

Corporate governance – Annexes

→ Compliance with code of best practice on corporate governance

Compliance with the Code of Best Practice (The Code) issued by The Institute of Chartered Accountants of Sri Lanka – 2017

Code reference	Principle and compliance	Status of compliance
The Company		
A	Directors	✓
A.1	The Board The Board of Directors of People's Leasing & Finance PLC ("the Company") consists of eight eminent professionals from different disciplines who are effective and dedicated to ensuring that the Company achieves its objectives. All Directors possess a range of skills, experience and knowledge complemented with a high sense of integrity and independent judgement to provide leadership to the Company.	✓
A.1.1	Conducting regular Board meetings During the year the Company provided all required information in advance to all Directors of the Board and the Board had 13 meetings for effective execution of their responsibilities. Refer "Board Meeting" in page 46.	✓
A.1.2	Roles and responsibilities of the Board The Board's principle responsibilities and duties are defined in the Company's Corporate Governance Charter as summarised in page 44 and are updated to meet the requirements of the Code of Best Practice on Corporate Governance.	✓
A.1.3	Act in accordance with laws of the country The Board collectively as well as individually complied with the laws of the country that are applicable to the Company. The Company's Corporate Governance Charter and the Code of Business Conduct and Ethics have been clearly formulated and, approved where procedures are in place for the Directors to seek independent professional advice when deemed necessary.	✓
A.1.4	Access to services of Company Secretary and removal of Company Secretary All Directors have access to the Company Secretary who is an Attorney-at-Law by profession. The Board is responsible for the appointment or the removal of the Company Secretary.	✓
A.1.5	Independent judgement of the Board The Board works as an effective and cohesive unit that draws on the strengths of each Director without placing undue reliance on any one individual. Thus, all Directors are free to exercise independent judgement in decision-making by the Board on issues of strategy, performance, resource allocation and the conduct of business.	✓
A.1.6	Dedicate adequate time and effort to Board matters The Board of the Company met on 13 days and Board subcommittees devoted substantial time (Number of meetings BAC – 10, IRMC – 4, RNC – 6 and RPT – 4) by providing their fullest support for the effective discharge of the Board duties and responsibilities.	✓
A.1.7	Directors to call for resolutions in the best interest of the Company In the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board. However, there were no such instances in the year under review.	✓
A.1.8	Induction and training for the Board Refer "Induction and on-going training" on page 45.	✓
A.2	Division of business of the Board from the executive responsibility for Management of the Company's business Refer "Chairman and Chief Executive Officer (CEO) on page 43.	✓
A.3	Chairman's role in preserving good corporate governance The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects and facilitating the contribution of all Board members on Board's affairs while preserving good corporate governance. He is also responsible to ensure effective implementation of Board's decisions, provide coherent leadership for the Company and understand the views of the shareholders and other stakeholders. Refer section "Chairman's role" on page 43.	✓

Corporate governance – Annexes

Compliance reports

Code reference	Principle and compliance	Status of compliance
A.4	<p>Availability within the Board those with financial acumen and knowledge</p> <p>Refer section "Financial Acumen" on page 44.</p>	✓
A.5	<p>Board balance</p> <p>Non-Executive Directors in the Board</p> <p>During the year 2018/19, the Board comprised solely of Non-Executive Directors (NED) who brings a wealth of knowledge and experience covering a wide spectrum of topics and their views carried a significant weight in the Board's decisions.</p> <p>Independence of Non-Executive Directors</p> <p>As per the requirements of the Code, the Board should comprise of five Independent Non-Executive Directors (INED). However during the year under review, the Board comprised of only three INEDs and immediate measure were initiated by the Company to mitigate the same. Accordingly, as of 13 June 2019 the Company's Board comprised of four INEDs.</p> <p>The 4 INED of the Company met the criteria for independence as set out in the Code and are independent of Management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement.</p> <p>Self-declarations were submitted by all NED and based on such annual declaration independence of NEDs are evaluated annually to ensure compliance with the criteria of the Code.</p> <p>Alternate Directors and Senior Independent Director</p> <p>No alternate Directors were appointed during the year 2018/19.</p> <p>Since the Chairman is not independent, the Company has designated a Non-Executive Director (Mr M P Amirthanayagam) as the Senior Independent Director. The Board approved the Terms of Reference for the Senior Independent Director by requiring to make himself available for confidential discussions with other Non-Executive Directors who may have concerns which they believe have not been properly considered by the Board as a whole and call a meeting of the Non-Executive Directors if, in his opinion, it is necessary.</p> <p>The Senior Independent Director has been present at the Annual General Meeting of the Company where all shareholders are given the opportunity to express their concerns and question the Senior Independent Director on various issues.</p> <p>The Directors' concerns pertaining to unresolved matters are discussed and recorded by the Company Secretary in the Board minutes in sufficient detail. Further discussions on these matters are pursued at the next Board meeting with a view to resolving them. However, no such issues arose during the year under review.</p>	✓
A.6	<p>Supply of information</p> <p>Refer "Supply of Information" on page 47.</p>	✓
A.7	<p>Appointment to the Board</p> <p>Refer "Appointment and Re-election of the Board" on page 44 and Remuneration and Nomination Committee report on page 204.</p>	✓
A.8	<p>Re-election</p> <p>In terms of Article 27 (2) of the Articles of Association of the Company all Directors who have been appointed to the Board during the year retire at the next Annual General Meeting and are eligible for re-election by the shareholders.</p> <p>Although the Non-Executive Directors are not appointed for a specified time period, they are nevertheless subject to re-election at the Annual General Meeting in terms of the Articles of Association of the Company and provisions of the Companies Act relating to the removal of a Director.</p> <p>During the year under review, Dr A A S Gulamhusein tendered his resignation from the Board. His letter of resignation was tabled before the Board for discussion and was submitted to the Central Bank of Sri Lanka for approval. Subsequent to obtaining approval from the Central Bank the resignation was accepted and immediate disclosure was made to the public through the Colombo Stock Exchange.</p>	✓
A.9	<p>Appraisal of Board performance</p> <p>Refer "Appraisal of Board" on pages 48 and 49.</p>	✓

Corporate governance – Annexes

Code reference	Principle and compliance	Status of compliance
A.10	<p>Disclosure of information in respect of Directors</p> <p>As prescribe in the Code the Company disclosed information regarding Directors in the following sections:</p> <ul style="list-style-type: none"> • “Profile of the Board” on pages 27 and 28. • “Related Party disclosure” notes to the Financial Statement on pages 340 to 344. • “Board Subcommittees” on page 45. • “Attendance at Board and Board Committee meetings” on page 48. 	✓
A.11	<p>Appraisal of Chief Executive Officer (CEO)</p> <p>Refer “Appraisal of CEO/GM” on page 49.</p>	✓
B	Directors remunerations	
B.1	<p>Remuneration procedure</p> <p>The Company has established a formal and transparent remuneration procedure in place for developing an effective remuneration policy to avoid potential conflict of interest. The Board has established a Remuneration Committee comprising solely of Non-Executive Directors with a written Terms of Reference.</p> <p>There were no Executive Directors on the Board of the Company during the year 2018/19 and therefore, the necessity to consult the Chairman and/or CEO on their remuneration did not arise.</p>	✓
B.2	<p>Level and make-up of remuneration</p> <p>The remuneration framework of the Company is sufficient to motivate and reward performance and complies with regulatory requirements and stakeholder expectations.</p> <p>There were no Executive Directors on the Board of the Company during the year under review and hence the need for attractive packages and performance-related remuneration for such Director is not applicable.</p> <p>Nevertheless, the Board is aware that the remuneration of Executive and Non-Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of personnel needed to run the Company and promote its long-term success.</p> <p>Therefore, the remuneration structure of the Company is reviewed from time to time in comparison to that of peers in the industry.</p> <p>Due to the relatively small size and scale of other companies in the Group, weight is given to the industry comparable when deciding on salary increase levels. However, the Group endeavours to maintain a consistent policy of remuneration across the Board.</p> <p>At present, the Company does not have any share option scheme for the Directors or employees.</p>	✓
B.3	<p>Disclosure of remuneration</p> <p>Director’s remuneration procedures and disclosure as prescribed in the Code can be seen in the following section in this Annual Report:</p> <ul style="list-style-type: none"> • “Director and Executive remuneration and benefit” on page 49. • “Related Party disclosure” Note to the Financial Statement on pages 340 to 344. • “Remuneration and Nomination Committee report” on page 204. 	✓
C	Relations with shareholders	
C.1	<p>Constructive use of Annual General Meeting (AGM) and conduct of General Meetings</p> <p>The Board uses an Annual General Meeting to communicate the Group’s performance with shareholders and encourages their active participation. Annual Report containing the Notice of Meeting is sent along with the Form of Proxy to the shareholders, 15 working days prior to the date of the AGM as required by the Statute.</p> <p>The Company proposes separate resolutions on each substantially separate issue giving shareholders the opportunity to vote on each such issue separately. The adoption of the Annual Report of the Board of Directors, the Financial Statements of the Company and the Report of the Auditors thereon are considered as a separate resolution.</p> <p>Proxy votes together with the votes of the shareholders present at the AGM are considered by the Company for each resolution.</p>	✓

Corporate governance – Annexes

Compliance reports

Code reference	Principle and compliance	Status of compliance
	<p>The Company records all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against such resolution.</p> <p>“Votes withheld” are not counted in the calculation of the proportion of the votes for and against resolutions.</p> <p>The Chairman of the Board ensures that the Chairmen of Board subcommittees and the Senior Independent Director are present at the AGM to answer any query by shareholders.</p> <p>The Senior Independent Director and the Chairmen of the Board Subcommittees were present at the previous years AGM held on 29 June 2018 and no queries were raised by the shareholders.</p>	
C.2	<p>Communication with shareholders</p> <p>Recognising the importance of two-way communication with its stakeholders, the Board has adopted a comprehensive policy that governs communications with its shareholders and other stakeholders. The Communication Policy is based on four guiding principles, efficiency, transparency, clarity and cultural awareness and feedback.</p> <p>The Communication Policy, which forms an integral part of the Corporate Governance Charter of the Company was reviewed and approved by the Board.</p> <p>The Company Secretary and the Corporate Affairs Division maintains records of all correspondence received from shareholders and direct the same to appropriate channels for resolution.</p> <p>All major issues and concerns of shareholders are referred to the Board.</p> <p>Upon receipt of instructions from the Board or other relevant channel on issues/concerns referred to them as above, the Company Secretary or the Corporate Affairs Division revert to the respective shareholder with an appropriate response.</p> <p>Shareholders can contact the Company Secretary, whose details are given below, on matters relating them,</p> <p>Ms. Lakmini Kottegoda Company Secretary People's Leasing & Finance PLC 1161, Maradana Road Colombo 8 Sri Lanka. Phone: +94 11 263 1103 Fax: +94 11 248 1500</p> <p>The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels.</p>	✓
C.3	<p>Major and material transactions</p> <p>The Board recognises that strong and transparent disclosure is central to shareholder ability to exercise ownership rights.</p> <p>During the year, there were no major or material transactions engaged in or committed to by the Company as defined by Section 185 the Companies Act No. 01 of 2007.</p>	✓
D	<p>Accountability and Audit</p>	
D.1	<p>Financial and business reporting (The Annual Report)</p> <p>The Directors are aware of their responsibility to present a balanced and understandable assessment of the Company's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects.</p> <p>Due care has been exercised to ensure that all statutory requirements are complied within the Annual Report, the publication of Interim Accounts on a timely basis and regulatory reports were filed by the due dates. Prior to approving the Financial Statements covering a particular financial period, the Board obtains the declaration of the CEO and the Chief Financial Officer on their responsibility in respect of financial reporting.</p> <p>The Company has in place a Related Party Transaction (RPT) Policy and it adequately discloses Related Party Transactions.</p> <p>The Code of Business Conduct and Ethics of PLC ('the Code') requires each member of the Board to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgement. The Code also requires Directors who have such a potential or actual conflict of interests to immediately disclose it to the Board of Directors as soon as he/she becomes aware of it and records thereof are maintained by the Company Secretary in the Interest Register.</p>	✓

Corporate governance – Annexes

Code reference	Principle and compliance	Status of compliance
	<p>Disclosure requirement in the Annual Report as prescribed in the Code are included in following sections:</p> <ul style="list-style-type: none"> • “Annual Report of the Board of Directors on the Affairs of the Company” on pages 54 to 59. • “Directors’ Responsibility for Financial Reporting” on page 213. • “Directors’ Statement on Internal Control over Financial Reporting” on page 215. • “Independent Auditor’s Report” on pages 219 to 221. • “Plotting our Journey” on pages 74 to 79 and “Seeing enterprise in action” on pages 80 to 152. • “Related Party Transaction Review Committee Report” on page 205. • “Related Party disclosure” Note to the Financial Statement on pages 342 to 346. 	
D.2	<p>Risk management and internal control</p> <p>The Board is responsible in determining the risk appetite for achieving the strategic objectives of the Company and ensuring that the Company maintains an adequate system of internal control and for reviewing its effectiveness.</p> <p>The Company’s internal controls are designed to support the identification, evaluation and management of risks affecting the Group. These cover financial, operational, compliance and information technology controls, as well as risk management policies and mechanisms.</p> <p>Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) assist the Board in this regard.</p> <p>Further, the Company has its own in-house Internal Audit Department. The Internal Audit Department of the Company carries out regular reviews on the risk management measures and internal controls system including internal controls over financial reporting and reports their findings to the Board Audit Committee, who then on behalf of the Board, undertakes a detailed monitoring and reviewing of the said controls and risk management measures. The minutes of the Board Audit Committee meetings together with the Committee’s findings on internal controls and risk management functions are submitted at the meetings of the Board of Directors periodically.</p> <p>References:</p> <ul style="list-style-type: none"> • “Board Audit Committee Report” on pages 202 and 203. • “Integrated Risk Management Committee Report” on pages 206 to 208. • “Directors’ Statement on Internal Control over Financial Reporting” on page 215. 	✓
D.3	<p>Audit Committee</p> <p>The Board Audit Committee assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audits. The Charter of the Board Audit Committee, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the Terms of Reference of the Board Audit Committee. The Charter demonstrates that activities of the Board Audit Committee are in line with the Code and the Directions issued by the Central Bank of Sri Lanka.</p> <p>As at 31 March 2019, the Board Audit Committee comprised three Directors, all of whom were Non-Executive Directors. One Director of the Committee was an Independent Non-Executive Director. With Mr Amirthanayagam being an Independent Director with effect from 13 June 2019, the Audit Committee comprised of two Independent Non-Executive Directors.</p> <p>The Chairman of the Board Audit Committee is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (ICASL) and a Fellow Member of the Chartered Institute of Management Accountants – UK, (FCMA) and has over 33 years of extensive experience in finance and management.</p> <p>The Company’s External Auditor for 2018/19, Messrs Ernst & Young, Chartered Accountants has provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.</p> <p>References:</p> <ul style="list-style-type: none"> • “Board Audit Committee Report” on pages 202 and 203. 	✓
D.4	<p>Related Party Transaction Review Committee</p> <p>The Board has approved a Comprehensive Related Party Transaction Policy setting out the procedure to ensure that no “Related party” of the Company as defined in LKAS 24 is given more favourable treatment than that accorded to third parties in the normal course of business.</p> <p>The Company has set up a Related Party Transactions Review Committee to oversee the related party transactions of the Company.</p> <p>As at 31 March 2019, the Related Party Transactions Review Committee comprised three Directors, all of whom were Non-Executive Directors.</p>	✓

Corporate governance – Annexes

Compliance reports

Code reference	Principle and compliance	Status of compliance
	<p>One Director of the Committee was an Independent Non-Executive Director. With Mr Amirthanayagam being an Independent Director with effect from 13 June 2019, the Related Party Transaction Review committee comprised of two Independent Non-Executive Directors.</p> <p>The Related Party Transactions Review Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference, are in line with the Code and the Directions issued by the Central Bank of Sri Lanka.</p> <p>References:</p> <ul style="list-style-type: none"> • “Related Party Transaction Review Committee Report” on page 205. 	
D.5	<p>Code of Business Conduct and Ethics</p> <p>The Company has a strong organisational culture of entrenched values, which forms the cornerstone of its behaviour towards all stakeholders. These values are embodied in a written statement of values, which serves as the Company's Code of Business Conduct and Ethics and is continually reinforced.</p> <p>The Company has in place a comprehensive Code of Business Conduct and Ethics applicable to all Directors and employees of the Company. The Code has been circulated to all the Directors and employees and has been published in the Company's intranet to ensure strict compliance with same. The Code of Business Conduct and Ethics that embodies the corporate values was reviewed and updated in line with recommended best practices.</p> <p>The Board is not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by any Director or Key Management Personnel of the Company.</p> <p>The Company has in place an effective mechanism for identification of information that could be perceived as price sensitive information and prompt disclosure of same to the relevant regulatory authorities</p> <p>The Company has in place an established process for monitoring and disclosing related party transactions set out in detail in the Board-approved Related Party Transaction Policy of the Company.</p> <p>Further, the Code of Business Conduct and Ethics entails as part of it, a comprehensive policy and processes governing dealings by the Directors, KMPs and employees in the shares of the Company.</p> <p>References:</p> <ul style="list-style-type: none"> • “Annual Report of the Board of Directors on the Affairs of the Company” on pages 54 to 59. 	✓
D.6	<p>Corporate Governance Disclosures</p> <p>The Corporate Governance Report presented in this Annual Report is structured to cover all aspects of Corporate Governance requirements as specified by the Code.</p>	✓
Shareholders		
E	<p>Institutional investors</p> <p>The Company is committed to promoting effective and open communication with all shareholders, transparently and regularly in order to facilitate a mutual understanding of the respective objectives of the parties. The Board and the Management strive to be accessible to both institutional and private investors and proactively encourage all shareholders to participate at the Company's Annual General Meeting (AGM).</p> <p>The Annual General Meeting (AGM) is used as a forum to have a structured and objective dialogue with shareholders on matters that are relevant to the general membership.</p> <p>The Company has 298 institutional investors out of 8,961 total investor and they hold 95.14% of voting shares of the Company.</p> <p>The Chairman of the Company is a Director of the Parent Company which has 75% of the Company's ownership. Accordingly, the Chairman affirms that institutional shareholders view can be precisely communicated to the Board.</p> <p>Additionally, the Company has an ongoing programme of dialogue and meetings with institutional shareholders, where a wide range of relevant issues as discussed</p> <p>Disclosure is an essential element of a robust Corporate Governance Framework as it provides the basis for informed decision-making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring.</p> <p>Sufficient attention has been given to the interests of institutional investors and they are at liberty to give due weight when exercising their voting rights on resolutions relating to the Board structure and the composition.</p>	✓

Corporate governance – Annexes

Code reference	Principle and compliance	Status of compliance
F	<p>Other investors</p> <p>The Company places a high degree of importance on maintaining good relationships and communications with institutional investors and private investors alike and ensures that they are kept informed of significant company developments in order to give them the critical information they need to value their investments.</p> <p>Individual shareholders are at liberty to carry out an adequate analysis or seek independent advice on their investing, holding or divesting decisions.</p> <p>Further, as disclosed in the Directors' Statement on page 1 financial projections and statements relating to future events are based on current available information. While we cannot provide any assurances regarding future events, we advise readers to refrain from placing undue reliance on the projected data in making their decisions. Information has not been updated post-publication.</p> <p>General Meetings provide the principal opportunity for the Board to meet investors and for the Chairman to explain the Company's progress and receive questions from its owners, the shareholders</p> <p>Individual shareholders are encouraged to participate at General Meetings and cast their votes.</p>	✓
G	<p>Internet of things and cybersecurity</p> <p>The Group's IT policies by which the Company is governed, comprehensively cover IT discipline, use of licensed software, closer monitoring of the usage of the internet, email and mail server and the use of antivirus and firewall servers and software.</p> <p>The functions of the Chief Information Security Officer are delegated to the Head of IT of PLC Group.</p> <p>Risks relating to all IT matters including that arising from cybersecurity are discussed and assessed in detail by the Audit Committee and the Board too dedicates a considerable time to discuss matters relating to cybersecurity and the Head of IT of the Group is present during such discussions.</p> <p>Information Technology Auditors are used whenever they deem that expert advice is required. The review of Information Security was carried out by the External Auditors at the year-end audit.</p>	
H	<p>Environment, society and governance (ESG)</p> <p>H.1 ESG Reporting</p> <p>Corporate sustainability reporting aims to deliver information in such a way that it provides decision-making value to investors, customers, employees and other relevant groups who have a stake in the Company or who are in some way affected by the Company's actions.</p> <p>Environment, Society and Governance (ESG) aspects are considered as an important part of the Company's values and the Board is aware of its responsibility to ensure that such aspects are linked closely with the Company strategy.</p> <p>ESG reporting of the Company is a reflection of how the Company has performed and achieved long-term economic value, assumed corporate responsibility and contributed to sustainable development. Thus, this Annual Report has been prepared in the form of an Integrated Report that covers all sustainability reporting parameters as identified by the Global Reporting Initiative (GRI).</p>	✓

Corporate governance – Annexes

Compliance reports

→ Compliance with Listing Rules

Compliance with the Rules 7.6 and 7.10 of Listing Rule – Section 7 (Continuing Listing Requirements) issued by the Colombo Stock Exchange.

Rule No.	Principle and compliance	Status of compliance
7.6	Contents of Annual Report Refer page 59 of the Annual Report for Compliance with requirements on the content of the Annual Report.	✓
7.10	Corporate governance	
7.10.1	Two or one third of the Directors, whichever is higher, should be Non-Executive Directors. The Board of Directors of the Company comprised only Non-Executive Directors.	✓
7.10.2	Two or one-third of Non-Executive Directors, whichever is higher, should be independent and requirement to submit declarations of independence/non-independence. The Company had eight Non-Executive Directors as at 31 March 2019, three were Independent Non-Executive Directors. With Mr Amirthanayagam being an Independent Director with effect from 13 June 2019, the Board comprised four Independent Directors. Further, all Non-Executive Directors submitted the requisite declarations during the year under review.	✓
7.10.3	Names of Independent Directors, basis of determination of independence of Directors outside criteria specified in the Code and disclosure of the résumé of existing and new Directors. No such determination was required to be made by the Board, as all the Independent Directors of the Company met the specified criteria. Two new Directors were appointed to the Board during the year under review and their résumés were provided to the CSE for dissemination to the public.	✓
7.10.5	Composition, functions and disclosures in the Annual Report on the Remuneration Committee. During the year 2018/19, Remuneration and Nomination Committee comprised three Non-Executive Directors who were not independent. With Mr Amirthanayagam being an Independent Director with effect from 13 June 2019, the Remuneration and Nomination Committee comprised of one Independent Director. The Chairman of the Committee was a Non-Executive Director. Refer Remuneration and Nomination Committee Report on page 204.	✗
7.10.6	Composition, functions and disclosures in the Annual Report on the Audit Committee. The Audit Committee comprised three Non-Executive Directors of whom one was Independent. With Mr Amirthanayagam being an Independent Director with effect from 13 June 2019, the Audit Committee comprised of two Independent Directors. The Chairman of the Committee was a Non-Executive Director. The Chief Executive Officer attended the Audit Committee meetings by invitation. The Chairman of the Committee is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and is a Fellow Member of Chartered Management Accountants, UK. Refer Board Audit Committee Report on pages 202 and 203.	✗

Corporate governance – Annexes

→ Compliance with Finance Companies Direction

Compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and amendments thereto as specified in Finance Companies (Corporate Governance-Amendment) Direction No. 4 of 2008 and No. 6 of 2013 issued by Central Bank of Sri Lanka.

Rule No.	Principle and compliance	Status of compliance
A	Responsibilities of the Board of Directors	✓
2 (1)	Strengthening the Safety and Soundness of the Company	
(a)	<p>Approving and overseeing strategic objectives and corporate values</p> <p>The strategic objectives of the Company are predicated on the Vision and Mission Statements of the Company and corporate values are embedded in the Code of Business Conduct and Ethics which have been communicated to employees at all levels.</p> <p>The Board plays an active role in setting the strategic objectives of the Company, ensuring that it focuses on converting the Company's Mission and Vision into action.</p> <p>While the Board has delegated the task of implementing the set goals/objectives to the Management of the Company, the Board constantly monitors and reviews the Company's performance, vis-à-vis targets, being proactive in identifying any setbacks.</p> <p>Refer section on vision and mission on page 12.</p>	✓
(b)	<p>Approving overall business strategy including risk policy and management procedures</p> <p>The Strategic Business Plan of the Company encompasses a comprehensive three-year plan focusing on the Strategic Objectives of the Company and addresses key issues and challenges faced by the Company.</p> <p>The Business Plan includes Strategic Goals set in the form of measurable goals, developed in line with the Board-approved Risk Management Policy, Risk Tolerance and Risk Appetite Statement.</p> <p>The business strategy is regularly reviewed by the Board with updates on the execution thereof by the Management at monthly Board meetings.</p>	✓
(c)	<p>Risk management</p> <p>The Board as a whole remains primarily responsible for the overall risk framework of the Company. Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis.</p> <p>Refer the Integrated Risk Management Committee Report on pages 206 to 208.</p>	✓
(d)	<p>Communication with stakeholders</p> <p>Recognising the importance of two-way communication with its stakeholders, the Board has adopted a comprehensive policy that governs communications with its shareholders and depositors, creditors, borrowers, suppliers and other related stakeholders.</p>	✓
(e)	<p>Reviewing Internal Control Systems and Management Information Systems (MIS)</p> <p>The Board has the overall responsibility for ensuring that the Company maintains an adequate system of internal control and for reviewing its effectiveness which is undertaken by the Board Audit Committee and findings reported to the Board on a quarterly basis.</p> <p>The Management Information Systems (MIS) are reviewed by the Board for accuracy and integrity of the same through review of MIS Procedure Manual Outline/Guideline of the Company.</p>	✓
(f)	<p>Key Management Personnel (KMP)</p> <p>The Board of Directors, Chief Executive Officer, Deputy General Managers of the Company and the Compliance Officer have been identified and designated as the Key Management Personnel of the Company.</p>	✓
(g)	<p>Authority and responsibility for the Board and Key Management Personnel</p> <p>Principal duties and responsibilities of the Board of Directors and the Chief Executive Officer are set out in detail in the Corporate Governance Charter of the Company. The key functions/responsibilities of the Deputy General Managers (KMPs) have been defined and approved by the Board and included in their respective job descriptions.</p> <p>The respective delegated authority limits of the Chief Executive Officer and the Deputy General Managers have also been defined by the Board.</p>	✓

Corporate governance – Annexes

Compliance reports

Rule No.	Principle and compliance	Status of compliance
(h)	<p>Oversight of affairs of the Company by KMP</p> <p>Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis. At these meetings, Key Management Personnel are represented by the Chief Executive Officer who appraises the Board on the operations and performance of the Company against set targets.</p> <p>Affairs of the Company are also reviewed and discussed by the Senior Management at Management level.</p> <p>Refer section Role and responsibility of the Board in Corporate Governance on page 44.</p>	✓
(i)	<p>Assess effectiveness of governance practices</p> <p>The Articles of Association of the Company and the Corporate Governance Charter provide for the general procedure applicable to selection and appointment of Directors of the Company. Presently, the Directors of the Company, other than the Non-Executive Independent Directors, are recommended by the Parent, People's Bank and appointed by the Board in terms of the Articles of Association. The appointments of Key Management Personnel are made by the Board on the recommendation of the Chief Executive Officer.</p> <p>In terms of the Code of Business Conduct and Ethics of the Company, each member of the Board has a responsibility to determine whether he/she has a potential or actual conflict of interest arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgement. Directors who have an interest in a matter under discussion make a disclosure of his/her interest therein and refrain from engaging themselves in the deliberations on that matter and from voting thereon.</p> <p>Refer managing conflict of interest and ensuring independence on page 45 and Appraisal of Board on page 48.</p>	✓
(j)	<p>Succession Plan for KMPs</p> <p>The Board has approved a Succession Plan for Key Management Personnel in October 2018.</p>	✓
(k)	<p>Regular meetings with KMPs</p> <p>The Key Management Personnel are represented at monthly meetings of the Board of Directors by the Chief Executive Officer of the Company who appraises the Board of any concerns/critical issues raised by the Key Management Personnel at their meetings.</p> <p>Refer supply of information on page 47</p>	✓
(l)	<p>Understanding the regulatory environment</p> <p>The Board is well versed with the Group's values, business, operations, financial affairs, governance framework and strategic position of the Company.</p> <p>Regular updates on changes to relevant legislations, regulations and corporate governance as well as sector developments that could affect the Group and its operations covering a wide spectrum of topics including economic, social and environmental aspects are provided to the Board committees at each meeting and as appropriate, to the full Board.</p> <p>A summary of the contents of the regulatory requirements and relevant ratios are submitted to the Board on a regular basis for their awareness of the Company's standing with regard to regulatory environment.</p>	✓
(m)	<p>Hiring and oversight of External Auditors</p> <p>The hiring of the External Auditor is carried out by the Board on the recommendation of the Board Audit Committee.</p> <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>Company's External Auditor for 2018/19, Messrs Ernst & Young, Chartered Accountants, has provided a declaration of their independence to the Board Audit Committee in terms of Section 163 (3) of the Companies Act No. 07 of 2007.</p>	✓
2 (2)	<p>Appointment of the Chairman and CEO and defining and approving their functions and responsibilities</p> <p>The Board has appointed the Chairman and the Chief Executive Officer. Their roles are separate and have been defined in the Corporate Governance Charter of the Company.</p>	✓
2 (3)	<p>Obtaining independent professional advice by the Directors</p> <p>Legal advice was sought by the Directors in connection with laws pertaining to termination of employment.</p>	✓

Corporate governance – Annexes

Rule No.	Principle and compliance	Status of compliance
2 (4)	<p>Managing conflict of interest</p> <p>In terms of the Code of Business Conduct and Ethics of the Company, each member of the Board has a responsibility to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgement.</p> <p>Please refer Managing conflict of interest and ensuring independence.</p>	✓
2 (5)	<p>Availability of formal schedule of matters specifically reserved for the Board</p> <p>The Corporate Governance Charter of the Company contains a formal schedule of matters specifically reserved to the Board for its decision.</p>	✓
2 (6)	<p>Disclosure of probable solvency issues</p> <p>No such situation has arisen during the year 2018/19. Furthermore, the liquidity position of the Company is reported to the Director of the Department of Supervision of Non-Bank Financial Institutions on a weekly basis.</p>	✓
2 (7)	<p>Publish Corporate Governance Report on compliance with the Direction in the Annual Report</p> <p>The Board includes in the Company's Annual Report, an annual corporate governance report setting out the compliance with the Direction.</p> <p>Refer Compliance with Finance Companies Direction on pages 191 to 201</p>	✓
2 (8)	<p>Self-assessment of Directors</p> <p>The Board has adopted a scheme of self-assessment to be undertaken by each Director annually, the procedure of which is set out in the Corporate Governance Charter of the Company.</p> <p>Refer Appraisal of Board on page 48</p>	✓
B	<p>Meetings of the Board</p>	
3 (1)	<p>Regular Board meetings</p> <p>Board meetings are usually held at monthly intervals unless the business exigencies demand the convening of meetings at shorter intervals.</p> <p>The Board met thirteen times for the financial year 2018/19 and obtaining the Boards' consent via circulation was kept to a minimum of four instances.</p>	✓
3 (2)	<p>Directors to include matters and proposals in the agenda</p> <p>All Directors are provided an equal opportunity to include proposals for promotion of business and management of risk in the agenda for regular meetings. The procedure applicable to this is set out in the Company's Corporate Governance Charter.</p>	✓
3 (3)	<p>Notice of Board meetings</p> <p>The date of the next Board meeting is collectively agreed to by the members present during the previous Board meeting and subsequently communicated to all the members, so as to ensure that at least 7 days' notice is given of a meeting. Reasonable notice is given of any other special Board meeting.</p>	✓
3 (4)	<p>Attendance of Directors at Board meetings</p> <p>Directors' attendance at the Thirteen Board meetings held during the year 2018/19 was 91%. No Director has been absent for three consecutive meetings.</p> <p>Refer attendance at Board and Board Committee meetings on page 48.</p>	✓
3 (5)	<p>Appointment of a Company Secretary</p> <p>An Attorney-at-law with adequate experience has been appointed by the Board as the Company Secretary.</p> <p>Refer Company Secretary on page 49.</p>	✓
3 (6)	<p>Delegating responsibility to the Company Secretary</p> <p>The function of preparing the Agenda for Board meetings has been delegated by the Chairman to the Company Secretary and accordingly, the Company Secretary is responsible for the same.</p>	✓

Corporate governance – Annexes

Compliance reports

Rule No.	Principle and compliance	Status of compliance
3 (7)	<p>Access to service and advice of Company Secretary</p> <p>As provided for by the Corporate Governance Charter of the Company, all Directors have access to the Company Secretary who is an Attorney-at-Law by profession.</p>	✓
3 (8)	<p>Maintenance of minutes of Board meeting</p> <p>The Company Secretary maintains the minutes of Board meetings with sufficient details and the same is available for inspection by any Director in accordance with the procedure laid down in the Corporate Governance Charter of the Company.</p>	✓
3 (9)	<p>Recording minutes of Board meetings in sufficient detail</p> <p>The Company Secretary records the proceedings of the meetings and the decisions taken there at in sufficient detail so as to satisfy all the requirements specified in this rule.</p>	✓
C	Composition of the Board	
4 (1)	<p>Number of Directors on the Board</p> <p>As at the end of 2018/19, there were eight Directors on the Board thus, complying with the requirement.</p>	✓
4 (2)	<p>Period of service of a Director</p> <p>The period of service of all the Directors during 2018/19 was below nine years.</p>	✓
4 (3)	<p>Appointment, election or nomination of an employee as a Director</p> <p>The Company does not have any Executive Directors.</p>	✓
4 (4)	<p>Board balance and criteria for independence</p> <p>The Board comprised three Non-Executive Independent Directors during the financial year 2018/19 who met the one-fourth criteria for independence as specified in this rule. With Mr Amirthanayagam being an Independent Director with effect from 13 June 2019, the Board comprised of four Independent Directors.</p>	✓
4 (5)	<p>Alternate Director</p> <p>No alternate Directors were appointed during the year.</p>	✓
4 (6)	<p>Skills and experience of Non-Executive Directors to bring an objective judgement</p> <p>The Board comprises solely Non-Executive Directors who possess academic and professional qualifications in diverse fields. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees.</p> <p>Refer Board of Directors on pages 27 and 28.</p>	✓
4 (7)	<p>Quorum at Board meetings</p> <p>Since all of the Directors of the Company during the year 2018/19 were Non-Executive Directors, the required quorum (one-half of Directors being Non-Executive Directors) was met at all meetings of the Board convened for the year.</p>	✓
4 (8)	<p>Disclosure of Independent Non-Executive Directors, Board composition in corporate governance communications and in the Annual Report</p> <p>The Independent Non-Executive Directors are identified as such in all corporate communications that contain the names of Directors of the Company.</p>	✓
4 (9)	<p>Formal and transparent procedure for appointment of new Directors</p> <p>The Articles of Association of the Company and the Corporate Governance Charter provides for the general procedure applicable to selection and appointment of Directors of the Company. Upon the nominees being found to be “fit and proper” for appointment as Directors of the Company, approval of the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka is obtained for the same.</p> <p>All appointments made to the Board during the year 2018/19 complied with the above procedure and can be referred on page 44.</p>	✓
4 (10)	<p>Re-election of Directors appointed to fill a casual vacancy</p> <p>In terms of Article 27 (2) of the Articles of Association of the Company all Directors, including those appointed to fill casual vacancies, are subject to re-election by shareholders at the first Annual General Meeting following their appointment.</p>	✓

Corporate governance – Annexes

Rule No.	Principle and compliance	Status of compliance
4 (11)	Disclosure of resignations/removal of Directors All resignations/removals and appointments of Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange, after approval for the same has been obtained from the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka in terms of the applicable regulations.	✓
D	Fitness and Propriety of Directors	
5 (1)	Age of Directors should not exceed 70 years There are no Directors who are over 70 years of age.	✓
5 (2)	Holding office in more than 20 companies There are no Directors who hold office as a Director of more than 20 companies. Please refer Board of Directors on pages 27 and 28.	✓
E	Delegation of Functions	
6 (1)	Delegation of Board functions In terms of Article 29 (2) of the Articles of Association of the Company, the Board has delegated authority to the Board committees and the Management with clearly defined mandates and authorities, while preserving its accountability.	✓
6 (2)	Review delegation of Board functions on a periodic basis The delegation of authority framework is reviewed periodically by the Board to ensure that the limits remain appropriate, taking into account the size of the entity and its specific operational context.	✓
F	Chairman and the Chief Executive Officer	
7 (1)	Separation of roles of Chairman and CEO The positions of the Chairman and the Chief Executive Officer (CEO) of the Company are separate ensuring the balance of power and authority.	✓
7 (2)	Designation of an Independent Non-Executive Director as the Senior Director when the Chairman is not an Independent Non-Executive Director The chairman is considered to be a Non-Independent Director by virtue of the fact that he holds the office of Director of the parent company and Chairman and Director of various subsidiaries of the Company. During the financial year 2018/19 there was no independent non-Executive Director designated as the senior Director. However, immediately after the said non-compliance was brought into the notice of the Company, remedial actions were taken to rectify the said non-compliance. Hence, Mr M P Amirthanayagam, an Independent Non-Executive Director, functions as the Senior Independent Director of the Company with effect from 13 June 2019.	✗
7 (3)	Disclosure of relationship between the Chairman, CEO and members of the Board As declared by them, there are no relationships whatsoever, including financial, business, family, or other material relationship between the Chairman/CEO and/or other members of the Board which will impair their respective roles. Refer Board of Directors on pages 26 to 28 and Management Team on pages 30 to 34.	✓
7 (4)	Role of the Chairman The Corporate Governance Charter of the Company sets out the responsibilities of the Chairman which includes leading the Board and ensuring its effective functioning. Refer Chairman and CEO on page 43.	✓
7 (5)	Role of Chairman in the preparation of the agenda for Board meetings The Chairman has delegated the function of preparing the agenda to the Company Secretary.	✓
7 (6)	Ensure that all Directors are informed adequately and timely of the issues arising at Board meetings The Chairman ensures, that all Directors are properly briefed on issues arising at Board meetings by submission of the agenda and Board papers with sufficient time for their perusal prior to a meeting	✓

Corporate governance – Annexes

Compliance reports

Rule No.	Principle and compliance	Status of compliance
7 (7)	<p>Encouraging all Directors to make an active contribution to Boards affairs</p> <p>The Chairman sets the agenda, style and the tone of the Board deliberations and ensures that opinions of all Directors are appropriately considered in decision-making thereby promoting active contribution by the individual Directors to the Board's affairs</p>	✓
7 (8)	<p>Encourage participation of Non-Executive Directors and relationship between Executive and Non-Executive Directors</p> <p>The Company does not have any Executive Directors.</p> <p>Nevertheless, the Chairman ensures that a constructive relationship exists between the Board members as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.</p>	✓
7 (9)	<p>Avoidance of engaging in activities involving direct supervision of KMP or executive duties by the Chairman</p> <p>The Chairman is a Non-Executive Director who does not get involved directly in any of the executive duties of the Company or the direct supervision of the Key Management Personnel.</p>	✓
7 (10)	<p>Effective communication with shareholders</p> <p>The Board attaches considerable importance to the maintenance of constructive relationships with the shareholders and considers the AGM and other General Meetings to be the formal opportunity for dialogue and communication between the Company and the shareholders.</p> <p>To encourage shareholders to communicate their views and to seek assistance in matters that relate to them, a separate function on investor relations has been established at the Senior Management level.</p> <p>Refer Annual General Meeting on page 50.</p>	✓
7 (11)	<p>Role of Chief Executive Officer</p> <p>The Chief Executive Officer (CEO), the apex Executive of the Company is delegated by the Board with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters. The role of the CEO is detailed in the Corporate Governance Charter of the Company.</p> <p>Refer Chairman and CEO on page 43.</p>	✓
G	Board Appointed Committees	
8 (1)	<p>Establishing Board Committees, its functions and reporting</p> <p>The Company has four Board appointed committees directly reporting to the Board of which four namely, the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Remuneration and Nomination Committee (R and NC) and Related Party Transactions Review Committee (RPTRC) are mandatory subcommittees set up in compliance with the applicable rules and regulations.</p> <p>Each committee has a Secretary that arranges its meetings, maintains minutes, records, and carries out other secretarial functions under the supervision of the Chairmen of the respective committees.</p> <p>Refer the below board committee reports.</p> <p>Board Audit Committee Report on pages 202 and 203</p> <p>Remuneration and Nomination Committee Report on page 204</p> <p>Related Party Transaction Review Committee Report on page 205</p> <p>Integrated Risk Management Committee Report on pages 206 to 208</p>	✓
8 (2)	Audit Committee	
(a)	<p>Chairman of Audit Committee</p> <p>Mr J P Amaratunga, a Non-Executive Non-Independent Director serves as the Chairman of the Board Audit Committee.</p>	✓
(b)	<p>Composition of Audit Committee</p> <p>All three members of the Board Audit Committee are Non-Executive Directors.</p>	✓

Corporate governance – Annexes

Rule No.	Principle and compliance	Status of compliance
(c)	<p>Functions of Audit Committee</p> <p>The Board Audit Committee has at its meetings recommended that Messrs Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2018/19; the implementation of Central Bank guidelines issued to Auditors from time to time; the application of relevant accounting principles and standards; and the Group Audit Fee for the financial year 2018/19.</p> <p>No resignation or dismissal of the Auditor has taken place during the year 2018/19. The term of engagement of the present audit partner who was appointed during the financial year 2018/19, does not exceed five years.</p>	✓
(d)	<p>Review and monitor External Auditor's independence and objectivity and the effectiveness of audit processes</p> <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>Company's External Auditor for 2018/19, Messrs Ernst & Young, Chartered Accountants has provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.</p>	✓
(e)	<p>Provision of non-audit services by External Auditor</p> <p>The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of External Auditor to provide non-audit services to safeguard the Auditor's independence and objectivity.</p>	✓
(f)	<p>Determine scope of audit</p> <p>The Board Audit Committee met with the External Auditors Messrs Ernst & Young, Chartered Accountants during the year under review and discussed their audit plan, nature, and the scope of the audit before the commencement of the annual audit.</p>	✓
(g)	<p>Review financial information of the Company by the Audit Committee</p> <p>The Board Audit Committee periodically reviews the financial information of the Company in order to monitor the integrity of the Financial Statements of the Company and other financial disclosures.</p> <p>The Committee has reviewed the Company's Audited and Quarterly Financial Statements before submission thereof to the Board for approval.</p>	✓
(h)	<p>Discussion of issues, problems and reservations arising from the interim and final audits with the External Auditor</p> <p>During the year under review, the Board Audit Committee met the External Auditors without the presence of the Key Management Personnel for such purpose.</p>	✓
(i)	<p>Review of External Auditors' Management Letter and Management's response</p> <p>During the year, the Board Audit Committee reviewed the External Auditors' Management Letter for the year 2017/18 and the Management's responses thereto.</p>	✓
(j)	<p>Review of internal audit function</p> <p>The Board Audit Committee has reviewed and approved the Internal Audit Plan for the financial year 2018/19 presented by the Internal Audit Department prepared based on overall risk assessment and the significant audit observations made during the previous year. This plan also includes the scope, functions, and the resources of the Internal Audit Department.</p> <p>The findings of the internal audits carried out during the year and the evaluation by the Internal Audit Department of the Company's internal controls and compliances were reviewed by the Committee.</p> <p>During the year 2018/19, the Committee assessed the performance of the Internal Audit Department as a whole as well as the performance of the Head of Internal Audit and senior members of the Internal Audit Department.</p>	✓
(k)	<p>Major findings of internal investigations and Management's response</p> <p>Based on the reports submitted by the Internal Audit Department, the Board Audit Committee reviews and considers major audit findings and the Management's responses thereto.</p>	✓
(l)	<p>Participants of Audit Committee meetings</p> <p>Although the Board Audit Committee does not comprise any Executive Directors, the Committee met with the External Auditors during the year under review.</p>	✓

Corporate governance – Annexes

Compliance reports

Rule No.	Principle and compliance	Status of compliance
(m)	<p>Authority and resources of the Audit Committee</p> <p>The Board approved Terms of Reference of the Board Audit Committee mandates explicit authority to the committee to investigate into any matter within its purview and take necessary action thereon.</p>	✓
(n)	<p>Meetings of Audit Committee</p> <p>The Board Audit Committee met ten times during the financial year under review.</p>	✓
(o)	<p>Disclosure in Annual Report</p> <p>The Board Audit Committee Report details</p> <ul style="list-style-type: none"> • Activities of the Board Audit Committee during 2018/19 • Number of Board Audit Committee meetings held during the year • Attendance of members at meetings of the Committee <p>Refer Board Audit Committee Report on pages 202 and 203.</p>	✓
(p)	<p>Recording and maintenance of minutes of meetings</p> <p>In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee and maintains minutes of all Committee meetings in sufficient detail.</p>	✓
(q)	<p>Whistle-blowing policy and relationship with External Auditors</p> <p>The Board has adopted a whistle-blower Protection Policy that enables the employees to, in confidence, report violations of laws, rules, regulations, or unethical conduct to the Board Audit Committee. Information routed through the whistle-blower channel is verified carefully and appropriate actions are taken by the Committee. The confidentiality of those reporting violations is maintained and they are not subjected to any discriminatory action. The policy has been published in all three languages in the Company's intranet for information of all employees.</p>	✓
8 (3)	<p>Integrated Risk Management Committee</p>	
(a)	<p>Composition of Integrated Risk Management Committee</p> <p>The Integrated Risk Management Committee comprises three Non-Executive Directors, Chief Executive Officer/ General Manager, two SDGMs – Operations and DGM – Risk and Control.</p> <p>Head of Internal Audit, Key Risk Owners of subsidiaries and the Compliance Officer attended Integrated Risk Management Committee meetings on invitation.</p>	✓
(b)	<p>Risk assessment</p> <p>The Integrated Risk Management Committee assesses all risks, i.e., credit, market, liquidity, operational, and strategic risks through appropriate risk indicators established for the Company and the subsidiary companies. Risk assessment is also carried out on a company basis and the group basis wherever possible.</p> <p>Integrated Risk Management Committee reviews the Risk dash board reports of the Company and its subsidiaries that have commenced commercial operations and takes prompt corrective action(s) to mitigate the negative effects of specific risks, in case such risks are exceeding the established risk tolerance levels.</p>	✓
(c)	<p>Review adequacy and effectiveness of all executive level committees</p> <p>Assets and Liabilities Committee (ALCO) of the Company reviews and monitors the liquidity risk and the market risk based on the risk tolerance levels (risk limits) established by the Integrated Risk Management Committee. The Committee makes an annual assessment of the effectiveness of the performance of the ALCO against its scope set out in the Terms of Reference.</p> <p>The Company has established credit authority levels with prescribed credit approval limits to evaluate the customer applications based on the risk and the amount of the facility. Credit approvals which exceed the limit of the Branch Credit Committee are forwarded to the Head Office for consideration. As set out in the Corporate Governance Report, the Branch Committee evaluates Customer credit worthiness prior to forwarding the same.</p> <p>Refer Integrated Risk Management Committee Report on pages 206 to 208.</p>	✓

Corporate governance – Annexes

Rule No.	Principle and compliance	Status of compliance
(d)	<p>Corrective action to mitigate the effect of risks exceeding the prudent levels decided by the Committee</p> <p>The Integrated Risk Management Committee has determined risk tolerance levels and each risk category in the risk profile of the Company have been reviewed against those risk tolerance levels by the Committee at their meetings. The Committee has provided required direction where it ascertained that the risk levels have gone beyond the established risk limits.</p>	✓
(e)	<p>Frequency of meetings</p> <p>The Integrated Risk Management Committee met four times during the financial year 2018/19.</p>	✓
(f)	<p>Action against officers for failure to identify specific risks and take prompt corrective action</p> <p>Risks are identified collectively by the Integrated Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively.</p>	✓
(g)	<p>Submission of risk assessment report to the Board</p> <p>Risk assessment reports are submitted by the Integrated Risk Management Committee at the Board meeting immediately following the Integrated Risk Management Committee meeting</p>	✓
(h)	<p>Establish a compliance function</p> <p>Committee has established a compliance function to assess the Company's compliance with laws, regulations and regulatory guidelines.</p> <p>The compliance function is headed by an Attorney-at-Law in the Senior Managerial cadre who directly reported to the Integrated Risk Management Committee on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, and internal controls.</p> <p>Refer Compliance Management on pages 35 and 36.</p>	✓
H	Related Party Transactions	
9 (2)	<p>Avoid conflict of interest</p> <p>The Company has in place a Related Party Transaction (RPT) Policy whereby the categories of persons who shall be considered as "related parties" has been identified.</p> <p>The Code of Business Conduct and Ethics of the Company ("the Code") requires each member of the Board to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgement. The Code also requires Directors who have such a potential or actual conflict of interests to immediately disclose it to the Board of Directors as soon as he/she becomes aware of it.</p> <p>The Related Party Transactions Review Committee further strengthens the effective management and oversight of related party transactions which can be referred on page 205.</p>	✓
9 (3)	<p>Related party transactions covered in the direction</p> <p>The Related Party Transaction Policy of the Company covers all transactions with related parties irrespective of their nature and value.</p>	✓
9 (4)	<p>Prohibit engaging in transactions with a related party in a manner that would grant such party "more favourable treatment"</p> <p>The Board approved Related Party Transaction Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties "more favourable treatment" as defined in this rule.</p> <p>This is further supplemented by the existing online preventive system which enables the Company to monitor and report related party transactions and retrieve data thereof throughout the Company's network.</p>	✓

Corporate governance – Annexes

Compliance reports

Rule No.	Principle and compliance	Status of compliance
I	Disclosures	
10 (1)	<p>Disclosure of financial statements</p> <p>The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2018/19 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards</p> <p>The Board ensured that the financial statements referred to in rule 10 (1) (a) above were published in an abridged form in Sinhala, Tamil, and English languages.</p>	✓
10 (2)	<p>Responsibility of the Board to ensure appropriate disclosure in the Annual Report</p>	✓
(a)	<p>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</p> <p>The Board confirms the preparation of the annual audited financial statements in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures contained in the Statement on Directors' Responsibility for Financial Reporting on page 213 and the Independent Auditors' Report, on pages 217 to 219 of this Report</p>	✓
(b)	<p>Report on Company's internal control systems</p> <p>The report of the Board on the effectiveness of the Company's internal control mechanism over financial reporting is contained in the Directors' Statement on Internal Control Over Financial Reporting on page 215 of this Report</p>	✓
(c)	<p>External Auditor's certification on the effectiveness of the internal control mechanism</p> <p>The Board has obtained the Assurance Report from the External Auditors on the Internal Control Over Financial Reporting and the same can be found on page 215 of this Report</p>	✓
(d)	<p>Details of Directors, including names, transactions with the Company</p> <p>Details of the Directors can be found on pages 26 to 28 of this Report while the details of their transactions with the Company are disclosed under Note 58 to the Financial Statements on pages 340 to 344.</p>	✓
(e)	<p>Fees/remuneration paid by the Company to the Directors in aggregate</p> <p>The details of the remuneration paid to the Board of Directors are disclosed under Note 58 to the Financial Statements on pages 340 to 344</p>	✓
(f)	<p>Net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds</p> <p>The details of the total net accommodation 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 Company's capital funds are disclosed under Note 58 to the Financial Statements on pages 340 to 344.</p>	✓
(g)	<p>Aggregate value of remuneration paid to and transactions with KMPs</p> <p>The details of the aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year 2018/19 are adequately disclosed.</p>	✓
(h)	<p>Certification of compliance</p> <p>The details on Company's compliance with prudential requirements, regulations, laws, and internal controls during the year 2018/19 are explained in detail in the Annual Report of the Board of Directors on the Affairs of the Company on pages 54 to 59 and the Corporate Governance Report, on pages 37 to 53 of this Report.</p> <p>Other than to the extent disclosed in this report and the Report of the Directors on the Affairs of the Company referred to above there was no material non-compliance to prudential requirements, regulations, laws, and internal controls during 2018/19 affecting the Company.</p>	✓

Corporate governance – Annexes

Rule No.	Principle and compliance	Status of compliance
(i)	<p>Non-compliance report</p> <p>There were no supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions thereunder that have been required by the Monetary Board to be disclosed to the public.</p>	✓
(j)	<p>External Auditors certification of compliance</p> <p>The External Auditors has performed procedures set out in Sri Lanka Standards on Related Service 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirement of the Corporate Governance Directions. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board. The recommendations made by the Auditors where relevant will be implemented in 2019/20 as done previously.</p>	✓
J	Transitional Provisions	
11	Transitional and other provisions	✓