

# **POLICY ON CORPORATE GOVERNANCE, NOMINATIONS AND RE-ELECTION (INCLUDING MATTERS RELATING TO THE BOARD OF DIRECTORS AND BOARD COMMITTEES)**

**Public Version**



## **EXECUTIVE SUMMERY**

Corporate Governance involves “A set of relationships between an organization’s management, its Board, its shareholders, and other stakeholders.

*According to the Basel Committee on Banking Supervision Corporate Governance is:*

A set of relationships between a company’s management, its Board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority is allocated and how corporate decisions are made.

The Bank recognizes the importance of good Corporate Governance: to provide a basis for its future development and corporate performance, to support and obtain, trust in its activities as a recipient of depositors’ funds and shareholders’ capital, and to enable it to contribute to the successful development of the Banking system of Sri Lanka and the efficiency of the national economy. Accordingly, the Board has formally resolved and adopted a Corporate Governance Code (“Code”) which conforms to the Directions issued by the Central Bank of Sri Lanka, Corporate Governance rules issued by Colombo Stock Exchange (CSE) as well as international and local best practices. The guiding principles of the Bank’s Code are fourfold,

- Fairness in the treatment of all stakeholders (such as shareholders, depositors, creditors, the Bank’s employees and regulators).
- Transparency and disclosure to enable stakeholders to assess the Bank’s financial performance and condition.
- Accountability in the relationships between the Bank’s Corporate Management and the Board, and between the Board and the shareholders and other stakeholders.
- Responsibility – the clear division and separation of powers and delegation of authority.

## **ASPECTS COVERS UNDER THE POLICY**

Based on the Corporate Governance rules and regulations issued by the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE), The Board of Directors of Cargills Bank PLC have approved Policy on Corporate Governance, nominations and re-election, including matters relating to the Board of Directors and Board Committees.

The public version herewith is issued on Bank's Website for public references.

The policy adopted by the Bank covers the following aspects in detail including,

- 1. The Bank Profile**
- 2. Principle of Good Corporate Governance**
- 3. The Board of Directors**
- 4. Board Composition**
  - I. Criteria to Assess the Fitness and Propriety of Directors**
  - II. Board Composition Rules**
  - III. Criteria to Assess the Independence of Directors**
- 5. Matters Related to The Board and Board's Overall Responsibilities**
- 6. Chairman**
- 7. Senior Independent Director**
- 8. Alternate Director**
- 9. Board Secretary**
- 10. The Chief Executive Officer / Managing Director**
- 11. Senior Management of The Bank**
- 12. Trading In Cargill Bank Shares**
  - I. Directors - Disclosure to The Board**
  - II. Trading in Shares by Directors/Corporate Management/Employees Attached to Finance and Strategy Departments and Company Secretarial Staff**
  - III. Trading in Shares by Other Employees of The Bank**
- 13. Disclosure and Transparency**
- 14. Review of the Policy**
- 15. Board Sub-Committees**

**COVERS NOMINATIONS & RE-ELECTION**

**CARGILLS BANK PLC**



## **Procedure to Select/Appoint Directors/CEO/KMPS**

### **1. Introduction**

**The Board of Cargills Bank PLC (“the Bank”) shall be composed of a healthy mix of executive and non-executive directors, with some of the non-executive directors being independent so that there is a strong independent element brought into the decision-making process. The Bank shall endeavor to constitute its Board of Directors with a balance of skills, competencies and experience that has relevance to the business of banking and drawn as far as practically possible from disciplines including but not limited to the following expertise in the composition of the Board Members.**

Banking or Finance, Business Administration, Economics, Accounting, Auditing and Financial Analysis, Investment Management and Capital Markets, Information Technology, Strategic Planning, Risk Management, Human Resource Management, Law and Regulations, Marketing and other specific qualifications which are required to cater to the technical needs of the Bank.

The Committee shall ensure that in selecting nominees, the Board will have the required number of directors who meet the criteria for independence as set out in the Banking Act Direction No.11 of 2007 on Corporate Governance (as amended) issued by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange (as amended from time to time). The Committee shall also ensure that the current Directors are assessed as to their independence/non-independence and fitness and propriety on an annual basis.

#### **1.1.Selection Criteria**

**The Committee shall consider the following factors when making recommendations for the selection /appointment of Directors;**

- Professional qualifications and/or experience in Banking, Commerce, Economics, Law, Accountancy, Business Management or any other relevant field mentioned above or which may be determined by the Central Bank of Sri Lanka from time to time or qualifications which are required to cater to the technical/specific needs of the Bank.
- Standards of ethics and integrity and acceptance in the community.
- Overall balance in the composition of the Board members in terms of skills, competencies and experience taking into account the category classifications of executive, non-executive and independent Directors, including age and gender.
- Readiness to accept fiduciary duties and obligations and willingness to commit necessary time and effort to the role, including a firm commitment to put the bank’s interests ahead of personal interests and to avoid conflicts of interest

The Committee will ensure that in selecting nominees, the Board composition complies with the applicable laws and regulations.

## **1.2. Fit and Proper Criteria**

### **1.21 CBSL/Companies Act/Articles of Association requirements:**

**The Committee shall not nominate persons who are not considered fit and proper to fill Board positions as specified in the Companies Act No. 07 of 2007, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Monetary Board, Banking Act No 30 of 1988 and the Articles of Association of the Bank and the amendments made thereto from time to time. The specific requirements to be met include but are not limited to exclusion of;**

- A Person who has been subject to an investigation or an inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity by any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or any other body established by the Laws of Sri Lanka or abroad.
- A Person who has been found by any regulatory or supervisory authority, professional association, any Commission of Inquiry, tribunal or any other body established by the Law of Sri Lanka or abroad to the effect that such person has committed or has been connected with the commission of any act which involves fraud deceit dishonesty or any other improper conduct.
- A person who has been a Director, Chief Executive Officer or has held any other position of authority in any Bank or a Financial institution whose license has been suspended or cancelled, which has been wound up or is being wound up or being compulsory liquidated whether in Sri Lanka or abroad.
- A functioning Director or an employee of another licensed commercial Bank or a licensed specialized Bank unless that is a subsidiary of the Bank.
- A person who has been a Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka ( i.e. cooling - off period).
- A person who is under the age of 18 years and a person who is over 70 years old.
- A person who has been removed or suspended by an order of a regulatory or supervisory authority from serving as Director, Chief Executive Officer, Officer Performing Executive Functions or any other officer in any Licensed Bank or Financial Institution or corporate body in Sri Lanka or abroad.
- A person who has failed to satisfy any judgment or order of any court whether in Sri Lanka or abroad to repay a debt.
- A person who has been convicted by a court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
- A person who has been an undischarged insolvent or has been declared bankrupt in Sri Lanka or abroad.

- A person who has been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind.
- A person who is or would be prohibited from being a Director of or being concerned or taking part in promotion, formation or management of a company under the Companies Act No 07 of 2007.
- A person who is prohibited from being a Director of or a promoter of or being concerned or taking part in the management of a company under Section 213 or 214 of the Companies Act.
- A person who is not a natural person
- A person who does not comply with the any qualification for directors as set out in the Articles of Association of the Bank.

## **1.22 CSE Listing Rule Fit and Proper Assessment Criteria:**

### **(a) Honesty, Integrity and Reputation**

A Director or the CEO of a Listed Entity (i.e. Bank) shall not be considered ‘fit and proper’ if she or he;

- i. has been convicted by a competent court of law in respect of a market offence for which he/she has been charged under the SEC Act or Securities Laws outside of Sri Lanka.
- ii. in his/her individual capacity or as a part of any business that he/she has been involved in, who/which has had a license or registration that has been cancelled by the SEC or any other regulatory authority.
- iii. has been convicted, within or outside Sri Lanka of an offence under any law involving fraud, misappropriation or dishonesty or the conviction of which involved a finding that he/she acted fraudulently or dishonestly.
- iv. has been convicted for contravening any provision of any law within or outside Sri Lanka for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of financial services or the management of companies.
- v. has been disqualified from acting as a Director or CEO of a company or has been dismissed or requested to resign from any position or office by the SEC in terms of the SEC Act or rules and regulations issued thereunder or any other statutory regulatory body due to mismanagement of funds or an offence which involves the commission of financial fraud.
- vi. has been disqualified from acting as a CEO/Key Management Person/Director of a company regulated by the CBSL and/or the Insurance Regulatory Commission of Sri Lanka (IRCSL) as applicable for failure to satisfy the fit and proper assessment criteria issued by the CBSL and/or IRCSL respectively.
- vii. has been a Director or the CEO of any Listed Entity which has been delisted by the Exchange in the circumstances specified in Rule 11.3 of the CSE Rules.

### **b) Competence and Capability**

A Director or the CEO of an Entity shall not be considered as ‘fit and proper’ if she or he;

- i. does not possess suitable academic or professional qualifications or necessary skills, competencies and experience which are determined by the Nominations and Governance

Committee of the Listed Entity in terms of Rule 9.11.5 of the CSE Rules which are required to efficiently contribute to the business operations of the Entity in his/her capacity as a Director/CEO (as applicable).

- ii. has been declared by a court of competent jurisdiction in Sri Lanka or outside Sri Lanka, to be of unsound mind.

### **c) Financial Soundness**

A Director or the CEO of an Entity shall not be considered as a ‘fit and proper person’ by the Exchange, if she or he;

- i. is an undischarged bankrupt or a person on whose behalf a receiver or manager or liquidator or an equivalent person has been appointed within or outside Sri Lanka.
- ii. has been the subject of a judgment debt which is unsatisfied, either in whole or in part, whether in Sri Lanka or outside Sri Lanka.
- iii. has been in a position capable of exercising significant influence in a company that has:
  - a. been declared bankrupt within or outside of Sri Lanka; or
  - b. its assets sequestrated for the non-satisfaction of a judgement debt.

**1.23 The Bank shall obtain declarations from their Directors and CEO on an annual basis confirming that each of them have continuously satisfied the Fit and Proper Assessment Criteria set out in the above Rules during the financial year concerned and satisfies the said criteria as at the date of such confirmation.**

### **1.3 Selection Procedure**

The Board Nominations & Governance Committee (Committee) shall:

- Identify suitable candidates selected from referrals and persons who are known and respected in the Market. Obtain a resume from the candidates and conduct a background check.
- Meet the identified candidates if necessary with a view to assessing suitability, including that in terms of “Fit and Proper” requirements.
- Make recommendations to the Board of Directors for a final decision.

### **1.4 Criteria for Re-election of Directors**

**In evaluating and recommending re-election of Directors to the Bank’s Board of Directors, the Committee shall consider:**

- Performance during the Year, including whether the member was an active participant and the knowledge, experience, performance and contribution made by the Director at Board Meetings and Board committee meetings as appropriate with respect to the overall discharge of the Board’s responsibilities. The number of directorships held by the Director in other listed and unlisted companies and other principal commitments should also be taken into consideration.
- Attendance at past Board meetings during his/her, tenure as a Board member.



- The overall composition of the Board in terms of the balance of expertise and experience.
- Whether he /she still qualifies in terms of the “fit and proper” requirement and make appropriate recommendation to the Board of Directors.

### **1.5 Procedure for succession in appointments to the Board**

The Committee shall

- Annually, in the first quarter, identify the directors (if any) who would retire in terms of Directions 3(2) (ii) ( period of service -9 years) and 3 (3) (i) ( age of Director- 70 years) of the Banking Act Direction on Corporate Governance during the course of the year or by reason of resignation which has been intimated to the Board/Committee.
- Ensure the orderly identification and selection of new directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, an unanticipated departure, the expansion of the size of the Board, or otherwise.
- Adhere to the “Selection Procedure” as set out in section 1.3 above in selecting/nominating new directors to the Board.
- Make recommendations to the Board as the Committee deems appropriate.

### **2. Selection of Managing Director/ Chief Executive Officer (MD/CEO)**

The Key function of the MD/CEO is day to day Executive Management of the Bank focusing on the Board approved strategic objectives of the Bank.

When the position of the MD/CEO is vacant the Committee will seek suitable candidates internally and externally for the position with a view to selecting the most appropriate candidate. In terms of the succession plan the said Committee will review any internal candidate if he/she is ready to assume the role and is suitably qualified.

#### **External candidate sourcing to be undertaken as stated below;**

- Through an independent sourcing company
- Through advertising
- Referrals from Board members
- Targeted approach by the Board members

The qualification requirements applicable to both internal and external candidates are listed below.

#### **a. The candidate shall meet the Fit and Proper Criteria requirements of the Central Bank of Sri Lanka as set out in the Banking Act and other Directions issued from time to time and shall not be;**

- A Person who has been subject to an investigation or an inquiry consequent upon being served with notice of a charge involving fraud, deceit, dishonesty or other similar criminal activity by any regulatory or supervisory authority ,professional association, any

Commission of Inquiry, tribunal or any other body established by the Laws of Sri Lanka or abroad.

- A Person who has been found by any regulatory or supervisory authority, professional association, any commission of Inquiry or any other body established by the Law of Sri Lanka or abroad to the effect that such person has committed or has been connected with the commission of any Act which involves fraud deceit dishonesty or any other improper conduct.
- A person who has been a Chief Executive Officer or has held any other position of authority in any Bank or a Financial institution whose license has been cancelled or which has been wound up or being compulsory liquidated whether in Sri Lanka or abroad.
- Functioning Director or an employee of another Licensed Commercial Bank or a Licensed Specialized Bank unless that is a subsidiary of the Bank.
- Person who is under the age of 18 and person who is exceeding 70 Years.
- A person who has been removed or suspended by an order of a regulatory or supervisory authority from serving as Director, Chief Executive Officer or other officer in any Bank or Financial Institution or corporate body in Sri Lanka or Abroad.
- A person who has failed to satisfy any judgment or order of any court whether in Sri Lanka or abroad to repay debt.
- A person who has been convicted by a court in Sri Lanka or abroad in respect of a crime committed in connection with financial management or of any offence involving moral turpitude.
- A person who has been un-discharged insolvent or has been declared bankrupt in Sri Lanka or abroad.
- A person who has been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind.
- A person who is or would be prohibited from being Director or holding a senior position of or being concerned or taking part in promotion. Formation or management of a company under the companies Act No. 07 of 2007.
- A person who is prohibited from being a Director or a promoter of or being concerned or taking part in the Management of a company under section 213 or 214 of the Companies Act.

**b. Possess adequate professional qualifications and/or experience as follows**

- Experience in Banking and related technical skills
- People development and management skills
- Customer and Business development focus
- High level of integrity and ethics
- Strategic thinking and leadership
- Ability to interact with all stake holders including but not limited to; Government authorities, Regulators, Board, Customers, professional service providers etc.
- Ability to evaluate business opportunities
- Manage risks /rewards

- Decisive
- Effective communicator and possess presentation skills
- Be able to lead and build a cohesive team
- Influencing skills
- Time management skills

The Committee shall ensure that the MD/CEO is assessed on his/her “fitness and propriety” on an annual basis.

### **3. Selection of Key Management Personnel**

**The Officers holding the following positions are also considered as Key Management Personnel**, including those who hold an equivalent position/designation.

- a. Chief Operating Officer
- b. Board Secretary
- c. Deputy General Manager - Retail & Business Banking
- d. Chief Strategy Officer
- e. Assistant General Manager – Legal
- f. Assistant General Manager – Trade Services
- g. Assistant General Manager – IT
- h. Assistant General Manager – Retail & SME Business
- i. Assistant General Manager – Credit Admin and Treasury Back Office
- j. Head of Human Resources
- k. Head of Finance
- l. Head of Compliance or Chief Compliance Officer
- m. Head of Risk or Chief Risk Officer
- n. Head of Internal Audit
- o. Head of Treasury

### **Procedure to Select Key Management Positions**

- Head of HR shall as per the approved Organizational structure inform the CEO of vacancies that need to be filled.
- Advertise or Head hunt for suitable candidates as per the Job Specifications.
- Forward the short-listed candidates for the Final Interview with the CEO and the other panel members appointed by the CEO.
- Forward the selected candidate to the Committee for its recommendation for the approval of the Board.

**All positions above should maintain a high level of ethics and integrity and meet the Fit and Proper requirements as per the standards set out by the Regulators.**

**The above procedures will be reviewed from time to time as and when deemed necessary.**