



# **PROCEDURE FOR SELECTION/APPOINTMENT/ NOMINATION/ RE-ELECTION/EVALUATION AND CONTINUATION OF DIRECTORS**

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## **1. Purpose**

The objective of this policy is to establish a comprehensive framework for the selection, appointment, re-election, and evaluation of Directors (KRP) at People's Leasing & Finance PLC (PLC). This policy aims to ensure the Board composition aligns with regulatory requirements, corporate governance standards, and the Company's strategic objectives while upholding principles of transparency, integrity, and accountability.

## **2. Procedure**

Directors should ensure efficient management of the Company in order to protect and enhance shareholder value and to meet PLC's obligations to shareholders, to the industry and to the law. In carrying out this duty, the Board should always be mindful of the need for establishing a Board that enhances the efficient and effective running of People's Leasing & Finance PLC.

The following procedure is to be followed in selecting and appointing a new Director to the Board:

2.1 The Nomination Committee identifies the need for a new Director in accordance with the Nomination Committee Terms of References considering the proficiency and expertise requirement of the Board.

2.2 The Nomination Committee identifies any potential candidates who will:

- complement the current Board composition, taking into account the mix of skills ,experience and diversity that the Board is looking to achieve in the Board's membership;
- possess creditable track records , record of integrity and good repute and have the required skills, competency knowledge , experience and expertise to add value to the Board by bringing independent judgment on the issues of strategy, performance , resources and standards of business conduct;
- provide the Board with further competencies and be able to provide independent and objective advice to fulfill the responsibility of the board;
- committee determines the proposed candidate's independence under Corporate Governance Regulations and ensures that the proposed appointment would not result in non-compliance with any of the composition requirements for the Board and Board Sub-Committees;

- have no material conflicts of interest with People’s Leasing & Finance PLC;
- have a reputable standing in the industry; and
- be able to commit the necessary time to their position. In general, the maximum number of directorships or equivalent positions for an individual should not exceed twenty;

2.3 Members of the Nomination Committee can use their networks or external consultants to identify potential candidates.

2.4 The procedure for the appointment of Directors is to include the determination of the terms, conditions, responsibilities and expectations of the new position such that any potential candidate can fit the criteria which satisfies the objective of the additional appointment.

2.5 Non-executive Directors could be appointed for a specific term in line with the Listing Rules, Companies Act and, CBSL regulations.

2.6 Once the candidate/s have been agreed upon, they are to be approached in the upmost professional manner.

2.7 Upon a candidate/s accepting nomination or appointment, the Nomination Committee is responsible for ensuring that all proposed candidate/s nomination and appointment procedures comply with the Constitution and the Companies Act. The Nomination Committee is to forward any recommendation for appointment or removal of a Director to the Board for consideration and further action.

2.8 Nomination committee also evaluates the fit and proper requirements in terms of Finance Business Act Directions (Assessment of Fitness and Propriety of Key Responsible Persons) Direction No. 06 of 2021 and obtains prior approval of the Central Bank of Sri Lanka in terms of the same direction.

2.9 The Nominations and Governance Committee shall utilize the Fit and Proper Assessment Criteria set out in Rule 9.7.3 of the CSE Rules to evaluate the honesty, integrity, reputation, competence, capability and financial soundness of the Candidates.

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

2.11 The CEO is responsible for ensuring that all Board members are inducted and that they have every opportunity to increase their knowledge about People's Leasing & Finance PLC to ensure that they can participate in an effective manner to the Board deliberations. This process is monitored by the Nomination Committee.

2.12 The chair of the Nomination Committee is responsible for ensuring that all appropriate documentation in relation to the appointment is finalized. This includes such items as minutes, voting and contract documentation.

2.13 A Director who fails to comply with the Assessment of Fitness and Propriety of Key Responsible Persons or any other regulatory direction as outlined by the CBSL and CSE Rule, will cease to continue as a director on the Board.

### **3. Re- Election**

All new Directors elected to the Board during the preceding year are subject to re-election by the shareholders at the next Annual General Meeting.

- Any Director so appointed shall hold office until the next following Annual General Meeting and shall be eligible for re-lection.
- Such re-election shall be recommended by the Nomination & Governance Committee and Board
- Every re-election Director proposed shall meet the Fitness & Propriety criteria and obtain the prior approval of the CBSL for the appointment or continuation of office.

### **4. Age Limit**

No person over the age of 70 years shall be nominated or appointed as a Director of the Company in accordance with the CBSL guidelines subject to a Director who attains age of 70 years on or before 31.03.2025, may be permitted to continue in office up to a maximum of 75 years.

## **5. Procedure for evaluating Fitness & Propriety Criteria**

The fitness and propriety of the continuing Board of Directors, Chief Executive Officers, and other key responsible personnel shall be examined annually in compliance with the regulatory framework applicable to finance entities, with revisions from time to time.

The objective of these assessment is to ensure that the Key Responsible Persons are fit and proper persons as required by regulatory directives and corporate governance standards. This evaluation process aims to ensure the Company's stability, soundness, and prudent management in accordance with applicable laws and best practices.

### **5.1. Scope and Applicability**

This procedure applies to all key responsible persons, including the CEO and members of the Board. It encompasses the assessment criteria outlined in the Finance Business Act (Assessment of Fitness and Propriety criteria for Key Responsible Persons) Direction and the criteria set forth by the Colombo Stock Exchange (CSE) under section 9.7.

(Key Responsible Persons shall include the Board of Directors (executive or otherwise), CEO and Officers in the immediate two layers below the CEO, Consultants or advisors to the Board Senior Management, Any other individuals defined as 'key management personnel' under relevant regulations)

### **5.2. Criteria for Fitness and Propriety Assessment**

The fitness and propriety of key responsible persons shall be evaluated based on the following criteria:

#### **5.2.1. Honesty, Integrity, and Reputation:**

Shall be based on the criteria set out under section 21 of the Finance business act No. 42 of 2011 or as amended and the Fit and Proper Assessment Criteria of the CSE Rules under Corporate Governance Section 9.7

### **5.2.2 Competency and Capability:**

- Evaluation of academic/professional qualifications or relevant experience in finance, banking, business administration, etc.
- Assessment of skills relevant to the Company's operations, risk management, and compliance with regulatory frameworks.
- Review of past performance and contributions to the success of the organization.

### **5.2.3. Financial Soundness:**

- Examination of the individual's financial history to ensure fulfillment of financial obligations.
- Assessment based on applicable rule and regulations on corporate governance standards consideration of any adverse history related to bankruptcy, unsatisfied judgment debts, or involvement with bankrupt entities.

### **5.2.4. Standard Background Checks:**

Conducting appropriate background checks through credit bureaus, reference checks, and regulatory authorities.

### **5.3. Assessment Procedure/ Annual Confirmation**

Submission of required information and documentation by key responsible persons as per the specified timelines for assessment of fitness and propriety submissions under Finance Business act Directions No. 6 of 2021

Directors and the CEO shall provide annual declarations confirming continuous satisfaction of fitness and propriety criteria under the regulatory frame works provided below

- Annual Declaration by all the Board Members and CEO on Fitness and Propriety under CSE section 9.7 of CSE corporate Governance
- Affidavit in line with the guidelines given in the Finance Business act direction no 6 of 2021- Schedule I

- Self-Assessment - incorporating the improvement of financial performance during past 12 months, encompassing the details of any special assignments, projects carried out under the leadership and explaining future places to increase the value of the Company under the finance business act Direction no 6 of 2021, Annexure I section 1.2
- Chairperson Assessment - Performance evaluation of Board of Directors and CEO by the Chairman on their contribution with key achievements during the past 12 months under the finance business act Direction no 6 of 2021, Annexure I section 1.2
- Annual Independent Assessment of the Chairpersons performance by the Non-Executive Directors under the finance business act Direction no 6 of 2021, Annexure I section 1.2
- Annual Assessment of the Independent Directors performance by the Non-Independent Directors
- Annual Assessment of the Non- Independent Directors performance by the Independent Directors

## **6. Board Composition**

The composition of the Board of Directors plays a crucial role in guiding the strategic direction, overseeing risk management, and promoting the long-term success of the Company.

### **6.1. Board Size and Composition**

- The Board's composition shall ensure a balance of skills and experience deemed appropriate for the size, complexity, and risk profile of the Company.
- The number of directors on the Board shall be based on CBSL regulatory requirements, CSE requirements and in terms of the Articles association of the Company
- The Board members shall be entailing the Executive Directors/ Non-Executive Directors / Non Executive Independent Directors and Non-Executive Non Independent Directors
- The chairperson shall be an independent director of the Company in terms of Finance Business Act Direction no. 5 of 2021 and In case where the chairperson is not independent, the Board shall appoint one of the independent directors as a senior director, with suitably documented terms of reference to ensure a greater independent element. Senior director will serve as the intermediary for other directors and shareholders.



## **6.2. Director Tenure**

- The total period of service of a director, other than the CEO/executive director, shall not exceed nine years, subject to Direction No. 3.4 of Finance Business Act direction no 5 of 2021.
- Non-executive directors holding more than 10% of voting rights or appointed to represent a shareholder with more than 10% of voting rights may exceed the nine-year limit with approval from the Director, Department of Supervision of Non-Bank Financial Institutions, limited to one-fourth (%) of the total number of directors.

## **6.3. Executive Directors**

- Executive directors must be employees of the Company and shall not exceed one-third (1/3) of the total number of directors.
- Shareholders holding more than 10% of voting rights cannot be appointed as executive directors or senior management.

## **6.4. Non-Executive Directors**

- Non-executive directors shall possess credible track records and necessary skills, competency, and experience to provide independent judgment on strategic matters.
- Non-executive directors cannot be appointed or function as the CEO/executive director of the Company

## **6.5. Independent Directors**

- The Board shall include at least three (03) independent directors or one-third (1/3) of the total number of directors, whichever is higher.
- Independent directors must meet specified criteria and shall not have conflicts of interest as outlined in Direction 3.7 of Finance Business Act direction no 5 of 2021 and the Criteria for determining independence in terms of the CSE Corporate Governance Section 9.8.3

## **6.6. Alternate Directors**

- Representation through alternate directors can be appointed if the current director is unable to perform the duties as a director due to prolong illness or unable to attend more than three consecutive meetings due to being abroad,
- The Nomination and governance committee shall review the and after determining that the person nominated as the alternate would qualify as an independent is allowed with prior approval by the Director /Department of Supervision of non-bank Financial Institutions under Finance Business Act
- Alternate directors cannot represent executive directors and must meet criteria if representing independent directors.
- Alternate Directors shall only be appointed in exceptional circumstance and for a maximum period of one (1) year from the date of Appointment
- The existing directors of the Company cannot be appointed as an alternate director to another existing director of the Finance company and a person appointed as an alternate director to one of the Director cannot be extend the role as an alternate director to another director in the same Board

## **7. Cooling off Periods**

- A cooling off period of six months is required before appointing a person as a director or CEO who previously served in a similar capacity in another Finance Company.
- Directors eligible for independent directorship must undergo a cooling off period of one year if previously considered non-independent.

## **8. Common Directorships**

- Directors or senior management of the Company cannot serve as directors of other Finance Company except under certain circumstances specified in section 3.10 of Finance Business Act direction no 5 of 2021

## **9. Succession Planning**

The PLC Board consists of all Non-Executive Directors, majority of whom are Nominated by the major shareholder, People's Bank. Nominations/recommendations could also be made by the Government of Sri Lanka, given the Company's status as a State-Owned Enterprise (SOE). Consequently, the selection and appointment and continuation of these Board Members are overseen by the Nomination & Governance Committee.

An Annual Board Appraisal and Evaluation process is carried out in order to determine the continuation of the Board members as Key Responsible Persons.

All Non - Executive Directors shall not be involved in the internal operational matters of the Company.

However the Board of Directors shall periodically assess the current and future needs of the organization to identify key competencies, skills, and experiences required for effective board performance. The Board requires diversity in terms of a range of experience, skills, competencies, age, gender, industry requirements and importance of objective selection of Directors.

The composition of the Board should consists of both Non Executive Independent Directors and Non Independent Non - Executive Directors. Independent directors must meet specified criteria and shall not have conflicts of interest as outlined in Direction 3.7 of Finance Business Act direction No 5 of 2021 and the Criteria for determining independence in terms of the CSE Corporate Governance Section 9.8.3

## **10. Disclosure requirements**

Company shall make necessary disclosures on account of any new appointment of a Director in line with all regulatory and statutory requirements.

PLC as a Listed Entity shall upon appointment of a new Director to its Board, make an immediate Market Announcement setting out the following;

1. Brief resume of such Director
2. His/her capacity of Directorship
3. Statement by the entity indicating whether such appointment has been reviewed by the Nominations & Governance Committee of the Entity.

#### **11. Review and Amendments**

- This policy shall be reviewed periodically to ensure alignment with regulatory requirements and the best Practices.
- Any Amendments to this policy shall be approved by the Board of Directors