



POLICY ON THE MATTERS RELATING TO THE BOARD OF DIRECTORS

Version 2

Document Information

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1.0 Introduction

Sarvodaya Development Finance PLC (“SDF” or “the Company”) is a Listed Company registered under the Finance Business Act No. 42 of 2011 and Finance Leasing Act No. 56 of 2000. The activities undertaken by the company are under the supervision of Central Bank of Sri Lanka.

This Policy on Matters Reserved for the Board of Directors is subject to the provisions of the Companies Act No.07 of 2007, the Company’s Articles of Association, Directions and regulations on Corporate Governance under Central Bank of Sri Lanka (“CBSL”), Listing Rules of Colombo Stock Exchange (“CSE”), Code of Best Practice on Corporate Governance 2023(The Code) jointly issued by CA Sri Lanka and CSE and any applicable laws of the country or Regulatory provisions

Despite of how effective a Board of Directors (“the Board”) may be it is not possible for it to have hands-on involvement in every area of the company’s business. An effective Board controls the business but delegates day to day responsibility to the executive management. That said there are a number of matters which are required to be or, in the interests of the company, should only be decided by the Board of Directors as a whole. It is incumbent upon the Board to make it clear regarding the matters reserved for the Board.

2.0 Coverage

The formal schedule of matters specifically relating to the Board for decision is as follows:

2.1 Strategy

- Responsibility for the overall leadership of the company and setting the company’s values and standards
- Approval of the company’s strategic aims and objectives
- Approvals of the annual operating and capital expenditure budgets and any material changes to them
- Oversight of the company’s operations ensuring:
 - ✓ competent and prudent management
 - ✓ sound planning
 - ✓ maintenance of sound management and internal control systems
 - ✓ adequate accounting and other records
 - ✓ compliance with statutory and regulatory obligations

- Review of performance in the light of the company’s strategic aims, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
- Ensuring that the Chief Executive Officer [“CEO”] and Management team possess the skills, experience and knowledge to implement the strategy
- Ensuring the adoption of an effective CEO and Key Responsible Persons [“KRPs”] succession strategy
- Guiding the Management in implementing effective systems to ensure the integrity of information, strengthen internal controls, enhance cybersecurity, support business continuity, and manage risks effectively.
- Ensuring the availability of information communication technology[“ICT”] roadmap in line with business strategy of the company and monitor the progress of implementation through the ICT dashboard
- Recognizing sustainable business development and ESG risk and opportunities in corporate strategy, decisions and activities and consider the need for adopting “Integrated Reporting”
- Ensuring that the company’s values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations
- Establishing a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks
- Ensuring that a process is established for corporate reporting on annual and quarterly basis or more regularly as relevant to the company and
- Fulfilling such other board functions as are vital, given the scale, nature and complexity of the business concerned.
- Providing guidance on Industry Best Practices across all disciplines

2.2 Structure and capital

- Changes relating to the company’s capital structure including reduction of capital, share, share buy backs
- Major changes to the company’s corporate structure, including, but not limited to acquisitions and disposals of shares which are material relative to the size of the company
- Approve the changes to the company’s senior management and control structure
- Any changes to the company’s status as a limited liability company

2.3 Financial reporting and control

- Approval of monthly reports, monthly financial statements and any preliminary announcement of the final results
- Approval of the annual report and audited financial statements
- Approval of the dividend policy

- Declaration of the interim dividend and recommendation of the final dividend
- Approval of Statement of Solvency
- Setting and approval of treasury policies including any material changes to the current banking covenants
- Establishing and maintaining appropriate accounting policies, implement and monitor the maintenance of adequate accounting and systems of planning and internal control.
- Review financial performances and guidance to improve/rectify strategies whenever applicable

2.4 Internal controls

Ensuring maintenance of a sound system of internal control and risk management including:

- Approving the company's risk appetite statements
- Receiving reports on, and reviewing the effectiveness of, the company's risk and control processes to support its strategy and objectives
- Approving an appropriate statement for inclusion in the annual report

2.5 Contracts

- Approval of major capital projects
- Contracts which are material strategically or by reason of size, entered into by the company in the ordinary course of business, for example bank borrowings and acquisitions or disposals of fixed assets (including intangible assets such as intellectual property)
- Major investments including the acquisition or disposal of the voting shares of any company or the making of any takeover offer

2.6 Communication

- Ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives.
- Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting.
- Approval of all circulars, prospectuses and public fund raising particulars.
- Approval of press releases concerning matters decided by the Board.

2.7 Board Balance

It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision taking.

The Board should include at least three (03) Non-Executive Directors or such number of Non-Executive Directors, equivalent to one third (1/3rd) of total number of Directors, whichever is higher. In the event the Chairman and CEO is the same person or if the Chairman is not an Independent Director, Non-Executive Directors should comprise majority of the Board.

Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria and confirm at the end of each quarter whether the declared status on independence continues.

A Director would not be independent if he/she;

- Has been employed by the Company, subsidiary or parent of the company during the period of three years immediately preceding appointment; or
- Currently has or has had within last three years immediately preceding appointment as Director, a material business relationship with the Company, whether directly or indirectly; or
- Has or has had in the preceding financial year, a close family member who is a Director or CEO or KRP or
- Is a significant shareholder of the Company or an officer of or otherwise associated directly with, a significant shareholder of the Company; or
- Has served on the Board of the Company continuously for a period exceeding 9 years from the date of the first appointment; or
- Is employed in another company or business;
 - In which majority of the other directors of the Company are employed or are Directors; or
 - In which majority of the other Directors of the Company have a significant shareholding or material business relationship; or
 - That has a significant shareholding in the Company or with which the Company has a business connection; or

- Is a Director of another Company;
 - In which majority of the other Directors of the Company are employed or are Directors; or
 - That has a business connection with the Company or significant shareholding in the Company; or
- Has a material business relationship or a significant shareholding in another Company or business ;
 - In which majority of the other Directors of the Company are employed or are Directors; and/or
 - Which has a business connection with the Company or significant shareholding in the same; and/or
 - Where the core line of business of the other Company is in direct conflict with the line of business of the Company; or
- Receives Directors' remuneration which has a variable component for example remuneration based on individual or corporate performance, is entitled to share options, terminal benefits, and/or whose remuneration is in excess of market determined remuneration for an equivalent position. Market survey should be carried out at least once in every three years to validate it; or
- Has reached an age stipulated in an applicable regulation.

2.8 Board and Board Sub Committees Memberships

- Effecting changes to the structure, size and composition of the Board, following recommendations from the Board Nomination & Governance Committee [“BNGC”]
- Ensuring adequate succession planning for the Board and senior management so as to maintain an appropriate balance of skills and experience within the company and on the Board
- Appointments to the Board, following recommendations by the BNGC
- Selection of the Chairman of the Board and the CEO
- Appointments to the Board Sub Committees Memberships and chairmanships
- Appointment of a Senior Independent Director if relevant

- Continuation in office of directors at the end of their term of office, when they are due to be reelected by shareholders at the AGM and otherwise as appropriate
- Appointment or removal of the Company Secretary
- Appointment, reappointment or removal of the external auditor to be put to shareholders for approval in general meeting, following the recommendation of the audit committee.

2.9 Remuneration

- Determining the remuneration policy for the Executive Directors, Company Secretary and other Senior Management, following recommendations from the Board Remuneration Committee [“BRC”]
- Determining the fees and allowances structure of the Non-Executive Directors, subject to the Articles of association and shareholder approval as appropriate
- The introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval

2.10 Delegation of Authority

- The Board shall approve a Delegation of Authority (DA) and 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 the Company.
- The division of responsibilities between the chairman and the chief executive, which should be clearly established, set out in writing and agreed by the Board
- Approval of delegated levels of authority, including the chief executive’s authority limits (which must be in writing)
- Establishing Board committees and approving their terms of reference, and approving material changes there to
- Receiving reports from Board Sub committees on their activities
- The Board shall not delegate any matters to a Board Sub Committee 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.
- The Board shall review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the Company.

2.11 Corporate Governance Matters

- SDF has incorporated the following areas related to Corporate Governance under the Policy on **Corporate Governance, Nominations and Re-election**
 - Composition of the Board
 - The Roles & functions of the Chairperson and the CEO
 - Minimum Number of Meetings attendance at the Board Meetings
 - Maximum number of Directorships that could be held by the Directors
 - Nomination, Re-election and Appointment of Directors and Senior Management
 - Board Sub Committees and their roles
 - Related Party Transactions

- The Requirements relating to Trading in Securities of the Listed Entity are being incorporated under the Board approved **Policy on Trading in the Entity's Listed Securities**

- The Company Secretary/Compliance Officer notifies the Board of Directors on the Compliance rules and regulations under CSE, CBSL and the other regulators, as and when there are amendments to the rules/guidelines/directions.

- Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities

- Determining the independence of non-executive directors in light of their character, judgment and relationships

- Considering the balance of interests between shareholders, employees, customers and the community

2.12 Policies

Approval of policies, including but not limited to:

- Policy on Matters relating to the Board of Directors
- Policy on Board Committees
- Policy on Corporate Governance, Nominations and Re-election
- Policy on Remuneration
- Policy on Internal Code of Business Conduct and Ethics for all Directors and employees
- Policy on Insider Trading of Company's Listed Securities
- Policy on Risk Management and Internal Controls
- Policy on Relations with Shareholders and Investors
- Policy on Environmental, Social and Governance Sustainability

- Policy on Control and Management of Company Assets and Shareholder Investments

2.13 Duties of Directors

- A Director of the Company should act in good faith and in the best interest of the Company
- A Director of the Company should act in a manner that does not contravene any provisions of the Companies Act or the Articles of Association of the Company
- When exercising powers or in performing his/her duties as a Director of the Company, he/she should not act in a reckless or negligent manner. He/She must exercise a degree of skill and care that may be ordinarily expected of the Director.
- A Director could rely on and use information and advice received from others designated only if he is acting in good faith, in making such inquiry since it is warranted and has no knowledge that calling for such information is unwarranted.
- When a Director is interested in a transaction with the Company it is his/her duty to disclose this to the Board of the Company by way of a disclosure of interests.
- A Director must protect and safeguard Private Company information. He should not disclose such information to outsiders or any third parties unless to the Company or when required by law.
- A Director who has a relevant interest in shares issued by the Company should report these particulars to the Board.
- Remuneration and other Benefits can be varied among the Board members and will be decided by the Board as a whole based on contribution and activities performed. The Board will resolve based on the full Board's approval.
- The Company should act within parameters set out in the Act when providing a guarantee or security resolution.
- A Director if aware that the Company is unable to meet its debt, must convene a meeting of Directors and consider steps to be taken.
- The Board will assume full responsibility while maximizing coverage under Directors' & Officers' Liability Insurance.

2.14 Other

- Prosecution, commencement, defense or settlement of litigation, or an alternative dispute

resolution mechanism which is material to the company

- Approval of the overall levels of insurance for the company including Directors' and Officers' Liability Insurance
- Any decision likely to have a material impact on the company from any perspective including, but not limited to, financial, operational, strategic or reputational
- Review of relations with relevant Regulatory Authorities
- Considering the matters connected to legislation (such as Companies Act, Finance Business Act)
- This schedule of matters reserved for Board decisions.

3.0 Review

This Policy is reviewed annually, or whenever there is a significant change to SDF's operating environment. This review is coordinated by the Company Secretary/Compliance Officer. Proposed changes to this document should be approved by the Board of Directors.
