduled Board meeting. • Observe whether reasonable notice has been given for all other Board meetings. 				
7(4)		<ul style="list-style-type: none"> • Observe whether a director has devoted sufficient time to prepare and attend Board meetings and actively contributed by providing views and suggestions, by reading Board meeting minutes. 				
7(5)		<ul style="list-style-type: none"> • Confirm whether a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at 				

		<p>least one fourth (1/4) of the number of directors that constitute the quorum at such meeting are independent directors.</p> <ul style="list-style-type: none"> Obtain confirmation from the Board secretary to this extent. 				
7(6)	7.6	<ul style="list-style-type: none"> Confirm whether the chairperson has held meetings at least twice a year, only with the non-executive directors, without the executive directors being present, as necessary. 				
7(7)	7.7	<ul style="list-style-type: none"> Inspect whether a director has abstained from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested. If yes, confirm whether he has not be counted in the quorum for the relevant agenda item in the Board meeting. 				
7(8)		<ul style="list-style-type: none"> Inspect whether FC has ceased to be a director who has not attended at least two-thirds (2 /3) of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held. <p><i>Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance, subject to applicable directions for alternate directors.</i></p>				
7(9)		Scheduled Board Meetings and Ad Hoc Board Meetings				
		Observe whether, for the scheduled meetings, FC has encouraged the participation in person and for ad hoc meetings, participation through electronic means is acceptable where director cannot attend on a short notice.				
8	Company Secretary					
8(1)	a)	<ul style="list-style-type: none"> Confirm the Board has appointed a Company Secretary. Read TOR or job description of the Company Secretary. Observe by reading the fitness and propriety approval from CBSL for Company Secretary. 				
	b)	<ul style="list-style-type: none"> Confirm the Board has appointed its company secretary, subject to relevant transitional provision, and complying with such requirements in the Companies Act, No. 07 of 2007. Observe the appointed the company secretary is an employee of FC and shall not become an employee of any other institution. 				
8(2)		Confirm all directors have access to advice and services of the company secretary with a view to ensure the Board procedures, laws, directions, rules and regulations are followed.				
8(3)		Observe the company secretary is preparing the agenda, in the				

		event chairperson has delegated carrying out such function.				
8(4)		Observe the company secretary has maintained minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.				
8(5)		Observe the company secretary is maintaining minutes following the proper procedure laid down in the Articles of Association of the FC.				
8(6)		<ul style="list-style-type: none"> Observe whether minutes of the Board meetings has recorded in sufficient detail to ascertain whether the Board acted with due care and prudence in performing its duties. <p><i>The minutes of a Board meeting shall clearly include the following:</i></p> <p><i>(a) a summary of data and information used by the Board in its deliberations;</i></p> <p><i>(b) the matters considered by the Board;</i></p> <p><i>(c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual director;</i></p> <p><i>(d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions;</i></p> <p><i>(e) the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; and</i></p> <p><i>(f) the decisions and Board resolutions.</i></p>				
8(7)		Observe whether the minutes are open for inspection at any reasonable time, on reasonable notice by any director.				
9	Delegation of Functions by the Board					
9(1)		<ul style="list-style-type: none"> Confirm the Board has approved a Delegation of Authority (DA) Confirm Board has given clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC. 				
9(2)		Observe all the functions to be carried out by sub committees are covered by the Board itself, in the absence of sub committees.				
9(3)		Observe the Board has established appropriate senior management level subcommittees if determined by the Board as required, with appropriate DA to assist in Board decisions.				
9(4)		Confirm the Board has not delegated any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or				

		reduce the ability of the Board as a whole to discharge its functions.				
9(5)		<ul style="list-style-type: none"> Confirm the Board has reviewed the delegation processes in place on a periodic basis, to ensure that they remain relevant to the needs of the FC. Document the last approved date for DA limits. 				
10	Board Sub-Committees					
10(1)	a)	<p>For FCs with asset base of more than Rs. 20 bn</p> <ul style="list-style-type: none"> Confirm FC has established a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee. <p>For FCs with asset base of less than Rs. 20 bn</p> <ul style="list-style-type: none"> Confirm FC has established at least BAC, BIRMC and Related Party Transactions Review Committee. Confirm whether BAC and BIRMC meetings have been held at least quarterly, by referring to meeting minutes. Confirm whether other committees have met at least annually, by referring to meeting minutes. 				
	b)	<ul style="list-style-type: none"> Inspect each Board sub-committee has a board approved written terms of reference specifying clearly its authority and duties. Document the last approved date of terms of reference. 				
	c)	Confirm the Board has presented a report at the annual general meeting of the FC on the performance of duties and functions of each Board sub-committee.				
	d)	<ul style="list-style-type: none"> Confirm whether each sub-committee has appointed a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee. Note the comprehensiveness of meeting minutes maintained by the sub-committee secretary. 				
	e)	Confirm each Board sub-committee consists of at least three Board members and is only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee.				
	f)	<ul style="list-style-type: none"> Observe the Board have considered occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives. Observe if the Board has adopted an internal policy or incorporated necessary Terms and Conditions in the TOR 				

		on rotating the committee members.				
10(2)		Board Audit Committee (BAC)				
	a)	<ul style="list-style-type: none"> Confirm whether the chairperson of BAC is an independent director who possesses qualifications and experience in accountancy and/or audit. Obtain a confirmation from the Board secretary to this extent. 				
	b)	<ul style="list-style-type: none"> Confirm the composition of BAC which includes non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC. Obtain a confirmation from the Board secretary to this extent. 				
	c)	Confirm whether the secretary to the BAC is the Chief Internal Auditor (CIA). (Note: This is not a mandatory requirement).				
	d)	<p>External Audit Function</p> <p>i) Confirm the BAC has made recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.</p> <p>ii) Confirm whether the Engagement of an audit partner has not exceeded 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.</p> <p>Confirm whether, FC has not used the service of the same external audit firm for not more than ten years consecutively.</p> <p>iii) Confirm whether the Audit partner of an FC has not be a substantial shareholder, director, senior management or employee of any FC.</p> <p>iv) Observe the committee has reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p> <p>v) Confirm whether the Audit partner has not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out.</p> <p>Inspect the BAC has developed and implemented a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.</p> <p>vi) Confirm whether that, before the audit commences, the BAC has discussed and finalised with the external auditors the</p>				

		<p>nature and scope of the audit, including:</p> <p>(i) an assessment of the FC's compliance with Directions issued under the 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; and (iii) the co-ordination between auditors where more than one auditor is involved.</p> <p>vii) Observe the BAC has reviewed the financial information of the FC, in order to monitor the integrity of the financial statements of the FC in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p> <p>viii. Confirm the BAC has discussed issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of senior management, if necessary.</p> <p>ix) Confirm the BAC has reviewed the external auditor's management letter and the management's response thereto within 3 months of submission of such, and report to the Board.</p> <p>(Note the transitional provisions given for Section 10 of the Direction until 07.07.2024.)</p>				
	e)	<ul style="list-style-type: none"> Confirm the BAC has at least annually conducted a review of the effectiveness of the system of internal controls. Confirm the FC has obtained a report reviewing the effectiveness of the internal control system. 				
	f)	<ul style="list-style-type: none"> Observe the BAC has ensured that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the FC. Confirm BAC follows up the internal audit findings, supervisory findings by reading the meeting minutes. 				
	g)	<p>Internal Audit Function</p> <p>i) Confirm the committee has established an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations Direction or as amended) that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes.</p>				

		<p>ii)</p> <ul style="list-style-type: none"> Confirm the internal audit function has a clear mandate, be accountable to the BAC, and be independent. Confirm if the Internal Audit Department has adequate resources, expertise and authority to carry out assignments of special nature (e.g., statutory reporting, IS auditing, Gold Loans/ Pawning etc.) effectively. Confirm whether the reporting line of the Internal Audit Department is to the Chairman of BAC Observe that the internal audit function has sufficient expertise and authority within the FC to carry out their assignments effectively and objectively. <p>iii) Confirm the BAC shall take the following steps with regard to the internal audit function of the FC:</p> <p><i>(i) Review the adequacy of the scope, functions and skills and resources of the internal audit department and ensure the internal audit department has the necessary authority to carry out its work.</i></p> <p><i>(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit.</i></p> <p><i>(iii) Assess the performance of the head and senior staff members of the internal audit department.</i></p> <p><i>(iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.</i></p> <p><i>(v) Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.</i></p> <p><i>(vi) Examine the major findings of internal investigations and management's responses thereto.</i></p>				
	h)	<ul style="list-style-type: none"> Inspect the BAC has reviewed the statutory examination reports of the Central Bank of Sri Lanka (CBSL). Observe necessary corrective actions have been taken in a timely manner and monitored the progress of implementing the time bound action plan quarterly. Read the BAC meeting minutes, and determine the progress is reported regularly of rectifying supervisory concerns raised by CBSL examiners. 				
	i)	<p>Meetings of the Committee</p> <p>i) Confirm the BAC has met as specified in 10.1 above, with due notice of issues to be discussed and has recorded its conclusions in discharging its duties and responsibilities.</p>				

		<p>ii) Confirm whether the other Board members, senior management or any other employee can attend meetings upon the invitation of the committee when discussing matters under their purview.</p> <p>iii) Confirm the BAC has met at least twice a year with the external auditors without any other directors/senior management/ employees being present.</p> <p>iv) Read the attendance reports and observe the required participation of the required members</p>				
10(3)		Board Integrated Risk Management Committee (BIRMC)				
	a)	<p>Confirm the BIRMC is chaired by an independent director.</p> <ul style="list-style-type: none"> Confirm the Board members appointed to BIRMC are non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. Confirm whether that the CEO and Chief Risk Officer (CRO) can attend the meetings upon invitation. Observe the BIRMC has worked with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee, by reading reports submitted by BIRMC to the Board Observe the Terms of Reference of BIRMC regarding the appropriateness of the members and their appointment. 				
	b)	Confirm the secretary to the committee is the CRO.				
	c)	<ul style="list-style-type: none"> Observe the committee has assessed the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the FC at least on 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. Read IRMC meeting minutes, Risk Appetite Statement and risk reports submitted to IRMC and observe the assessment of the impact of risks by the BIRMC. 				
	d)	<ul style="list-style-type: none"> Read the FC's Risk Appetite Statement (RAS) and determine if it which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. By reading the risk framework and minutes and risk management reports: <ul style="list-style-type: none"> Confirm the RAS has included quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. 				

		<ul style="list-style-type: none"> Observe the RAS has defined the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision making and establishing the means to raise risk issues and strategic concerns throughout the FC. 				
	e)	Confirm the BIRMC has reviewed the FC's risk policies including RAS, at least annually.				
	f)	By reading the risk policy/framework, observe the BIRMC has reviewed the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.				
	g)	By reading the approved BCP and DRP, confirm the committee has assessed all aspects of risk management including updated business continuity and disaster recovery plans.				
	h)	Confirm that BIRMC has annually assessed the performance of the compliance officer and the CRO.				
	i)	<p>Compliance Function</p> <p>i. Confirm BIRMC has established an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.</p> <p>ii. Confirm whether for FCs with asset base of more than Rs. 20 bn, has a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management to carry out the compliance function and report to the BIRMC directly.</p> <ul style="list-style-type: none"> Observe the compliance officer has not have management or financial responsibility related to any operational business lines or income-generating functions, and there has not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management has not served as the compliance officer. <p>iii) Confirm whether for FCs with asset base of less than Rs. 20bn, has an officer with adequate seniority considered to be senior management has appointed as compliance officer avoiding any conflict of interest.</p> <p>iv) Confirm the BIRMC has ensured responsibilities of a compliance officer would broadly encompass the following:</p> <p><i>(i) develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements;</i></p> <p><i>(ii) ensure compliance policies and procedures are clearly</i></p>				

		<p><i>communicated to all levels of the FC to enhance the compliance culture;</i></p> <p><i>(iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;</i></p> <p><i>(iv) understand and apply new legal and regulatory developments relevant to the business of FC;</i></p> <p><i>(v) secure early involvement in the design and structuring of new products and systems, to ensure conformity with the regulatory requirements, internal compliance and ethical standards;</i></p> <p><i>(vi) highlight serious or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and</i></p> <p><i>(vii) maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity.</i></p> <ul style="list-style-type: none"> • Observe the reporting line of the Compliance Officer (whether to BIRMC or to any other officer). • Read the Job Description of the Compliance Officer to ensure that s/he is not assigned with management or financial responsibility related to any operational business lines or income-generating functions. 				
	j)	<p>Risk Management Function</p> <p>i) Confirm BIRMC has established an independent risk management function responsible for managing risk-taking activities across the FC.</p> <p>ii) Confirm whether for FCs with asset base of more than Rs.20 bn, has a separate risk management department and a dedicated CRO considered to be senior management to carry out the risk management function and report to the BIRMC periodically.</p> <p>iii) Observe the CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.</p> <p>iv) Confirm the BIRMC has ensured that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: (i) various potential risks and frauds; (ii) possible sources of such risks and frauds; (iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing; (iv) effective measures to control and mitigate risks at prudent levels; and (v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.</p>				

		<p>v) Observe the CRO has participated in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and made recommendations on risk management.</p> <p>vi) Confirm the CRO has maintained an updated risk register, which has submitted to the BIRMC on a quarterly basis.</p> <p>vii) Confirm the BIRMC has submitted a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.</p> <p>viii) Read the Job Description of the CRO to determine the reporting line, job role, responsibilities in line with the stated requirements.</p>				
10(4)		Nomination Committee				
	a)	<p>Confirm the Nomination committee has constituted with non-executive directors and the majority are independent directors.</p> <ul style="list-style-type: none"> Confirm whether an independent director has chaired the committee. Observe whether the CEO can present at meetings by invitation of the committee. 				
	b)	Confirm whether the company secretary has appointed as the secretary to the nomination committee.				
	c)	<ul style="list-style-type: none"> Confirm the committee has implemented a formal and transparent procedure to select/appoint new directors and senior management. Confirm whether the Senior management has appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer. 				
	d)	<ul style="list-style-type: none"> Observe the committee has ensured that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction. Observe by reading the fitness and propriety approval from CBSL. 				
	e)	<ul style="list-style-type: none"> Confirm the selection process has included reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities. Read the TOR of Nominations Committee to determine coverage of above. 				
	f)	<ul style="list-style-type: none"> Observe the committee has taken all reasonable steps to ensure that the Board composition was not dominated by 				

		<p>any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.</p> <ul style="list-style-type: none"> Read the contents of board meeting minutes to determine whether each member actively contributes for decision making and to ensure that no single person dominates the decisions. 				
	g)	Confirm the committee has set the criteria, such as qualifications, experience and key attributes required for eligibility, which to be considered for appointment to the post of CEO and senior management.				
	h)	<p>Confirm the committee has assigned the responsibility to the company secretary to disclose below to shareholders, upon the appointment of a new director to the Board;</p> <p>(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 or memberships in Board committees; and (iv) whether such director can be considered as independent.</p>				
	i)	Observe the committee has considered and recommended (or not recommend) the reelection of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.				
	j)	<ul style="list-style-type: none"> Observe the committee has considered and recommended from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management. Read the approved succession plan to determine the above. 				
	k)	<p>By reading the minutes of Nominations Committee,</p> <ul style="list-style-type: none"> Confirm whether a member of the nomination committee has not participated in decision making relating to own appointment/ reappointment. Confirm the Chairperson of the board has not chaired the committee when it is dealing with the appointment of the successor. 				
10(5)		Human Resource and Remuneration Committee				
	a)	<p>By reading the TOR of HRRC observe the following:</p> <ul style="list-style-type: none"> Confirm the Human Resources and Remuneration committee is chaired by a non-executive director. Confirm whether the majority of the members are non-executive directors. 				
	b)	Confirm whether the company secretary has appointed as the secretary to the human resource and remuneration committee.				

	c)	<ul style="list-style-type: none"> Observe the committee has determined the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors. Observe if the remuneration policy has been approved by the board. Documents the recent most date of approval of the remuneration policy. 				
	d)	<ul style="list-style-type: none"> Confirm whether the FC has a formal and transparent procedure in developing the remuneration policy. Observe whether the Terms of Reference of the Human Resource and Remuneration Committee, if applicable, have provided adequate guidelines for developing and updating the remuneration policy. 				
	e)	<ul style="list-style-type: none"> Observe whether the committee has recommended the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. Confirm whether the policy was subject to periodic review of the Board, including when material changes are made. Confirm whether the board approval has been granted to periodic revisions. 				
	f)	Observe whether the remuneration structure was in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.				
	g)	<ul style="list-style-type: none"> Confirm the committee has reviewed the performance of the senior management (excluding chief internal auditor, compliance officer, 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. Observe whether the goals in the Goal Statements are compared with performance evaluation forms of the members of senior management. 				
	h)	Observe the committee has ensured that the senior management has abstained from attending committee meetings, when matters relating to them are being discussed.				
11	Internal Controls					
11(1)		By observing the presence of the internal audit charter, audit committee charter, operational risk management framework, updated Organization Chart with clear reporting lines, delegation of authorities, detailed manuals for operations:				

		<ul style="list-style-type: none"> Confirm FCs adopts well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks. 				
11(2)		<p>By reading the internal audit plan, reports and timeliness of submissions, and observing the mechanism established to collect and monitor the operational risks in terms of Key Risk Indicators (KRIs), and maintenance of database of KRIs:</p> <ul style="list-style-type: none"> Observe that FC has a proper internal control system which: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies. 				
11(3)		Observe whether all employees are given the responsibility for internal controls as part of their accountability for achieving objectives, by reading a sample of letter of employment/ appointment letters to verify that a term/ clause is contained in such letters assigning the responsibility for internal controls at all level employees.				
12	Related Party Transactions					
12(1)		<ul style="list-style-type: none"> Inspect whether the Board has established a policy and procedures for related party transactions, which covers the following. <p><i>a) All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.</i></p> <p><i>b) All related party transactions shall be prior reviewed and recommended by the RPTRC.</i></p> <p><i>c) The business transactions with a related party that are covered in this Direction shall be the following:</i></p> <p><i>i. Granting accommodation.</i></p> <p><i>ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable.</i></p> <p><i>iii. Providing financial or non-financial services to the FC or obtaining those services from the FC.</i></p> <p><i>iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.</i></p> <p>This aspect is subject to transitional provision given until 01.07.2024.</p>				

12(2)	<ul style="list-style-type: none"> Observe the Related Party Transactions committee has taken the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction. <p>In this regard, observe whether there is a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.</p> <p><i>a) Directors and senior management.</i></p> <p><i>b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.</i></p> <p><i>c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.</i></p> <p><i>d) Directors and senior management of legal persons in paragraph (b) or (c).</i></p> <p><i>e) Relatives of a natural person described in paragraph (a), (b) or (d).</i></p> <p><i>f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.</i></p> <ul style="list-style-type: none"> Observe evidence obtained from the Company secretary to determine whether: <ul style="list-style-type: none"> iii) the list of related parties is updated frequently to capture the changes in such parties; and iv) appropriate information and the duly completed declarations from applicable persons (KRPs) are collected from the related parties to confirm the relationship and transactions. 				
12(3)	<p>Confirm the committee has ensured that the FC 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 FC.</p> <p><i>For the purpose of this paragraph, "more favorable treatment" shall mean:</i></p> <p><i>a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee.</i></p> <p><i>b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.</i></p> <p><i>c) Providing preferential treatment, such as favorable terms,</i></p>				

		<p><i>that extends beyond the terms granted in the normal course of business with unrelated parties.</i></p> <p><i>d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or</i></p> <p><i>e) Maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.</i></p>				
13	Group Governance					
13(1)		Responsibilities of the FC as a Holding Company				
	a)	<p>By reading the following :</p> <ul style="list-style-type: none"> - Appointment of directors - Board agenda includes discussion - Monthly reports to CFO <ul style="list-style-type: none"> • Observe whether the FC has exercised adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them. 				
	b)	<ul style="list-style-type: none"> • Confirm the Board of the FC has: <ul style="list-style-type: none"> i) Ensured that the group governance framework clearly defined the roles and responsibilities for the oversight and implementation of group wide policies. ii) Ensured that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework. iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries. iv) Assessed whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and v) By reading the following : <ul style="list-style-type: none"> - Governance framework of the group - Code of conduct of the group - Group internal audit scope - Group risk management framework • Observe that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements. 				
	c)	<ul style="list-style-type: none"> • Observe whether the FC, as the apex entity, has ensured that the group structure does not undermine its ability to exercise effective oversight. • Observe the Board has established a clearly defined 				

		process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls.				
	d)	Observe the Board and senior management of the FC has validated that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed.				
	e)	By reading the latest group structure obtained from the Board secretary/ CFO, confirm the FC has avoided setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.				
13(2)		Responsibilities as a Subsidiary				
		Confirm whether the FC has discharged its own legal and governance responsibilities, if the FC is a subsidiary of another financial institution subject to prudential regulation.				
14	Corporate Culture					
14(1)		Confirm whether a FC has adopted a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.				
14(2)		Inspect the FC has maintained records of breaches of code of conduct and addressed such breaches in a manner that upholds high standards of integrity.				
14(3)		<ul style="list-style-type: none"> Observe whether a FC has established a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Observe whether employees are able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. Confirm whether the BAC shall review the policy periodically. 				
15	Conflicts of Interest					
15(1)	a)	<ul style="list-style-type: none"> Observe whether relationships between the directors have not exercised undue influence or coercion. Confirm whether a director has abstained from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director has not be counted in the quorum for the relevant agenda item in the Board meeting. 				
	b)	<ul style="list-style-type: none"> Confirm whether the Board has a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related 				

		<p>parties.</p> <p><i>The policy for managing conflicts of interest shall,</i></p> <p><i>i. Identify circumstances which constitute or may give rise to conflicts of interests.</i></p> <p><i>ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.</i></p> <p><i>iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest.</i></p> <p><i>iv. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest.</i></p> <p><i>v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and</i></p> <p><i>vi. Articulate how any non-compliance with the policy to be addressed.</i></p>				
16	Disclosures					
16(1)	<p>Confirm the Board has ensured that:</p> <p>(a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that</p> <p>(b) such statements are published in the newspapers in Sinhala, Tamil and English.</p>					
	Confirm the Board has ensured that at least following disclosures are made in the Annual Report of the FC.					
	i)	<p>Financial statements</p> <p>In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,</p> <ul style="list-style-type: none"> • A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. • A statement of responsibility of the Board in preparation and presentation of financial statements. 				
	ii)	<p>Chairperson, CEO and Board related disclosures</p> <ul style="list-style-type: none"> • Name, qualification and a brief profile. • Whether executive, non-executive and/or independent director. • Details of the director who is serving as the senior director, if 				

		<p>any.</p> <ul style="list-style-type: none"> • The nature of expertise in relevant functional areas. • Relatives and/or any business transaction relationships with other directors of the company. • Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity. • Number/percentage of board meetings of the FC attended during the year; and • Names of board committees in which the director serves as the Chairperson or a member. 				
	iii)	<p>Appraisal of board performance</p> <p>An overview of how the performance evaluations of the Board and its committees have been conducted.</p>				
	iv)	<p>Remuneration</p> <ul style="list-style-type: none"> • A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non- financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation). • The aggregate values of remuneration paid by the FC to its directors and senior management. 				
	v)	<p>Related party transactions</p> <ul style="list-style-type: none"> • The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. • Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital. • The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC. 				
	vi)	<p>Board appointed committees</p> <p>The details of the chairperson and members of the board committees and attendance at such meetings.</p>				
	vii)	<p>Group structure</p> <ul style="list-style-type: none"> • The group structure of the FC within which it operates. • The group governance framework. 				

	viii)	Director's report A report, which shall contain the following declarations by the Board: <ul style="list-style-type: none"> • The FC has not engaged in any activity which contravenes laws and regulations. • The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested. • The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness. 				
	ix)	Statement on internal control <ul style="list-style-type: none"> • A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. • The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. • A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. • A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions. 				
	x)	Corporate governance report Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.				
	xi)	Code of conduct <ul style="list-style-type: none"> • FC's code of business conduct and ethics for directors, senior management and employees. • The Chairperson shall certify that the company has no violations of any of the provisions of this code. 				

	xii)	Management report <ul style="list-style-type: none"> • Industry structure and developments • Opportunities and threats • Risks and concerns • Sustainable finance activities carried out by the company • Prospects for the future 				
	xiii)	Communication with shareholders <ul style="list-style-type: none"> • The policy and methodology for communication with shareholders. • The contact person for such communication. 				

Annexure to the report on factual finding

Annexure B

NOTE: The below mentioned numbering is used to coincide with the “section 2” of the Finance Companies (Corporate Governance) Direction, No. 5 of 2021 amendment issued by the Central Bank of Sri Lanka.

1	Board's Overall Responsibilities		Findings
1(1)		<p>Confirm that the Board's overall responsibility and accountability for the operations of the Finance Company (FC), are established by setting up the strategic direction, governance framework, corporate culture and compliance with regulatory requirements, by carrying out the following procedures:</p> <ul style="list-style-type: none"> • Obtain approved board policy • Read and understand policy to determine whether Board is assigned with the expected level of responsibility. • Read the meeting minutes of the Board/Board sub committees to understand execution of the assigned responsibilities. 	
1(2)		Business Strategy and Governance Framework	
	a)	<p>Confirm the Board has approved and overseen the implementation of overall business strategy, by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read board minutes and note whether measurable goals for next three years have been set and updated the same annually in view of the developments in the business environment. 	
	b)	<p>Confirm the Board has approved and implemented governance framework commensurate with the FC's size, complexity, business strategy and regulatory requirements by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read the approved governance framework. 	
	c)	<p>Confirm the Board has assessed the effectiveness of its governance framework, by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read board minutes and note whether Board has assessed the effectiveness of its governance framework periodically. • Document the month and year it was last assessed. 	
	d)	<p>Confirm the Board has appointed the Chairperson and the Chief Executive Officer (CEO) and defined their roles and responsibilities, by reading the Terms of Reference/ Job Description for Chairperson and CEO.</p>	
1(3)		Corporate Culture and Values	
	a)	<p>Confirm the Board has adopted a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior by carrying out the following procedure:</p> <ul style="list-style-type: none"> • Read Board Audit committee meeting minutes to determine whether Board has given due priority to establish: independent and adequately resourced internal audit; compliance and risk management functions; together with monitoring and implementing the code of conduct. 	

		<ul style="list-style-type: none"> • Read the approved Code of Conduct and together with monitoring and implementing the code of conduct. • Board Audit committee meeting minutes to note whether Board has given due priority to establish: <ul style="list-style-type: none"> – independent and adequately resourced internal audit; – compliance and risk management functions; – a process to monitor and implement the code of conduct. 	
	b)	<ul style="list-style-type: none"> • Read the Board meeting minutes and determine the Board has played a lead role in establishing the FC's corporate culture and values, • Confirm whether the Board has approved the code of conduct in compliance with the section 14.1 of Corporate Governance Direction. • Confirm that a written and approved process is set up to: <ul style="list-style-type: none"> – manage conflicts of interest – record breaches of code of conduct; and – record actions taken on such breaches 	-
	c)	Observe the Board has promoted sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	
	d)	Confirm the Board has approved the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the FC's performance, position and prospects in public and regulators.	
1(4)		Risk Appetite, Risk Management and Internal Controls	
	a)	<ul style="list-style-type: none"> • Inspect the Board has established and reviewed the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework. • Read Board meeting minutes to understand whether the Board has used RAS in relevant key discussions. 	
	b)	<ul style="list-style-type: none"> • Observe the Board has implemented appropriate systems and controls to identify, mitigate and managed risks prudently. • Read the previous year's External Auditor's certification and Directors' Responsibility Statement on Internal Control Systems Over Financial Reporting and determine whether matters noted have been actioned with appropriate timelines. • Read the previous year's External Auditor's Management Letter and determine whether matters noted have been actioned with appropriate timelines. 	
	c)	<ul style="list-style-type: none"> • Confirm the Board has adopted and reviewed the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically. • Read the meeting minutes of the Board/ Board sub-committees to determine whether measures have been/ are being taken to address the concerns identified by the regulators, external or internal auditors on the internal control systems and management information systems. 	
	d)	<ul style="list-style-type: none"> • Confirm the Board has approved and overseen business continuity and disaster recovery plan for the FC. 	

		<ul style="list-style-type: none"> Inquire and document the latest BCP testing conducted by the FC. 	
1(5)		Board Commitment and Competency	
	a)	<p>Observe all members of the Board devote sufficient time on dealing with the matters relating to affairs of the FC by carrying out the following procedures:</p> <ul style="list-style-type: none"> Read the Board meeting minutes and confirming attendance of members of the Board. Read the attendance records provided by the Board secretary and confirm attendance of members of the Board. 	
	b)	<p>Confirm that all members of the Board possess necessary qualifications, adequate skills, knowledge, and experience.</p> <ul style="list-style-type: none"> By reading the profile provided by the Board secretary In respect of the Board members approved during the year, read the Fitness and propriety letter from CBSL along with the affidavits/declarations submitted to the regulator. 	
	c)	<p>Inspect the Board has regularly reviewed and agreed the training and development needs of all the members, by carrying out the following procedures:</p> <ul style="list-style-type: none"> Observe the assessment of the training needs of Board Read the relevant documents to note actual training and development activities taken place during the year 	
	d)	<ul style="list-style-type: none"> Confirm the Board has adopted a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and observe whether the FC has maintained records of such assessments. Read relevant records of such assessments conducted during the year. 	
	e)	<ul style="list-style-type: none"> Read the Board approved procedure established to enable the Board to seek external independent professional advice and determine whether the areas where Board will seek such advice, exemptions and the details of procedure are included. Observe whether the Board has resolved to obtain external independent professional advice in line with established procedure by reading the Board meeting minutes. 	
1(6)		Oversight of Senior Management	
	a)	Obtain the latest Board approved senior management list and observe whether the Board has identified and designated senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.	
	b)	Inspect the job descriptions of the senior management or any other relevant document that defines the areas of authority and key responsibilities for the senior management.	
	c)	<ul style="list-style-type: none"> Read the Nomination Committee meeting minutes and observe approval of the senior management members to such roles. Read other relevant documents that carry information about approved senior management members that possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives. 	

	d)	Observe whether the Board ensures that there is an appropriate oversight of the affairs of the FC by senior management. For eg: Read org chart Read board papers submitted Delegated authority approval.	
	e)	<ul style="list-style-type: none"> Confirm the Board has approved the succession plan for senior management. Read of the succession plan and note it adequately covers key positions and its appropriateness. 	
	f)	Confirm the Board meets the senior management regularly to review policies, establish lines of communication and monitor progress towards strategic objectives, by reading the Board minutes and sub-committee meeting minutes.	
1(7)		Adherence to the Existing Legal Framework	
	a)	Confirm the Board ensures that the FC does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders, by carrying out the following procedures. <ul style="list-style-type: none"> Read relevant Board minutes and sub-committee meeting minutes. Observe whether relevant minutes refers to follow-up procedures of noted non-compliances. Observe that internal audit process and compliance process have been established. 	
	b)	Inspect the Board adheres to the regulatory environment and ensure compliance with relevant laws, regulations, directions and ethical standards, by reading the relevant minutes of internal audit process and compliance process that includes specific planned work to establish compliance in relation to relevant laws, regulations, directions and ethical standards.	
	c)	Observe the Board acts 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, by carrying out the following: <ul style="list-style-type: none"> Read legal correspondences Read minutes of meetings related to risk management process 	
2		Governance Framework	
2(1)		<ul style="list-style-type: none"> Confirm the Board has developed and implemented a governance framework in line with the CBSL directions and including but not limited to the following. <ul style="list-style-type: none"> a) role and responsibilities of the Board b) matters assigned for the Board. c) delegation of authority. d) composition of the Board. e) the Board's independence. f) the nomination, election and appointment of directors and appointment of senior management. g) the management of conflicts of interests h) access to information and obtaining independent advice. i) capacity building of Board members, 	

		<p>j) the Board's performance evaluation.</p> <p>k) role and responsibilities of the chairperson and the CEO.</p> <p>l) role of the company secretary,</p> <p>m) Board sub committees and their role; and</p> <p>n) limits on related party transactions.</p> <ul style="list-style-type: none"> Read the relevant policies/ procedures connected with the approved governance framework and evidence for appointment of sub committees established to implement the board governance framework. 	
3	Composition of the Board		
3(1)		Confirm the Board's composition to ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC.	
3(2)		Confirm number of directors on the Board which shall not be less than seven (07) and not more than thirteen (13).	
3(3)		Confirm whether the total period of service of a director other than a director who holds the position of CEO/executive director, shall not exceed nine years, subject to direction 3.4.	
3(4)		<p>Confirm whether is there any non-executive director who holds office exceeding 9 years of service.</p> <p>If yes, confirm whether the FC has obtained prior approval from the Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3.</p> <p><i>Non-executive directors,</i></p> <ul style="list-style-type: none"> <i>- who directly or indirectly holds more than 10% of the voting rights or</i> <i>- who appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence</i> <p>Confirm whether the number of non- executive directors eligible to exceed 9 years (if any) are limited to one-fourth (1/4) of the total number of directors of the Board.</p>	
3(5)	Executive Directors		
	a)	<ul style="list-style-type: none"> Confirm whether, only an employee of a FC has been nominated, elected and appointed, as an executive director of the FC. Confirm whether the number of executive directors has not exceeded one-third (1/3) of the total number of directors of the Board. Read of contract of employment for executive directors, if any. 	
	b)	<p>Confirm whether FC has appointed any executive director or as senior management, who is a shareholder who directly or indirectly holds more than 10% of the voting rights of the FC.</p> <p>Confirm whether are there existing executive directors with a contract of employment and functional reporting line and existing senior management who are allowed to continue as an executive director/senior management until the retirement age of the FC and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3.</p> <p>Confirm whether are there any existing executive directors without a contract of</p>	

		employment and functional reporting line. If yes, confirm whether such executive director step down from the position of executive director from the effective date of this direction and observe whether he/she has reappointed as a non-executive director subject to provisions contained in direction 4.2 and 4.3.	
	c)	Confirm whether the CEO is one of the executive directors and is designated as the managing director of the FC, in the event of having executive directors on the Board.	
	d)	Observe whether all Executive directors have a functional reporting line in the organization structure of the FC.	
	e)	Observe whether executive directors are required to report to the Board through the CEO by reading the latest approved organization structure.	
	f)	Confirm whether Executive directors have refrained from holding executive directorships or senior management positions in any other entity through a written confirmation by the Board secretary.	
3(6)		Non-Executive Directors	
	a)	<ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL along with the affidavits/declarations submitted to the regulator, whether non-executive directors possess credible track records, By reading the profile provided by the Board secretary understand if Non-executive directors have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct. 	
	b)	Obtain the confirmation from company secretary if a non-executive director is appointed or functions as the CEO/executive director of the FC.	
3(7)		Independent Directors	
	a)	Confirm the number of independent directors of the Board, which shall be at least three (03) or one-third (1 / 3) of the total number of directors, whichever is higher.	
	b)	<ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL along with the affidavits/declarations submitted to the regulator, whether independent directors possess proven track records. By reading the profile provided by the Board secretary determine whether independent directors have necessary skills, competency and experience. 	
	c)	<ul style="list-style-type: none"> Inspect the independence criteria of independent non-executive directors. <p><i>A non-executive director shall not be considered independent if such:</i></p> <p><i>i. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC.</i></p> <p><i>ii. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.</i></p> <p><i>iii. Director has been employed by the FC 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.</i></p>	

		<p>iv. Director has been an advisor or consultant or principal consultant/ advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as director.</p> <p>v. Director has a relative, who is a director or senior management of the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC.</p> <p>vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC.</p> <p>vii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, in which any of the other directors of the FC is employed or is a director.</p> <p>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 the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), 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 FC.</p> <ul style="list-style-type: none"> Obtain confirmation from the Board secretary to this extent. 	
	d)	<ul style="list-style-type: none"> Confirm whether the nomination committee and Board have determined whether there is any circumstance or relationship, which is not listed at direction 3.7, which might impact a director's independence, or the perception of the independence. Obtain confirmation from the Board secretary to this extent. 	
	e)	<ul style="list-style-type: none"> Confirm whether independent directors have immediately disclosed to the Board on any change in circumstances that may affect the status as an independent director. Confirm whether the Board has reviewed such director's designation as an independent director and observe whether it has been notified to the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation. 	
3(8)		Alternate Directors	
	a)	<ul style="list-style-type: none"> Confirm whether FC has appointed any alternate directors. If yes, confirm whether such representation is allowed in this Direction. <p><i>Representation through an alternate director is allowed only;</i></p> <p><i>i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and</i></p> <p><i>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.</i></p> <ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL for Alternate Directors along with the affidavits/declarations submitted to the regulator. 	
	b)	<ul style="list-style-type: none"> Observe whether any existing directors of the FC are appointed as an Alternate Director to another existing FC as director. Observe whether a current existing director of the Board is not appointed as an Alternate Director as the objective is to appoint a person outside the existing Board. 	

	c)	Report any person appointed as an alternate director to one of the directors who has also extended the role as an alternate director to another director in the same Board.	
	d)	Confirm whether any alternate director is appointed to represent an executive director.	
	e)	Confirm whether the alternate director who is appointed to represent an independent director, meets with the criteria for independent directors.	
3(9)		Cooling off Periods	
	a)	<ul style="list-style-type: none"> Confirm whether is there a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC. Observe whether if there is any variation thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of a FC which needs restructuring, and confirm that it has made with prior approval of the Monetary Board. Observe by reading the fitness and propriety approval from CBSL for such Directors. 	
	b)	<ul style="list-style-type: none"> Confirm whether a director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent under the provisions of this Direction. Observe by reading the fitness and propriety approval from CBSL for such Directors. 	
3(10)		Common Directorships	
		<ul style="list-style-type: none"> Confirm whether any director or a senior management of a FC has nominated, elected or appointed as a director of another FC except where such FC is a parent company, subsidiary company or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f). Observe the same by reading Directors interest declaration. Obtain confirmation from the Board secretary to this extent. 	
3(11)		<ul style="list-style-type: none"> Observe the Board has determined the appropriate limits for directorships that can be held by directors. Confirm any director of a FC holds office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC. Obtain confirmation from the Board secretary to this extent. 	
4		Assessment of Fitness and Propriety Criteria	
4(1)		<ul style="list-style-type: none"> Confirm whether the nominated, elected or appointed director of the FC or who continues as a director of such FC is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended. Observe by reading the fitness and propriety approval from CBSL for such matter. 	

		<ul style="list-style-type: none"> Read the Nomination committee minutes to determine such matter. 	
4(2)		Confirm any person serving as a director of the FC who is over the age of 70 years. (Note: A Director will be allowed to exceed 70 years only up to 31.03.2025.)	
4(3)		<p>Report any director who exceeds 70 years of age up to maximum of 75 years of age subject to the following,</p> <p><i>a) Assessment by the Director/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.</i></p> <p><i>b) Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a).</i></p> <p><i>c) The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.</i></p> <p><i>d) The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.</i></p>	
5	Appointment and resignation of directors and senior management		
5(1)		<ul style="list-style-type: none"> Inspect whether the appointments, resignations or removals are made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons [KRP]) Direction. Observe the CBSL approval for resignation/retirement or removal of a member of the Board or CEO. Observe whether resignation/retirement or removal of KRP informed to CBSL. 	
6	The Chairperson and the CEO		
6(1)		<ul style="list-style-type: none"> Observe whether there is a clear division of responsibilities between the chairperson and CEO and note that responsibilities of each person are set out in writing. Observe this matter by reading the ToR of chairman and CEO 	
6(2)		Observe the chairperson is an independent director, subject to 6.3 below.	
6(3)		<ul style="list-style-type: none"> Confirm whether the Board has appointed one of the independent directors as a senior director, with suitably documented terms of reference, in case where the chairperson is not independent, to ensure a greater independent element. Observe whether Senior director has served as the intermediary for other directors and shareholders. Confirm Non-executive directors including senior director shall assess the chairperson's performance at least annually. 	
6(4)		Responsibilities of the Chairperson	
		<ul style="list-style-type: none"> Confirm the responsibilities of the chairperson which at least include the following: <ul style="list-style-type: none"> <i>a) Provide leadership to the Board.</i> <i>b) Maintain and ensure a balance of power between executive and non-executive directors.</i> 	

		<p>c) <i>Secure effective participation of both executive and non-executive directors.</i></p> <p>d) <i>Ensure the Board works effectively and discharges its responsibilities.</i></p> <p>e) <i>Ensure all key issues are discussed by the Board in a timely manner.</i></p> <p>f) <i>Implement decisions/directions of the regulator.</i></p> <p>g) <i>Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary.</i></p> <p>h) <i>Not engage in activities involving direct supervision of senior management or any other day to day operational activities.</i></p> <p>i) <i>Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.</i></p> <p>j) <i>Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO.</i></p> <ul style="list-style-type: none"> • Read board minutes to determine this aspect. • Read the approved Code of conduct to determine this aspect. • Observe the ToR of chairman, special Directions issued by the DSNBFI and the implementation status of the same and Annual Assessment of the Chairman. 	
6(5)		Responsibilities of the CEO	
		<ul style="list-style-type: none"> • Confirm the CEO has functioned as the apex executive-in-charge of the day-to-day management of the FC's operations and business. <p>The responsibilities of the CEO shall at least include:</p> <p>a) <i>Implementing business and risk strategies in order to achieve the FC's strategic objectives.</i></p> <p>b) <i>Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions.</i></p> <p>c) <i>Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.</i></p> <p>d) <i>Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.</i></p> <p>e) <i>Strengthening the regulatory and supervisory compliance framework.</i></p> <p>f) <i>Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.</i></p> <p>g) <i>CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10.</i></p> <p>For Eg:</p> <ul style="list-style-type: none"> • Read TOR or job description of the CEO • Read minutes of relevant Board meetings including Budget/Strategy discussions meetings to determine this aspect. • Read the ToR / Job Description of CEO, Directions issued by the Director, SNBFI and the actions initiated by the CEO to maintain the level of compliance with the same etc. 	

7	Meetings the Board		
7(1)		<ul style="list-style-type: none"> Confirm the Board has met at least twelve times a financial year at approximately monthly intervals. Obtain a list of agenda items from the Board secretary that were subject to circulation of papers and determine such matters that led to circulation was practical in that circumstances. 	
7(2)		<ul style="list-style-type: none"> Observe the Board has ensured that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings. Read the Board meeting minutes that refers to this aspect. 	
7(3)		<ul style="list-style-type: none"> Confirm whether at least 3 days' notice has been given for a scheduled Board meeting. Observe whether reasonable notice has been given for all other Board meetings. 	
7(4)		<ul style="list-style-type: none"> Observe whether a director has devoted sufficient time to prepare and attend Board meetings and actively contributed by providing views and suggestions, by reading Board meeting minutes. 	
7(5)		<ul style="list-style-type: none"> Confirm whether a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one fourth (1/4) of the number of directors that constitute the quorum at such meeting are independent directors. Obtain confirmation from the Board secretary to this extent. 	
7(6)		<ul style="list-style-type: none"> Confirm whether the chairperson has held meetings at least twice a year, only with the non-executive directors, without the executive directors being present, as necessary. 	
7(7)		<ul style="list-style-type: none"> Inspect whether a director has abstained from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested. If yes, confirm whether he has not be counted in the quorum for the relevant agenda item in the Board meeting. 	
7(8)		<ul style="list-style-type: none"> Inspect whether FC has ceased to be a director who has not attended at least two-thirds (2 /3) of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held. <p><i>Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance, subject to applicable directions for alternate directors.</i></p>	
7(9)		Scheduled Board Meetings and Ad Hoc Board Meetings	
		Observe whether, for the scheduled meetings, FC has encouraged the participation in person and for ad hoc meetings, participation through electronic means is acceptable where director cannot attend on a short notice.	
8	Company Secretary		
8(1)	a)	<ul style="list-style-type: none"> Confirm the Board has appointed a Company Secretary. Read TOR or job description of the Company Secretary. 	

		<ul style="list-style-type: none"> Observe by reading the fitness and propriety approval from CBSL for Company Secretary. 	
	b)	<ul style="list-style-type: none"> Confirm the Board has appointed its company secretary, subject to relevant transitional provision, and complying with such requirements in the Companies Act, No. 07 of 2007. Observe the appointed the company secretary is an employee of FC and shall not become an employee of any other institution. 	
8(2)		Confirm all directors have access to advice and services of the company secretary with a view to ensure the Board procedures, laws, directions, rules and regulations are followed.	
8(3)		Observe the company secretary is preparing the agenda, in the event chairperson has delegated carrying out such function.	
8(4)		Observe the company secretary has maintained minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	
8(5)		Observe the company secretary is maintaining minutes following the proper procedure laid down in the Articles of Association of the FC.	
8(6)		<ul style="list-style-type: none"> Observe whether minutes of the Board meetings has recorded in sufficient detail to ascertain whether the Board acted with due care and prudence in performing its duties. <p><i>The minutes of a Board meeting shall clearly include the following:</i></p> <p><i>(a) a summary of data and information used by the Board in its deliberations;</i></p> <p><i>(b) the matters considered by the Board;</i></p> <p><i>(c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual director;</i></p> <p><i>(d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions;</i></p> <p><i>(e) the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; and</i></p> <p><i>(f) the decisions and Board resolutions.</i></p>	
8(7)		Observe whether the minutes are open for inspection at any reasonable time, on reasonable notice by any director.	
9	Delegation of Functions by the Board		
9(1)		<ul style="list-style-type: none"> Confirm the Board has approved a Delegation of Authority (DA) Confirm Board has given clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC. 	
9(2)		Observe all the functions to be carried out by sub committees are covered by the Board itself, in the absence of sub committees.	
9(3)		Observe the Board has established appropriate senior management level subcommittees	

		if determined by the Board as required, with appropriate DA to assist in Board decisions.	
9(4)		Confirm the Board has not delegated any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	
9(5)		<ul style="list-style-type: none"> Confirm the Board has reviewed the delegation processes in place on a periodic basis, to ensure that they remain relevant to the needs of the FC. Document the last approved date for DA limits. 	
10	Board Sub-Committees		
10(1)	a)	<p>For FCs with asset base of more than Rs. 20 bn</p> <ul style="list-style-type: none"> Confirm FC has established a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee. <p>For FCs with asset base of less than Rs. 20 bn</p> <ul style="list-style-type: none"> Confirm FC has established at least BAC, BIRMC and Related Party Transactions Review Committee. Confirm whether BAC and BIRMC meetings have been held at least quarterly, by referring to meeting minutes. Confirm whether other committees have met at least annually, by referring to meeting minutes. 	
	b)	<ul style="list-style-type: none"> Inspect each Board sub-committee has a board approved written terms of reference specifying clearly its authority and duties. Document the last approved date of terms of reference. 	
	c)	Confirm the Board has presented a report at the annual general meeting of the FC on the performance of duties and functions of each Board sub-committee.	
	d)	<ul style="list-style-type: none"> Confirm whether each sub-committee has appointed a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee. Note the comprehensiveness of meeting minutes maintained by the sub-committee secretary. 	
	e)	Confirm each Board sub-committee consists of at least three Board members and is only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee.	
	f)	<ul style="list-style-type: none"> Observe the Board have considered occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives. Observe if the Board has adopted an internal policy or incorporated necessary Terms and Conditions in the TOR on rotating the committee members. 	
10(2)		Board Audit Committee (BAC)	
	a)	<ul style="list-style-type: none"> Confirm whether the chairperson of BAC is an independent director who possesses 	

		<p>qualifications and experience in accountancy and/or audit.</p> <ul style="list-style-type: none"> Obtain a confirmation from the Board secretary to this extent . 	
	b)	<ul style="list-style-type: none"> Confirm the composition of BAC which includes non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC. Obtain a confirmation from the Board secretary to this extent. 	
	c)	Confirm whether the secretary to the BAC is the Chief Internal Auditor (CIA). (Note: This is not a mandatory requirement).	
	d)	<p>External Audit Function</p> <p>i) Confirm the BAC has made recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.</p> <p>ii) Confirm whether the Engagement of an audit partner has not exceeded 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.</p> <p>Confirm whether, FC has not used the service of the same external audit firm for not more than ten years consecutively.</p> <p>iii) Confirm whether the Audit partner of an FC has not be a substantial shareholder, director, senior management or employee of any FC.</p> <p>iv) Observe the committee has reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p> <p>v) Confirm whether the Audit partner has not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out.</p> <p>Inspect the BAC has developed and implemented a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.</p> <p>vi) Confirm whether that, before the audit commences, the BAC has discussed and finalised with the external auditors the nature and scope of the audit, including: (i) an assessment of the FC's compliance with Directions issued under the 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; and (iii) the co-ordination between auditors where more than one auditor is involved.</p> <p>vii) Observe the BAC has reviewed the financial information of the FC, in order to monitor the integrity of the financial statements of the FC in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p> <p>viii. Confirm the BAC has discussed issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of senior management, if necessary.</p>	

		<p>ix) Confirm the BAC has reviewed the external auditor's management letter and the management's response thereto within 3 months of submission of such, and report to the Board.</p> <p>(Note the transitional provisions given for Section 10 of the Direction until 07.07.2024.)</p>	
e)		<ul style="list-style-type: none"> Confirm the BAC has at least annually conducted a review of the effectiveness of the system of internal controls. Confirm the FC has obtained a report reviewing the effectiveness of the internal control system. 	
f)		<ul style="list-style-type: none"> Observe the BAC has ensured that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the FC. Confirm BAC follows up the internal audit findings, supervisory findings by reading the meeting minutes. 	
g)		<p>Internal Audit Function</p> <p>i) Confirm the committee has established an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations Direction or as amended) that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes.</p> <p>ii)</p> <ul style="list-style-type: none"> Confirm the internal audit function has a clear mandate, be accountable to the BAC, and be independent. Confirm if the Internal Audit Department has adequate resources, expertise and authority to carry out assignments of special nature (e.g., statutory reporting, IS auditing, Gold Loans/ Pawning etc.) effectively. Confirm whether the reporting line of the Internal Audit Department is to the Chairman of BAC Observe that the internal audit function has sufficient expertise and authority within the FC to carry out their assignments effectively and objectively. <p>iii) Confirm the BAC shall take the following steps with regard to the internal audit function of the FC:</p> <p>(i) Review the adequacy of the scope, functions and skills and resources of the internal audit department and ensure the internal audit department has the necessary authority to carry out its work.</p> <p>(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit.</p> <p>(iii) Assess the performance of the head and senior staff members of the internal audit department.</p> <p>(iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.</p>	

		<p>(v) <i>Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.</i></p> <p>(vi) <i>Examine the major findings of internal investigations and management's responses thereto.</i></p>	
	h)	<ul style="list-style-type: none"> Inspect the BAC has reviewed the statutory examination reports of the Central Bank of Sri Lanka (CBSL). Observe necessary corrective actions have been taken in a timely manner and monitored the progress of implementing the time bound action plan quarterly. Read the BAC meeting minutes, and determine the progress is reported regularly of rectifying supervisory concerns raised by CBSL examiners. 	
	i)	<p>Meetings of the Committee</p> <p>i) Confirm the BAC has met as specified in 10.1 above, with due notice of issues to be discussed and has recorded its conclusions in discharging its duties and responsibilities.</p> <p>ii) Confirm whether the other Board members, senior management or any other employee can attend meetings upon the invitation of the committee when discussing matters under their purview.</p> <p>iii) Confirm the BAC has met at least twice a year with the external auditors without any other directors/senior management/ employees being present.</p> <p>iv) Read the attendance reports and observe the required participation of the required members</p>	
10(3)		Board Integrated Risk Management Committee (BIRMC)	
	a)	<p>Confirm the BIRMC is chaired by an independent director.</p> <ul style="list-style-type: none"> Confirm the Board members appointed to BIRMC are non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. Confirm whether that the CEO and Chief Risk Officer (CRO) can attend the meetings upon invitation. Observe the BIRMC has worked with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee, by reading reports submitted by BIRMC to the Board Observe the Terms of Reference of BIRMC regarding the appropriateness of the members and their appointment. 	
	b)	Confirm the secretary to the committee is the CRO.	
	c)	<ul style="list-style-type: none"> Observe the committee has assessed the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the FC at least on 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. Read IRMC meeting minutes, Risk Appetite Statement and risk reports submitted to IRMC and observe the assessment of the impact of risks by the BIRMC. 	
	d)	<ul style="list-style-type: none"> Read the FC's Risk Appetite Statement (RAS) and determine if it which articulates 	

		<p>the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives.</p> <ul style="list-style-type: none"> By reading the risk framework and minutes and risk management reports: <ul style="list-style-type: none"> Confirm the RAS has included quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. Observe the RAS has defined the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision making and establishing the means to raise risk issues and strategic concerns throughout the FC. 	
	e)	Confirm the BIRMC has reviewed the FC's risk policies including RAS, at least annually.	
	f)	By reading the risk policy/framework, observe the BIRMC has reviewed the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	
	g)	By reading the approved BCP and DRP, confirm the committee has assessed all aspects of risk management including updated business continuity and disaster recovery plans.	
	h)	Confirm that BIRMC has annually assessed the performance of the compliance officer and the CRO.	
	i)	<p>Compliance Function</p> <p>i. Confirm BIRMC has established an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.</p> <p>ii. Confirm whether for FCs with asset base of more than Rs. 20 bn, has a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management to carry out the compliance function and report to the BIRMC directly.</p> <ul style="list-style-type: none"> Observe the compliance officer has not have management or financial responsibility related to any operational business lines or income-generating functions, and there has not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management has not served as the compliance officer. <p>iii) Confirm whether for FCs with asset base of less than Rs. 20bn, has an officer with adequate seniority considered to be senior management has appointed as compliance officer avoiding any conflict of interest.</p> <p>iv) Confirm the BIRMC has ensured responsibilities of a compliance officer would broadly encompass the following:</p> <p><i>(i) develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements;</i></p> <p><i>(ii) ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;</i></p> <p><i>(iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;</i></p>	

		<p>(iv) <i>understand and apply new legal and regulatory developments relevant to the business of FC;</i></p> <p>(v) <i>secure early involvement in the design and structuring of new products and systems, to ensure conformity with the regulatory requirements, internal compliance and ethical standards;</i></p> <p>(vi) <i>highlight serious or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and</i></p> <p>(vii) <i>maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity.</i></p> <ul style="list-style-type: none"> • Observe the reporting line of the Compliance Officer (whether to BIRMC or to any other officer). • Read the Job Description of the Compliance Officer to ensure that s/he is not assigned with management or financial responsibility related to any operational business lines or income-generating functions. 	
	j)	<p>Risk Management Function</p> <p>i) Confirm BIRMC has established an independent risk management function responsible for managing risk-taking activities across the FC.</p> <p>ii) Confirm whether for FCs with asset base of more than Rs.20 bn, has a separate risk management department and a dedicated CRO considered to be senior management to carry out the risk management function and report to the BIRMC periodically.</p> <p>iii) Observe the CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.</p> <p>iv) Confirm the BIRMC has ensured that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: (i) various potential risks and frauds; (ii) possible sources of such risks and frauds; (iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing; (iv) effective measures to control and mitigate risks at prudent levels; and (v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.</p> <p>v) Observe the CRO has participated in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and made recommendations on risk management.</p> <p>vi) Confirm the CRO has maintained an updated risk register, which has submitted to the BIRMC on a quarterly basis.</p> <p>vii) Confirm the BIRMC has submitted a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.</p> <p>viii) Read the Job Description of the CRO to determine the reporting line, job role, responsibilities in line with the stated requirements.</p>	
10(4)		Nomination Committee	
	a)	Confirm the Nomination committee has constituted with non-executive directors and the majority are independent directors.	

		<ul style="list-style-type: none"> Confirm whether an independent director has chaired the committee. Observe whether the CEO can present at meetings by invitation of the committee. 	
	b)	Confirm whether the company secretary has appointed as the secretary to the nomination committee.	
	c)	<ul style="list-style-type: none"> Confirm the committee has implemented a formal and transparent procedure to select/appoint new directors and senior management. Confirm whether the Senior management has appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer. 	
	d)	<ul style="list-style-type: none"> Observe the committee has ensured that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction. Observe by reading the fitness and propriety approval from CBSL. 	
	e)	<ul style="list-style-type: none"> Confirm the selection process has included reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities. Read the TOR of Nominations Committee to determine coverage of above. 	
	f)	<ul style="list-style-type: none"> Observe the committee has taken all reasonable steps to ensure that the Board composition was 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 FC as a whole. Read the contents of board meeting minutes to determine whether each member actively contributes for decision making and to ensure that no single person dominates the decisions. 	
	g)	Confirm the committee has set the criteria, such as qualifications, experience and key attributes required for eligibility, which to be considered for appointment to the post of CEO and senior management.	
	h)	<p>Confirm the committee has assigned the responsibility to the company secretary to disclose below to shareholders, upon the appointment of a new director to the Board;</p> <p>(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 or memberships in Board committees; and (iv) whether such director can be considered as independent.</p>	
	i)	Observe the committee has considered and recommended (or not recommend) the reelection of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	
	j)	<ul style="list-style-type: none"> Observe the committee has considered and recommended from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management. Read the approved succession plan to determine the above. 	
	k)	By reading the minutes of Nominations Committee,	

		<ul style="list-style-type: none"> Confirm whether a member of the nomination committee has not participated in decision making relating to own appointment/ reappointment. Confirm the Chairperson of the board has not chaired the committee when it is dealing with the appointment of the successor. 	
10(5)		Human Resource and Remuneration Committee	
	a)	<p>By reading the TOR of HRRC observe the following:</p> <ul style="list-style-type: none"> Confirm the Human Resources and Remuneration committee is chaired by a non-executive director. Confirm whether the majority of the members are non-executive directors. 	
	b)	Confirm whether the company secretary has appointed as the secretary to the human resource and remuneration committee.	
	c)	<ul style="list-style-type: none"> Observe the committee has determined the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors. Observe if the remuneration policy has been approved by the board. Documents the recent most date of approval of the remuneration policy. 	
	d)	<ul style="list-style-type: none"> Confirm whether the FC has a formal and transparent procedure in developing the remuneration policy. Observe whether the Terms of Reference of the Human Resource and Remuneration Committee, if applicable, have provided adequate guidelines for developing and updating the remuneration policy. 	
	e)	<ul style="list-style-type: none"> Observe whether the committee has recommended the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. Confirm whether the policy was subject to periodic review of the Board, including when material changes are made. Confirm whether the board approval has been granted to periodic revisions 	
	f)	Observe whether the remuneration structure was in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.	
	g)	<ul style="list-style-type: none"> Confirm the committee has reviewed the performance of the senior management (excluding chief internal auditor, compliance officer, 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. Observe whether the goals in the Goal Statements are compared with performance evaluation forms of the members of senior management. 	
	h)	Observe the committee has ensured that the senior management has abstained from	

		attending committee meetings, when matters relating to them are being discussed.	
11	Internal Controls		
11(1)		<p>By observing the presence of the internal audit charter, audit committee charter, operational risk management framework, updated Organization Chart with clear reporting lines, delegation of authorities, detailed manuals for operations:</p> <ul style="list-style-type: none"> Confirm FCs adopts well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks. 	
11(2)		<p>By reading the internal audit plan, reports and timeliness of submissions, and observing the mechanism established to collect and monitor the operational risks in terms of Key Risk Indicators (KRIs), and maintenance of database of KRIs:</p> <ul style="list-style-type: none"> Observe that FC has a proper internal control system which: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies. 	
11(3)		Observe whether all employees are given the responsibility for internal controls as part of their accountability for achieving objectives, by reading a sample of letter of employment/ appointment letters to verify that a term/ clause is contained in such letters assigning the responsibility for internal controls at all level employees.	
12	Related Party Transactions		
12(1)		<ul style="list-style-type: none"> Inspect whether the Board has established a policy and procedures for related party transactions, which covers the following. <ul style="list-style-type: none"> <i>a) All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.</i> <i>b) All related party transactions shall be prior reviewed and recommended by the RPTRC.</i> <i>c) The business transactions with a related party that are covered in this Direction shall be the following:</i> <ul style="list-style-type: none"> <i>i. Granting accommodation.</i> <i>ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable.</i> <i>iii. Providing financial or non-financial services to the FC or obtaining those services from the FC.</i> <i>iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.</i> <p>This aspect is subject to transitional provision given until 01.07.2024.</p>	
12(2)		<ul style="list-style-type: none"> Observe the Related Party Transactions committee has taken the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction. <p>In this regard, observe whether there is a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.</p>	

		<p>a) <i>Directors and senior management.</i></p> <p>b) <i>Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.</i></p> <p>c) <i>Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.</i></p> <p>d) <i>Directors and senior management of legal persons in paragraph (b) or (c).</i></p> <p>e) <i>Relatives of a natural person described in paragraph (a), (b) or (d).</i></p> <p>f) <i>Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.</i></p> <ul style="list-style-type: none"> • Observe evidence obtained from the Company secretary to determine whether: <p>v) the list of related parties is updated frequently to capture the changes in such parties; and</p> <p>vi) appropriate information and the duly completed declarations from applicable persons (KRPs) are collected from the related parties to confirm the relationship and transactions.</p>	
12(3)		<p>Confirm the committee has ensured that the FC 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 FC.</p> <p><i>For the purpose of this paragraph, "more favorable treatment" shall mean:</i></p> <p>a) <i>Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee.</i></p> <p>b) <i>Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.</i></p> <p>c) <i>Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties.</i></p> <p>d) <i>Providing or obtaining services to or from a related party without a proper evaluation procedure; or</i></p> <p>e) <i>Maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.</i></p>	
13	Group Governance		
13(1)		Responsibilities of the FC as a Holding Company	
	a)	<p>By reading the following :</p> <ul style="list-style-type: none"> - Appointment of directors - Board agenda includes discussion - Monthly reports to CFO <ul style="list-style-type: none"> • Observe whether the FC has exercised adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them. 	
	b)	<ul style="list-style-type: none"> • Confirm the Board of the FC has: <p>i) Ensured that the group governance framework clearly defined the roles and responsibilities for the oversight and implementation of group wide policies.</p>	

		<p>ii) Ensured that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework.</p> <p>iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries.</p> <p>iv) Assessed whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and</p> <p>v) By reading the following :</p> <ul style="list-style-type: none"> - Governance framework of the group - Code of conduct of the group - Group internal audit scope - Group risk management framework <ul style="list-style-type: none"> • Observe that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements. 	
	c)	<ul style="list-style-type: none"> • Observe whether the FC, as the apex entity, has ensured that the group structure does not undermine its ability to exercise effective oversight. • Observe the Board has established a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls. 	
	d)	Observe the Board and senior management of the FC has validated that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed.	
	e)	By reading the latest group structure obtained from the Board secretary/ CFO, confirm the FC has avoided setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.	
13(2)		Responsibilities as a Subsidiary	
		Confirm whether the FC has discharged its own legal and governance responsibilities, if the FC is a subsidiary of another financial institution subject to prudential regulation.	
14	Corporate Culture		
14(1)		Confirm whether a FC has adopted a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.	
14(2)		Inspect the FC has maintained records of breaches of code of conduct and addressed such breaches in a manner that upholds high standards of integrity.	
14(3)		<ul style="list-style-type: none"> • Observe whether a FC has established a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. • Observe whether employees are able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. • Confirm whether the BAC shall review the policy periodically. 	

15	Conflicts of Interest		
15(1)	a)	<ul style="list-style-type: none"> Observe whether relationships between the directors have not exercised undue influence or coercion. Confirm whether a director has abstained from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director has not be counted in the quorum for the relevant agenda item in the Board meeting. 	
	b)	<ul style="list-style-type: none"> Confirm whether the Board has a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. <p><i>The policy for managing conflicts of interest shall,</i></p> <p><i>i. Identify circumstances which constitute or may give rise to conflicts of interests.</i></p> <p><i>ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.</i></p> <p><i>iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest.</i></p> <p><i>iv. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest.</i></p> <p><i>v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and</i></p> <p><i>vi. Articulate how any non-compliance with the policy to be addressed.</i></p>	
16	Disclosures		
16(1)	<p>Confirm the Board has ensured that:</p> <p>(a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that</p> <p>(b) such statements are published in the newspapers in Sinhala, Tamil and English.</p>		
	<p>Confirm the Board has ensured that at least following disclosures are made in the Annual Report of the FC.</p>		
	i)	<p>Financial statements</p> <p>In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,</p> <ul style="list-style-type: none"> A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. A statement of responsibility of the Board in preparation and presentation of financial statements. 	
	ii)	<p>Chairperson, CEO and Board related disclosures</p> <ul style="list-style-type: none"> Name, qualification and a brief profile. Whether executive, non-executive and/or independent director. Details of the director who is serving as the senior director, if any. 	

		<ul style="list-style-type: none"> • The nature of expertise in relevant functional areas. • Relatives and/or any business transaction relationships with other directors of the company. • Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity. • Number/percentage of board meetings of the FC attended during the year; and • Names of board committees in which the director serves as the Chairperson or a member. 	
	iii)	Appraisal of board performance An overview of how the performance evaluations of the Board and its committees have been conducted.	
	iv)	Remuneration <ul style="list-style-type: none"> • A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non- financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation). • The aggregate values of remuneration paid by the FC to its directors and senior management. 	
	v)	Related party transactions <ul style="list-style-type: none"> • The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. • Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital. • The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC. 	
	vi)	Board appointed committees The details of the chairperson and members of the board committees and attendance at such meetings.	
	vii)	Group structure <ul style="list-style-type: none"> • The group structure of the FC within which it operates. • The group governance framework. 	
	viii)	Director's report A report, which shall contain the following declarations by the Board: <ul style="list-style-type: none"> • The FC has not engaged in any activity which contravenes laws and regulations. • The directors have declared all related party transactions with the FC and abstained 	

		<p>from voting on matters in which they were materially interested.</p> <ul style="list-style-type: none"> • The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness. 	
	ix)	<p>Statement on internal control</p> <ul style="list-style-type: none"> • A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. • The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. • A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. • A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions. 	
	x)	<p>Corporate governance report</p> <p>Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.</p>	
	xi)	<p>Code of conduct</p> <ul style="list-style-type: none"> • FC's code of business conduct and ethics for directors, senior management and employees. • The Chairperson shall certify that the company has no violations of any of the provisions of this code. 	
	xii)	<p>Management report</p> <ul style="list-style-type: none"> • Industry structure and developments • Opportunities and threats • Risks and concerns • Sustainable finance activities carried out by the company • Prospects for the future 	
	xiii)	<p>Communication with shareholders</p> <ul style="list-style-type: none"> • The policy and methodology for communication with shareholders. • The contact person for such communication. 	