



# **BOARD CHARTER**

**MERCHANT BANK OF SRI LANKA & FINANCE PLC**  
**BOARD CHARTER**

**1. INTRODUCTION**

At Merchant Bank of Sri Lanka & Finance PLC (“MBSL”) business and corporate operations are managed under the direction of the Board of Directors (Board) on behalf of our shareholders. The Board of Directors of MBSL is committed to high standards of corporate governance and recognizes that providing strong leadership and strategic guidance to management is important to achieve our goals and objectives. This Charter sets out the key values and principles of the Board of Directors of MBSL and provides for a framework of key responsibilities and accountabilities of the Board reserving specific strategic, business, operational, risk and governance matters to the Board.

MBSL’s business and operations are managed under the Board’s direction. The Board has authorized the Chief Executive Officer (CEO) to oversee MBSL’s day-to-day business and operations, within the limits of specific authorities set out in delegations of authority approved by the Board. The CEO has, in turn, authorized sub-delegations of authority that apply to management.

This Board Charter is subject to the provisions of the Companies Act No. 07 of 2007, the Company’s Articles of Association and any other applicable statutory or regulatory provisions.

**2. BOARD COMPOSITION**

- a) Composition of the Board of Directors shall be determined in accordance with the Articles of Association of MBSL and applicable regulations.
- b) The Board shall be constituted giving consideration to the size and nature of Company’s operations and in a way to bring together Directors with a variety of perspectives and talents and who will exercise independent judgement in decision making.
- c) The Board should review its composition each year, including the number of Directors and the mix of skills, experience, expertise and diversity on the Board.

**3. BOARD CHAIRMAN**

The Role of the Chair shall be to:

- a) Provide leadership to the Board and ensure its effectiveness in all aspects of its role. The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.
- b) Facilitate the effective contribution of non-executive directors and ensure a balance of power between executive (if any) and non-executive directors.

- c) Implement decisions/ directions of the Regulator.
- d) Manage Board activities so that they are carried out efficiently and effectively and create a culture which encourages Directors to contribute in an open and constructive manner.
- e) Develop the strategy of the Company, together with the CEO, and ensure the Board is fully apprised and has the opportunity to debate the strategic direction of the Company.
- f) Put in place and maintain an effective delegation of authority structure to provide effective management and control over the Company's business with the assistance of the CEO.
- g) Communicate effectively with the Company's stakeholders. The stakeholders include, where applicable, shareholders, regulators, governments, customers, staff and the communities within which the Company operates.
- h) Together with the CEO, to ensure that the Company communicates effectively with international institutions, shareholders, stakeholders, governments, rating agencies, financial institutions, the media, the public and any relevant special interest groups who have a legitimate concern or involvement with the business of the Company.
- i) Ensure that views of the shareholders are communicated to the Board as a whole.
- j) Chair the Annual General Meeting and all other shareholder meetings of the Company.
- k) Together with the CEO and Company Secretary, ensure that the Company complies with the highest standards of corporate governance.
- l) Manage the training needs of each Board member and ensure development.
- m) Ensure the Board undertakes continuous development in order to enhance governance practices within the Board itself and in the interest of the Company.
- n) Ensure that the Board works effectively and discharges its responsibilities.
- o) Ensure that all key and appropriate issues are discussed by the Board in a timely manner.
- p) Be responsible for the proper conduct of the Board meetings and shareholder meetings in accordance with the law.
- q) Create a constructive relationship with management and act as a conduit between management and the Board but not engage in activities involving direct supervision of management or any other executive functions.
- r) Respond promptly and comprehensively to concerns raised by other directors.
- s) Take leadership on corporate governance issues, including making himself aware of directors' and executives' conflicts of interest and managing any such conflicts.

- t) Address problems related to the performance of individual Board members.
- u) Ensure that the Board of Directors adhere to the Directors Code of Ethics of MBSL in the discharge of the duties and responsibilities.

#### **4. ROLE OF THE BOARD**

- a) The Board is the ultimate decision-making body of the Company and will be responsible for;
  - establishing sound system of internal control for the Company.
  - overseeing the corporate governance framework.
  - adoption of strategic plans and policies; monitoring the operational performance; establishing policies and processes that ensure integrity of the Company's internal controls; and risk management.
  - establishing clear roles and responsibilities in discharging its fiduciary and leadership functions.
  - ensuring that management actively cultivates a culture of ethical conduct and sets the values to which the institution will adhere.
  - ensuring that the strategies adopted promote the sustainability of the company.
  - approving and overseeing business continuity and disaster recovery plan of the Company.
  - establishing policies and procedures for effective operations of the Company.
  - establishing appropriate staffing and remuneration policies for all employees as required.
  - ensuring that the Company's compliance with all applicable laws, regulations, governance codes, guidelines and regulations and establish systems to effectively monitor and control compliance across the Company.
  - promoting sustainable finance through appropriate environmental, social and governance considerations in line with the Company's business strategy.
  - establishing and reviewing the risk appetite statement in line with the Company's business strategy and governance framework.
  - developing a code of conduct and managing conflicts of interest.
  - adopting a scheme of self-assessment to be undertaken by each Director on individual performance and of the Board as a whole and of its sub-committees.

## **5. DUTIES OF BOARD MEMBERS**

Each Board member shall have the fiduciary duty to—

- a) Exercise a reasonable degree of care, skill and diligence.
- b) Act in good faith and in the best interests of the company and not for any other purpose.
- c) act honestly at all times and must not place themselves in a situation where personal interests conflict with those of the Company.
- d) Exercise independent judgement at all times.
- e) Devote sufficient time to carry out their responsibilities and enhance their skills.
- f) Promote and protect the image of the Company.
- g) Owe their duty to the Company and not to the nominating authority.
- h) Owe the Company a duty to hold in confidence all information available to them by virtue of their position as a Board member.

## **6. BOARD INDEPENDENCE**

To assist the Board in making a determination on independence, each Director must provide all information that may be relevant to the Board's assessment annually, when appointed and on an ongoing basis in accordance with this Charter and any other applicable statutory or regulatory provisions.

Directors must disclose their interests and conflicts to the Board. When a new interest or conflict is disclosed, or there has been a change in an interest, the Board will determine if that interest or conflict may affect the independence of the Director in accordance with this Charter and any other applicable statutory or regulatory provisions.

A non-executive director shall be considered as 'independent' if such director satisfies the criteria elaborated under Section 3.7 ( c ) of the Finance Business Act Direction No. 05 of 2021.

To enhance independence, the Board shall avail an environment that ensures the members are critical and independent of one another so as to promote independent and objective judgement.

## **7. BOARD COMMITTEES**

- a) The Board may discharge any of its responsibilities through Board Committees appointed from amongst its members, as required by the applicable laws and regulations.
- b) The Board has established the following Committees:
  - a. Audit Committee

- b. Integrated Risk Management Committee
  - c. Remuneration Committee
  - d. Related Party Transactions Review Committee
  - e. Nomination and Corporate Governance Committee
  - f. Information and Communication Technology Committee
- c) The Board shall appoint the Chairpersons of the Committees and shall approve appropriate terms of reference for the Committees. The role of each Committee is outlined in its Charter/ Terms of Reference.
- d) Reporting obligations:
- a. The Committees shall report to the Board on matters referred to it by the Board and on the proceedings following each meeting of the Committee. The report shall include findings, matters identified for specific recommendation to the Board, action points and any other issues as deemed appropriate.
  - b. The Committees shall liaise with each other in so far as it is expedient to effectively perform their different roles.
- e) The Board remains collectively responsible for the decisions of any Committee and shall review the effectiveness and performance of Committees annually.
- f) The Board may be required to establish other Committees from time to time.

## **8. BOARD MEETINGS**

- a) The Board shall meet at least twelve times in a calendar year at approximate monthly intervals. Additional Board meetings may be convened as and when required.
- b) The Company Secretary shall prepare a schedule containing dates and times of Board meetings for the year after verifying the availability of all directors. Such Schedule shall then be submitted for approval by the Board at the first regular Board meeting for the calendar year.
- c) The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.
- d) Every director shall be given an equal opportunity to contribute to the meetings and every director shall be entitled to include matters and proposals in the agenda where such matters and proposals relate to *inter alia* promotion of business and the management of risk of MBSL.

## **9. MATTERS RESERVED FOR THE BOARD**

- a) Approval of Strategies of MBSL.
- b) Appointment of members to the Board.
- c) Appointment of the Chief Executive Officer.

- d) Formulation of Board Sub Committees and appointment of members to such Board Sub-Committees.
- e) Approval of policies and procedures to ensure compliance with all applicable rules and regulations.
- f) Approving the overall risk policy of MBSL.
- g) Approving appropriate risk management measures for implementation by the Management.
- h) Approving the Communication Policy of MBSL.
- i) Designations of Key Responsible Persons (KRP) of MBSL.
- j) Appointment and removal of the Company Secretary.
- k) Approving annual budget and any changes to it.
- l) Approval of accommodation or other credit facilities to Directors or persons and entities in which a director has an interest.
- m) Approval of any change to or deviation from the approved strategy.
- n) Oversight of MBSL's operations ensuring:
  - competent and prudent management
  - sound planning and risk management
  - an adequate system of internal control
  - adequate accounting and other records
  - compliance with statutory and regulatory obligations
  - adequate financial resources
- o) Approval of material extension of the Company's activities into new businesses or geographical areas.
- p) Any decision to cease the operations of all or any material part of the Company's business.
- q) Changes relating to the Company's capital structure including capital raising activities.
- r) Major changes to the Company's corporate structure including any merger or creation, acquisition or disposal of any subsidiary or associated company, or of any significant business operation, or any other initiative which has significant strategic implications for the Company.
- s) Approval of announcement of interim and final results.
- t) Approval of charters/ terms of reference of Board sub-committees.
- u) Any change to the schedule of matters reserved for the Board.

- v) Recommendation/ approval of dividend and other distributions.
- w) Monitoring business performance against the objectives and goals set by the Board and reviewing the implementation of Board-approved strategies.
- x) Approving MBSL's Annual Report.
- y) Establishing appropriate standards of corporate governance and legal and regulatory compliance.
- z) Approving changes to MBSL's remuneration system (on a whole of remuneration system basis).
- aa) Approving MBSL's short term and long-term incentive plans (with any discretionary powers to re-set approved targets or the size of a funding pool for incentive payments being specifically reserved to the Board).

#### **10. DELEGATION OF AUTHORITY**

- a) The Board may delegate any of its powers to a Board Sub-Committee, a Director, CEO, Executive Director or Key Management Personnel only to the extent which can be lawfully delegated provided such delegation would not significantly hinder or reduce the ability of the Board as a whole to discharge its functions. The Board may at any time withdraw or vary such delegated power.
- b) Effective governance of the Company requires management to be involved in all significant decisions, and to be accountable to the Board. All delegated authorities must emanate from the Board.
- c) The CEO must raise with the Board any matter of significance affecting the Company which requires the Board's attention, including any matters which exceed the delegated authority of the executive management.

#### **11. BOARD EVALUATION**

The Board should review its own performance, the performance of its Sub-Committees, and the performance of individual Directors every year.

#### **12. ACCESS TO INFORMATION AND INDEPENDENT ADVICE**

- a) The Board may from time to time require independent legal, financial, governance or other expert advice. To facilitate this, the Board shall ensure members obtain external advice, as may be required, at the company's expense and shall invite senior management to provide technical advice as needed.

A director who requires to obtain external expert advice in order to properly discharge his / her duties as a director of MBSL, shall inform the Company Secretary of such



requirement preferably in writing. The Company Secretary shall inform the CEO of such requirement and the CEO shall make appropriate arrangements for such Director to obtain advice at the cost of MBSL unless otherwise agreed by and between the director and MBSL. The CEO shall keep the Chairman advised of such arrangements.

- b) The Board shall allow its members access to relevant, accurate and complete information and professional advice in order to discharge its duties effectively.
- c) The Board may call for explanations from any officer of MBSL on any matter related to the business of MBSL and it shall be the duty of such officer to provide such information as required by the Board.
- d) Every paper submitted to the Board seeking approval of the Board shall have recommendations from the executive management and shall also disclose reasonable basis for making such recommendations.
- e) The Directors shall have access to advice and services of the Company Secretary with a view to ensure that the rules contained herein, and all other applicable rules and regulations are followed.

### **13. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS**

- a) All directors must disclose any other directorship and inform the Company Secretary of any changes to such directorships as soon as the changes take place.
- b) Directors must disclose interests and conflicts to the Board. When a new interest or conflict is disclosed, or there has been a change in an interest, the Board will determine if that interest or conflict may affect the independence of the Director in accordance with this Charter and any other applicable statutory or regulatory provisions.
- c) All directors are required to declare any interests that may give rise to potential or perceived conflict e.g. multiple directorships, business relationships or other circumstances that could interfere with exercise of objective judgment.
- d) Every director who is directly or indirectly interested in any matter coming up for consideration at a Board meeting shall as soon as possible after the relevant circumstances have come to his knowledge disclose the nature and extent of his interest at such meeting prior to taking the matter for consideration and such disclosure shall be recorded in the minutes. This is subject at all times to the provisions of the local regulations, Articles of Association or other constitutional documents of the Company.
- e) A director who has a conflict of interest as referred to in Clause d) hereof, shall not take any part in any deliberation or decision of the Board with respect to that matter and such director shall not be counted in the quorum for the relevant agenda item at the Board meeting.
- f) Where the Board is required to take a decision on a matter in which a director has a conflict of interest as referred to in Clause d) hereof, such matter should be dealt with at a Board meeting where Independent Non-Executive Directors who have no material interest in the transaction are present.

- g) No director shall vote in a matter in which he or she has an interest. Any accommodation to a director or a close relation of a director shall require approval at a Board meeting with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation.

#### **14. CHIEF EXECUTIVE OFFICER**

The Chief Executive Officer (CEO) shall function as the apex executive-in-charge of the day-to-day-management of MBSL's operations and business.

As the apex executive in charge of the day-to-day management of MBSL's business and operations CEO shall attend to the following.

- a) Provide leadership to the executive management and ensure that the mission and ethical values of MBSL are put into practice.
- b) Be responsible for the formulation of business and risk strategies to be recommended to the Board and thereafter for the implementation.
- c) Establish a management structure which promotes transparency and accountability throughout MBSL.
- d) Strengthen the supervisory and regulatory compliance framework and be responsible for submission of accurate information to the Regulator.
- e) Ensure that the Board is frequently and adequately apprised about the operations of the institution through presentation of relevant board papers, which must cover, but are not limited to, the following areas:
  - a. Actual performance compared with the past performance and the budget together with explanations of all the variances.
  - b. Capital structure and adequacy.
  - c. Performance in particular problem loans, losses, recoveries and provisions.
  - d. Report on violation of laws and remedial activities undertaken to ensure compliance with CBSL guidelines and other applicable statutory or regulatory provisions.
  - e. Large exposures.
- f) Be responsible for the formulation of policies and procedures to be recommended to the Board and thereafter for the implementation.
- g) Ensure compliance with applicable regulatory requirements.

- h) Supervise the performance and the activities of key management personnel and other executives.
- i) Support the individual development and monitoring of the key management personnel and other senior executives to ensure MBSL maintains a strong succession plan.
- j) Be responsible for fostering a success-oriented, accountable environment within MBSL.
- k) Any other duties as may be assigned by the Board from time to time.

#### **15. COMPANY SECRETARY**

The Board shall appoint a Company Secretary to assist and advise the Board and all Board Members.

The Company Secretary is the Secretary of the Board and is assigned with the following responsibilities.

- a) To provide guidance to the Board on its duties and responsibilities and on other matters of governance.
- b) To organize Board meetings, setting the agenda with consultation of the Chairperson, and maintaining minutes of the meetings.
- c) To ensure that the Board complies with its obligations under the law, CBSL regulations, CSE regulations and the Company Articles of Association.
- d) To assist the Chairperson of the Board in organizing the Board's activities.
- e) To assist the Board with evaluation exercise.
- f) To maintain and update the register of conflict of interest.
- g) To facilitate effective communication between the organization and the shareholders.
- h) To carry out any other duties as may be assigned by the Board from time to time.
- i) Any other duties as may be assigned by the Board from time to time.

#### **16. NOTIFICATION TO DSNBFI**

If the Board considers that MBSL is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, the Board shall forthwith inform the Director of Supervision of Non-Banking Financial Institutions (DSNBFI) of the Central Bank of Sri Lanka of the situation of MBSL prior to taking any decision or action.

**17. RELATIONS WITH SHAREHOLDERS**

- a) The Board shall recognize, respect and protect the rights of shareholders and shall ensure equitable treatment of all shareholders in the same class of issued shares whether minority, institutional or foreign.
- b) The Board shall provide shareholders with information as is required under the applicable laws and shall establish mechanisms to ensure effective communication with shareholders.

**18. RELATIONS WITH STAKEHOLDERS**

- a) The Board shall have a stakeholder-inclusive approach and will be responsible for giving due consideration to the legitimate interests and expectations of the Company's stakeholders in its deliberations, decisions and actions.
- b) The Board shall establish effective communication with the Company's stakeholders including the media as may be appropriate.

**19. REVIEW OF THE CHARTER**

This Charter is to be reviewed by the Board at least every two (2) years or as may be required.

## **Annexure I**

### **Procedure for Appointment of Directors**

1. MBSL receives the nominations for the appointment of Board of Directors from Bank of Ceylon (BOC), parent company of MBSL.
2. Nominations received from BOC shall be submitted to the Nomination and Corporate Governance Committee (NCGC) for review and NCGC shall make its recommendations to the Board.
3. With NCGC's recommendations, nominations received from BOC shall be submitted to the Board in order to seek prior approval from the Central Bank of Sri Lanka (CBSL).
4. Nominations approved by the Board shall be forwarded to the CBSL to seek their prior approval along with the requisite documents as per the CBSL guidelines.
5. Upon receipt of the CBSL approval, the Board shall formally resolve to effect the appointment of new director/s to the Board.
6. An immediate public announcement shall be made through the Colombo Stock Exchange (CSE) website together with resumes of the newly appointed director/s.
7. Registrar of Companies shall be notified of the said appointment/s by filing the respective forms and all statutory registers will be updated accordingly.



**TOR NOMINATION AND CORPORATE  
GOVERNANCE COMMITTEE**

**Merchant Bank of Sri Lanka & Finance PLC ("MBSL")**

**Terms of Reference**

**Nomination Committee ("NC")**

**1. Introduction**

The Nomination Committee's Terms of Reference ("TOR") sets out the requirements of the Board of Directors ("Board") of Merchant Bank of Sri Lanka & Finance PLC ("MBSL") towards the establishment of a Nomination Committee and the delegation of responsibilities to such a Committee.

The Nomination Committee shall lead the process for appointments, ensure plans are in place for orderly succession to both the Board and Senior Management positions, and oversee the development of a diverse pipeline for succession.

**2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board and shall be made up of at least three (03) non-executive directors, the majority of whom should be independent non-executive directors.
- 2.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as any other Board member and/or any member from the senior management and/or external advisers may be invited to attend for all or part of any meeting, as and when appropriate.
- 2.3 The Board shall appoint the NC Chairman who should be an independent non-executive director.

**3. Quorum and Meeting Guidelines**

- 3.1 The quorum necessary for the transaction of business shall be two (02) members.
- 3.2 The NC shall meet as frequently as circumstances dictate, but at least annually. The Chair of the NC shall set meeting agendas consistent with these TOR.
- 3.3 A member of the NC shall excuse himself/herself from the meeting during discussions or deliberations of any matter which gives rise to an actual or perceived conflict of interest situation for him/her.
- 3.4 A member of the NC may participate in a meeting by means of a telephone conference or video conference or any other means of audio-visual communications and the person shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly.

- 3.5 Meetings of the NC shall be convened by the Secretary of the NCGC at the request of the Chairman of the NC.
- 3.6 Minutes of NC meetings shall be circulated to all members of the Committee. Once approved, minutes should be submitted to the following Board meeting for ratification within a reasonable time period.

#### **4. Secretary**

The Company Secretary shall act as the Secretary of the NC.

#### **5. Duties and Responsibilities**

- 5.1 Ensure that, there are formal and transparent policies and procedures to select and appoint new directors and positions of senior management. Senior management are to be appointed with the recommendation of CEO, excluding CIA, CRO and Compliance Officer.
- 5.2 Ensure that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.
- 5.3 Ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.
- 5.4 Set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.
- 5.5 Assign the responsibility to the Company Secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent, upon the appointment of a new director to the Board.
- 5.6 Consider and recommend (or not recommend) the reelection of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the Company and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.
- 5.7 Consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management



- 5.8 Review the criteria for identifying Independent Non-Executive Directors laid down by the applicable statutes, rules, and regulations and continuous compliance with them.
- 5.9 Recommend suitable orientation/induction, educational and training programmes to continuously train and equip the existing and new Directors.
- 5.10 The Committee shall have the authority to perform any other activities it deems appropriate and consistent with these TOR.

## **6. Reporting Responsibilities**

- 6.1 The NC Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 6.2 The NC shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 6.3 The NC shall produce a report to be included in the company's Annual Report describing the work of the NC during the relevant period.

## **7. Powers and Authority**

- 7.1 The NC is authorized to seek any information it requires from any employee of MBSL in order to perform its duties.
- 7.2 The NC is authorized to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

## **8. Annual Performance Evaluation**

The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including a review of the compliance of the NC with these TOR. The Committee shall conduct such evaluations and reviews in such a manner as it deems appropriate.

## **9. Revision of TOR**

- 9.1 Any revision or amendment to this TOR as proposed by the NC shall be presented to the Board for its review and approval.
- 9.2 Upon the Board's approval, the said revision or amendment shall form part of this TOR and shall be considered duly revised or amended.