



POLICY ON CORPORATE GOVERNANCE, NOMINATIONS AND RE-ELECTION

Version 1

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1.0 INTRODUCTION

The purpose of this Policy is to set out the powers/rules conferred by Finance Business Act Direction No.05 of 2021, Listing Rules of Colombo Stock Exchange [“CSE”] and any applicable laws of the Country or other regulatory provisions, in respect of the Corporate Governance, including nominations and re-election of Directors of the Sarvodaya Development Finance PLC [“SDF” or “FC” or “Company”].

This outlines the key responsibilities and role of the Board of Directors [“Board”], detailing the Board's authority, the distinction between the Board’s functions and those of Management, as well as the Board’s policies and practices regarding corporate governance.

2.0 THE RESPONSIBILITIES OF THE BOARD

- Business Strategy and Governance Framework
 1. Approving and overseeing the implementation of SDF’s overall business strategy with measurable goals for next three years and update it these goals annually in development of the business environment.
 2. Approving and implementing company’s governance framework commensurate with the SDF’s size, complexity, business strategy and regulatory requirements.
 3. Assessing the effectiveness of its governance framework periodically.
 4. Appointing the Chairperson and the Chief Executive Officer (“CEO”) and defining the roles and responsibilities.
- Corporate Culture and Values
 1. Ensuring that there is a sound corporate culture within the company, which reinforces ethical, prudent and professional behavior.
 2. Playing a lead role in establishing SDF’s corporate culture and values, including developing a code of conduct and managing conflicts of interest.
 3. Promoting sustainable finance through appropriate environmental, social and governance considerations based on SDF’s business strategies.
 4. Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the SDF’s performance, position and prospects to its investors, the public at large and to the regulators.
- Risk Appetite, Risk Management and Internal Controls
 1. Establishing and reviewing the Risk Appetite Statement (RAS) in line with SDF’s business strategy and governance framework.

2. Ensuring the implementation of appropriate systems and controls, to identify, mitigate and manage risks prudently.
 3. Adopting and reviewing the adequacy and the effectiveness of the SDF's internal operational control systems and management information systems periodically.
 4. Approving and overseeing business continuity and disaster recovery plans for the SDF to ensure of its stability, financial strength and preserve its critical operations and services despite unforeseen circumstances.
- **Board Commitment and Competency**
 1. All members of the Board shall devote sufficient time on dealing with the matters relating to the affairs of SDF.
 2. All members of the Board should possess the necessary qualifications, adequate skills, knowledge and experience.
 3. The Board shall regularly review and agree to the training and development needs of 'key' staff members.
 4. The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on their individual performance(s), including that of the Board as a whole and that of its individual committees and to maintain records of such assessments.
 5. The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the Company.
 - **Oversight of Senior Management**
 1. Identifying and designating senior management, who are in a position to significantly influence policies, direct management activities and exercise control over business operations and risk management.
 2. Defining the areas of authority and key responsibilities of the senior management.
 3. Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the SDF's strategic objectives.
 4. Ensuring there is appropriate control of the affairs of the finance company by the senior management.
 5. Ensuring the company has an appropriate succession plan for its senior management.
 6. Meeting regularly with the senior management to review operational policies, establish lines of communication and monitor progress towards the achievement of strategic objectives.

- Adherence to the Existing Legal Framework
 1. Ensuring SDF does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders.
 2. Adherence to the regulatory environment and ensuring compliance with the relevant laws, regulations, directions and ethical standards.
 3. Acting with due care and prudence, and with integrity and to be aware of the potential civil and criminal liabilities, that may arise from SDF's failure to discharge its duties diligently.

3.0 MATTERS RELATING TO THE BOARD

SDF has formed a separate *Policy on Matters Relating to the Board of Directors*.

4.0 DELEGATION OF AUTHORITY

The Board shall approval regular Delegation of Authority (DA's) which give 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 SDF.

In the absence of any of the sub-committees operating, the Board shall ensure the functions stipulated under such committees are carried out by the Board itself.

The Board may establish, appropriate senior management level sub-committees, with appropriate Delegation of Authority to assist in Board decisions. The Board shall not delegate any matters to a Board sub-committee, to an Executive Directors or to Senior Management, to the extent that such delegation would significantly hinder or reduce the ability of the Board as a whole, to discharge its functions.

The Board shall review the delegation processes in place on a periodic basis to ensure that the DA's remain relevant to the needs of SDF.

5.0 COMPOSITION OF THE BOARD

The Board's composition shall 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 SDF.

As per the Articles of Association of the Company, the quorum necessary for the transaction of the business of the Directors shall be one third (1/3rd) of the Directors for the time being.

Further 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 (1/4th) of the number of Directors that constitute the quorum at such meeting are Independent Directors.

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The number of directors on the Board shall **NOT** be less than seven (07) and **NOT** more than thirteen (13).

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 of the Finance Business Act Direction No. 05 of 2021 – Corporate Governance.**

Non-Executive Directors, who directly or indirectly holds more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence, are eligible to hold office exceeding 9 years of service with prior approval of the CBSL Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in **Direction 4.2 and 4.3 Finance Business Act Direction No. 05 of 2021 – Corporate Governance.** Provided, however the number of Non- Executive Directors eligible to exceed 9 years are limited to one-fourth (1/4th) of the total number of directors of the Board.

5.1 Executive Directors - Only an employee of SDF shall be nominated, elected and appointed, as an executive director of SDF, provided that the number of executive directors shall not exceed one-third (1/3rd) of the total number of Directors of the Board.

5.2 Non-Executive Directors -Non-Executive Directors shall possess credible track record(s), and have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resource planning and to the standards of business conduct. A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the company.

5.3 Independent Director -The number of independent directors of the Board shall be at least three (03) or one-third (1/3rd) of the total number of directors, whichever is higher. Independent Directors appointed shall be of the highest caliber, with professional qualifications, proven track record and sufficient business and corporate experience.

A Non-Executive Director shall not be considered independent if such:

- Director has a direct or indirect shareholding exceeding 5% of the voting rights of SDF or is exceeding 10% of the voting rights of any other Finance Company.
- Director or a relative has or had during the period of one year immediately preceding the appointment of the director, has had material business transaction with the Company.
- Director has been employed by SDF or its affiliates or is or has been a director of any of its affiliates during the past one year, immediately preceding the appointment of himself as a Director.
- Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to SDF or its affiliates during the one year preceding the appointment of himself as a director.
- Director has a relative, who is a director or senior management of SDF or has been a director or senior management of SDF during the past one year, immediately preceding the appointment as

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a Director or holds shares exceeding 10% of the voting rights of SDF or exceeding 20% of the voting rights of another Finance Company.

- The Director represents a shareholder, debtor, creditor or such other similar stakeholder of the company.
- 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 SDF is employed or is a director.
- 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 SDF as defined in **Direction 12.1(c)**, or in which any of the other directors of SDF 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 SDF.
- The Board Nomination & Governance Committee [“BNGC”] and Board should determine 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.
- An Independent Director shall immediately disclose to the Board any change in circumstances that may affect the status as an independent director. In such a case, the SDF Board shall review such director's designation as an independent director and notify the CBSL Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation.

5.4 Alternative Directors

Representation through an alternate director is allowed only;

- With prior approval of the CBSL 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
- 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.

The existing directors of the company cannot be appointed as an alternate director to another existing director of the company.

A person appointed as an alternate director to one of the directors cannot extend the role as an alternate director to another director in the same Board.

An alternate director cannot be appointed to represent an executive director.

In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to an independent director.

6.0 NOMINATION, ELECTION AND APPOINTMENT OF DIRECTORS AND APPOINTMENT OF SENIOR MANAGEMENT

As per Section 4 of Finance Business Act Direction No.05 of 2021 No person shall be nominated, elected or appointed as a director of SDF or continue as a director of SDF unless that person is considered to be a fit and proper person to hold office as a director of SDF in accordance with the **Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction** or as amended.

A person over the age of 70 years shall not serve as a director of SDF subject to the following,

A director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to maximum of 75 years of age subject to the following,

- Assessment by the CBSL 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**.
- Prior approval of the Monetary Board based on the assessment of the CBSL Director/Department of Supervision of Non-Bank Financial Institutions.
- The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.
- The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.

The appointments, resignations or removals shall be made in accordance with the provisions of the **Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction**.

Re-election of the Directors will be applicable as per the Articles of Association of SDF and the principles of Code of Best Practice on Corporate Governance.

The Company shall have a Board Nomination Committee [as per the Listing Rules “Board Nominations & Governance Committee”], for the purpose of appointment of new Directors, Re-election of Directors and Senior Management of the Company.

The features of the Board Nomination & Governance Committee are as follows;

Board Nomination & Governance Committee (BNGC)

- The committee shall be constituted with non-executive directors and preferably the majority may be independent directors. An independent director shall chair the committee. The CEO may be present at meetings by invitation of the committee.
- Secretary to the BNGC may preferably be the Company Secretary.

- The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management are to be appointed with the recommendation of CEO, excluding Chief Internal Auditor/Head of Audit, Chief Risk Officer/Head of Risk Management and Compliance Officer.
- The committee shall ensure 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**.
- The selection process shall include reviewing whether the proposed directors
 - possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board;
 - have a record of integrity and good repute; and
 - have sufficient time to fully carry out their responsibilities.
- The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the company as a whole.
- The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.
- Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders:
 - a brief resume of the director;
 - the nature of the expertise in relevant functional areas;
 - the names of companies in which the director holds directorships or memberships in Board committees; and
 - whether such director can be considered as independent.
- The committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the company and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.
- The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management.
- A member of the nomination committee shall not participate in decision making relating to own appointment/ reappointment and the Chairperson of the board should not chair the committee when it is dealing with the appointment of the successor.

7.0 MANAGEMENT OF CONFLICTS OF INTEREST

Relationships between the directors shall not exercise undue influence or coercion. A director shall abstain 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 shall not be counted in the quorum for the relevant agenda item in the Board meeting.

The Board of SDF shall have 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,

- Identify circumstances which constitute or may give rise to conflicts of interests.
- Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.
- 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.
- 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.
- Identify those responsible for maintaining updated records on conflicts of interest with related parties, and
- Articulate how any non-compliance with the policy to be addressed.

8.0 DEALINGS BY DIRECTORS AND CEO

The Directors and CEO of the Company shall immediately disclose to the Company in the following instances;

In the event a Director or CEO of the Company or any of the Close family member of them makes an acquisition, disposal, borrowing or lending of a Relevant Interest in shares or other class of shares issued by the Company, the Director or CEO should inform the following immediately;

- i. The date on which such shares or other class of shares were acquired, disposed, borrowed or lent;
- ii. The date on which such acquisition, disposal, borrowing or lending was notified to the Board of Directors of the Company in terms of Section 200 of the Companies Act;
- iii. The disclosures specified in Section 200 of the Companies Act

9.0 COMMON DIRECTORSHIPS

Director or a Senior Management member of SDF, shall not be nominated, elected or be appointed as a director of another Finance Company except where such a Finance Company is a parent company, subsidiary company or an associate company or has a joint arrangement with SDF.

The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of SDF shall not hold 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 SDF.

10.0 ACCESS TO INFORMATION AND OBTAINING INDEPENDENT ADVICE

The Board may from time to time require / seek independent legal, financial, governance or any other expert advice. To facilitate this, the Board shall establish a process for the members to obtain external advice at the company's expense and to invite Senior Management to provide technical advice when needed.

The Board shall establish procedures to allow its members access to relevant, accurate and complete information and professional advice in order to discharge its duties effectively.

11.0 CAPACITY BUILDING OF BOARD MEMBERS

- Each Board member shall participate in an induction program that is tailored to effectively orient the member to SDF's business, strategy, objectives, policies, procedures, operations, senior management and to the business environment. The induction shall also include all the necessary information that shall be required by a member for effective performance on the Board. New Board members shall also be introduced to their fiduciary duties and responsibilities as well as any other aspects that are unique to the business.
- Board members should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of SDF.
- The Board shall ensure adequate Board development through continuous training to keep the Board well informed on critical information pertinent to the business and corporate governance environment.
- The Board shall conduct an annual review to identify the training needs for each member on a regular basis and facilitate up skilling as well as continuous development.

12.0 BOARD'S PERFORMANCE EVALUATION

- For improved Board effectiveness, the Board shall carry out an assessment of its own performance, the performance of the Chairperson, that of its Sub Committees, Individual Members, the Chief Executive Officer and the Company Secretary annually.
- The Board shall discuss the results of the evaluation exercise which shall also inform the Board on the training needs for its members.
- The Board shall disclose whether the evaluation of the Board, the Chairperson, the Chief Executive Officer and company secretary has been undertaken in the Annual Report and Financial Statements of the company.

13.0 ROLE AND RESPONSIBILITIES OF THE CHAIRPERSON AND THE CEO

There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing. The Chairperson shall be an independent director.

In case where the chairperson is not independent, the Board shall appoint one of the independent directors as a Senior Independent Director ["SID"], with suitably documented terms of reference to ensure a greater independent element.

SID will serve as the intermediary for other directors and shareholders. Non-Executive directors including SID shall assess the Chairperson's performance at least annually.

13.1 Responsibilities of the Chairperson

- 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.

13.2 Responsibilities of the SID

- a) The Independent Directors shall meet at least once a year or as often as deemed necessary at a meeting chaired by the SID without the presence of the other Directors to discuss matters and concerns relating to the Entity and the operation of the Board. The SID shall provide feedback and recommendations from such meetings to the Chairperson and the other Board Members.
- b) The SID shall Chair a meeting of the Non-Executive Directors without the presence of the Chairperson at least annually, to appraise the Chairperson's performance and on such other occasions as ae deemed appropriate.
- c) The SID shall be entitled to a casting vote at the above meetings.
- d) The SID shall make a signed explanatory disclosure in the Annual Report demonstrating the effectiveness of duties of the SID.

13.3 Responsibilities of the CEO

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

- a) Implementing business and risk strategies in order to achieve SDF's strategic objectives.
- b) Establishing a management structure that promotes accountability and transparency throughout SDF's operations and preserves the effectiveness and independence of control functions.
- c) Promoting, together with the Board, a sound corporate culture within SDF, 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 SDF and shall not carry on any other business, except as a Non-Executive Director of another company subject to **3.10 – Common Directorships, Finance Business Act No. 05 of 2021 – Corporate Governance.**

14.0 MEETINGS OF THE BOARD

- a) The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.
- b) The Board shall ensure 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.
- c) A notice of at least 3 days shall be given for a scheduled Board meeting. For all other Board Meetings, a reasonable notice shall be given.
- d) A Director shall devote sufficient time to prepare and attend Board Meetings and actively contribute by providing views and suggestions.
- e) 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 (1/4th) of the number of Directors that constitute the quorum at such meeting are Independent Directors.
- f) The Chairperson shall hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least twice a year.
- g) A Director shall abstain 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, and he shall not be counted in the quorum for the relevant agenda item in the Board Meeting.
- h) A Director who has not attended at least two thirds (2/3rd) of the meetings in the period of 12 months immediately preceding or has not attended three (03) consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an Alternate Director shall be acceptable as attendance subject to applicable directions for Alternate Directors.
- i) For the scheduled Board Meetings, participation in person is encouraged and for ad-hoc meetings where Director cannot attend on a short notice, participation through electronic means is acceptable.

15.0 ROLE OF THE COMPANY SECRETARY

The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations.

The Board shall appoint its company secretary, subject to transitional provision stated in **Section 19.2 Finance Business Act No. 05 of 2021 – Corporate Governance**, a person who possesses such qualifications as may be prescribed for a secretary of a company under **Section 222 of the Companies Act, No. 07 of 2007**, on being appointed as the company secretary, such person shall become an employee of company and shall not become an employee of any other institution.

- All directors shall have access to advice and services of the company secretary with a view to ensuring the Board procedures laws, directions, rules and regulations are followed.
- The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function.
- The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.
- The company secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of SDF.
- 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 SDF is exposed and to an overview of the risk management measures adopted; and
 - (f) Board decisions and to its Board resolutions.
- The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.

16.0 BOARD SUB-COMMITTEES AND THEIR ROLE

SDF has formed a separate *Policy on Board Sub-Committees*.

17.0 RELATED PARTY TRANSACTIONS

Board shall establish a policy and procedures for related party transactions, which covers the following,

- The company 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.
- All related party transactions shall be prior reviewed and recommended by the RPTRC.

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- The business transactions with a related party that are covered shall be the following:
 - ✓ Granting of accommodation.
 - ✓ Creating liabilities to the company in the form of deposits**, borrowings and any other payable.
 - ✓ Providing financial or non-financial services to the company or obtaining those services from the company.
 - ✓ Creating or maintaining reporting lines and information flows between the company 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.

*** Although regulatory requirements mandate obtaining prior recommendations for all Related Party Transactions (RPT), the company is encountering practical challenges in securing advance recommendations from the Related Party Transaction Review Committee (RPTRC) for fixed deposit (FD) transactions. As a temporary solution, the company will seek post-transaction recommendations from the Committee for each FD transaction, until a system is implemented to facilitate obtaining prior recommendations.*

The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the company with any person, and particularly with the following categories of persons who shall be considered as "related parties". In this regard, there shall be 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) Major Shareholders who directly or indirectly hold Substantial holdings (more than 10% of the voting rights of the company)
- c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the company 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 company's directors, senior management or a relative of any of the company'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.
- g) The companies in which Substantial Holdings (over 10%) of the Major Shareholders of SDF hold

The committee shall ensure that the company does not engage in business transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the company. For the purpose of this paragraph, "more favorable treatment" shall mean:

- Granting of "total accommodation" to a related party, exceeding a prudent percentage of the company's regulatory capital, as determined by the committee.
 - 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.
 - Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties.
 - Providing or obtaining services to or from a related party without a proper evaluation procedure; or
 - Maintaining reporting lines and information flows between the company 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.
- Further as per the Section 9.1 (D) of Finance Business Act Direction No.2 of 2024 on Credit Risk Management, the term "Connected Parties" has been come into effect which should be strictly adhered to by the Company.

The definitions and comparison between the Related Parties and the Connected Parties are as follows;

Definitions of Connected Parties and Related Parties

Definition of Connected Parties	Definition of Related Parties
<p>In accordance with section 9.1 (D) of Finance Business Act Directions No. 2 of 2024 Credit Risk Management,</p> <p>The connected parties shall mean two or more natural or legal persons deemed to be a group of connected counterparties if at least one of the following criteria is satisfied</p> <p>i. Control relationship: One of the counterparties, directly or indirectly, has control over the other(s). The control can be ascertained as follows:</p> <p>a) Control of voting rights; (b) Significant influence on senior management</p> <p>ii. Economic interdependence: If one of the counterparties were to experience financial problems, in particular funding or repayment</p>	<p>In accordance with section 12.2 of Finance Business Act Directions No. 5 of 2021, Corporate Governance,</p> <p>The related parties are defined as,</p> <p>a) Directors and senior management. b) Shareholders who directly or indirectly hold 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).</p>

difficulties, the other(s), as a result, would also be likely to encounter funding or repayment difficulties.	<p>e) Relatives of a natural person described in paragraph (a), (b) or (d).</p> <p>f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's directors 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.</p>
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Comparison between Connected Parties and Related Parties

Comparison criteria	Connected party	Related Party
Identification of the party	<p><u>Not specific</u>, and the Direction has provided two parameters to identify the connected parties.</p> <ol style="list-style-type: none"> 1. Control relationship 2. Economic interdependence 	<p><u>More specific</u>. The definition provides a set of parties and clear parameters for identifying the related parties</p>
Scope of identifying the parties	<p>Two parameters are provided in the Direction and the Company needs to identify the parties that are connected to the company in terms of control relationship and Economic interdependence. <u>The scope of identifying the parties is broader</u> compared to related parties.</p>	<p>A set of possible related parties is given in the direction. The direction interprets the parties that have a direct relationship to the company. <u>The scope of identifying parties is narrower</u> than that of connected parties.</p>
Procedure to be followed during a transaction	<p>The onsite examination's recommendation requires the company to avoid preferential treatments when conducting transactions with connected parties. That means, the RPTRC needs to review the transactions and <u>make sure that no preferential treatments are accommodated</u> during such transactions.</p>	<p>Direction requires the RPTRC to prior review all transactions and to <u>make sure that the company conducts arm's length transactions</u>.</p>

18.0 RELATIONS WITH SHAREHOLDERS

The Board shall have a stakeholder-inclusive approach and will be responsible for giving due consideration to the legitimate interests and expectations of the Company's stakeholders in its deliberations, decisions and actions.

The Board shall establish effective communication with its stakeholders in line with the Board Stakeholder Communication Policy.

SARVODAYA DEVELOPMENT FINANCE PLC – Policy on Corporate Governance, Nominations and Re-election

19.0 REVIEW OF THE CHARTER

The Company shall review this Policy on Corporate Governance, Nominations and Re-election annually and make appropriate changes in accordance with CBSL Directions, Listing Rules of CSE and other regulations.
