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Lanka Credit and Business Finance PLC

Related Party /Connected Party Transactions Policy (RPCPT Policy)

VERSION II

Owner - Compliance Department

Approval – Board of Directors

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1. BACKGROUND

The Board of Directors of the LCB Finance PLC, on the recommendation of the RCPTRC Committee, has adopted the Policy on Related Party /Connected Party Transactions (RPCPT Policy) which has been formulated pursuant to the **Section 12 of the Finance Business Act No. 42 of 2011(FBA), Direction No. 05 of 2021 of Corporate Governance/LKAS24** and Rules made thereunder, as amended from time to time.

2. OBJECTIVE

The objective of the Policy is to ensure proper approval, review, disclosure and reporting of transactions between the LCB Finance PLC, its subsidiaries and their related parties/ connected parties.

This Policy aims at preventing situations of potential conflict of interests in the execution of transactions involving related parties.

3. DEFINITIONS AND MEANINGS

“Related Party” shall be as per definitions under the following:

- (i) Finance Business Act No. 42 of 2011(FBA), Direction No. 05 of 2021 of Corporate Governance Section 12.2
- (ii) Sri Lanka Accounting Standards– LKAS 24,

The terms ‘control’ and ‘investment entity’, ‘joint control’ and ‘significant influence’ are defined in SLFRS 10, SLFRS 11 Joint Arrangements and LKAS 28 Investments in Associates and Joint Ventures respectively and are used in this Standard with the meanings specified in those SLFRSs.

3.1 FINANCE BUSINESS ACT NO. 42 OF 2011(FBA), DIRECTION NO. 05 OF 2021 OF CORPORATE GOVERNANCE SECTION 12.2

DEFINITIONS

- a) Directors and Senior Management
- b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the LFC.
- c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.
- d) Directors and senior Management of legal person in paragraph b) or c)
- e) Relatives of a natural person described in paragraph a), b) or d)
- f) Any concern in which any of the FC’s directors, senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.

Note:

“relative” in relation to an individual means spouse or dependent child of such individual. (Section 74 of the Finance Business Act No. 42 of 2011

3.2 SRI LANKA ACCOUNTING STANDARDS– LKAS 24

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity OR of a parent of the reporting entity.

Close members of the family of a person (CMF)

- Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
 - (a) that person's children and spouse or domestic partner;
 - (b) children of that person's spouse or domestic partner; and
 - (c) dependents of that person or that person's spouse or domestic partner.
- ✓ **'Children' and 'Partner' not defined!**
 - ✓ **Other family members such as parents, brothers, sisters could also be included, particularly where they have been influenced by or had influence over the individual in their dealings with the entity.**

Key management personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

- ✓ Encompass other individuals that are not directors of the entity and parents.
- ✓ Individuals concerned must apparently have the authority and responsibility for planning, directing and controlling the activities
- ✓ KMPs can be found outside the boardroom!

Example 1

Part A.

Entity J is owned in equal shares by the members of the Family X—Mr. and Mrs. X and their daughters Ms. Y and Ms. Z. The entity is managed by the family members. Their positions at Entity J are: Mr. X, administration director; Mrs. X, operations director; Ms. Y, financial director; and Ms. Z, sales director.

Part B.

Facts are same as part A. But assume, Entity J is owned in equal shares and managed by Mr. and Mrs. X. Their daughters neither own shares in, nor manage, Entity J.

Part C.

Facts are same as part B. However, neither Mr. and Mrs. X nor either of their daughters manages Entity J.

b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in
 - (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).**
- (viii) **The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity**

Related Party Definition: LKAS 24

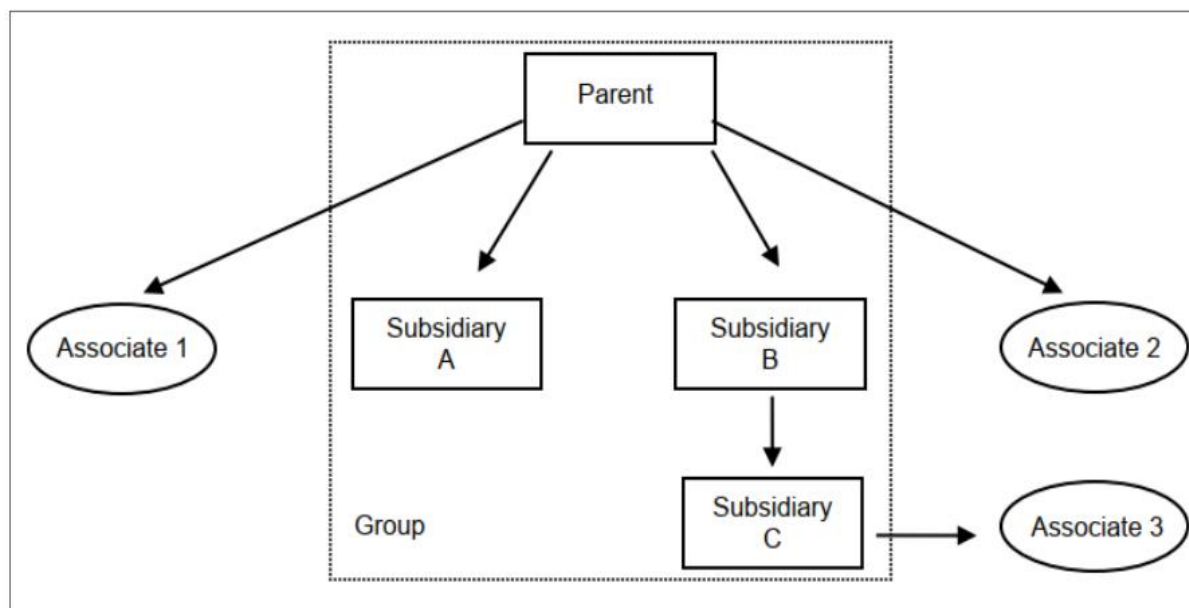
In summary RP definition includes:

1. Persons (person + close family member)

2. Entities (incorporated or otherwise)
 - a) That controls, having significant influence or joint controls the Reporting Entity (upstream)
 - b) That is controlled, subject to significant influenced or joint controlled by the Reporting Entity (downstream)
3. Entities connected with persons (person + close family member)
 - a) Entities connected due to control or joint control
 - b) Entities connected due to KMP relationship

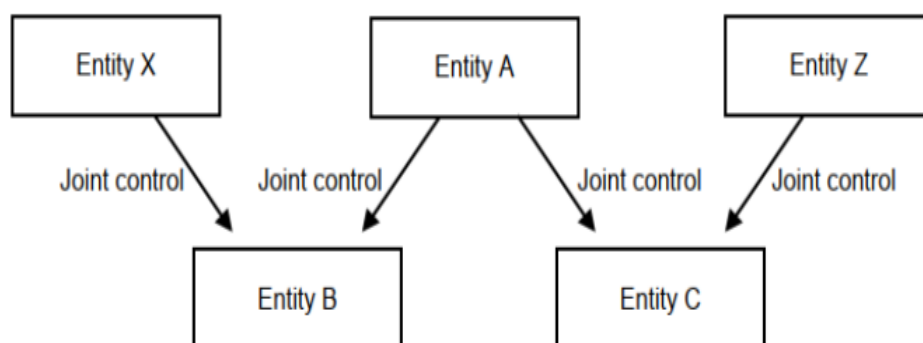
Example 2

Parent entity has a controlling interest in Subsidiaries A, B and C
Parent entity also has significant influence over Associates 1 and 2.
Subsidiary C has significant influence over Associate 3



Example 3

Entities A and X jointly share control over Entity B. Entities A and Z jointly share control over Entity C.



What are NOT Related Parties?

In the context of this Standard, the following are not related parties:

- Two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- Two joint venturers simply because they share joint control of a joint venture.
- (i) providers of finance,
(ii) trade unions,
(iii) public utilities, and
(iv) departments and agencies of a government that does not control, jointly control or significant influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
- a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.
- In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
- In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.
- Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

4. RELATED PARTY TRANSACTIONS

- a. The grant of any type of accommodation,
- b. The creation of any liabilities at the finance company in the form of deposits, borrowings and investments,
- c. The providing financial or non-financial services to the finance company or receiving similar service
- d. from the finance company,
- e. The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.

The board shall ensure that the company does not engage in transactions with related parties a manner that would grant such parties “more favorable treatment” than that accorded to other constituents of the LCB carrying on the same business.

In this context, “**more favorable treatment**” shall mean and include the:

- a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the company’s regulatory capital, as determined by the board.
- b) Charging of a lower rate of interest than the company’s best lending rate or paying more than the company’s deposit rate for a comparable transaction with an unrelated comparable counterparty;
- c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;
- d) Providing services to or receiving services from a related-party without a proper evaluation procedure;
- e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.

5. ACCOMMODATION GRANTED TO RELATED PARTIES.

No accommodation shall be granted by the finance companies

- To a director or a close relation of the director or to it’s
- holding company (b) On the security of its own shares or shares of any of it’s subsidiary companies.
- To purchase it’s own shares
- On the guarantee of a director or relative of the director of the finance company or any employee of the finance company.

Subject to the prior approval of the director, company can grant accommodation in accordance with any scheme for the time being in force

No accommodation or “more favorable treatment” relating to the waiver of fees and/or commissions to is granted to a related party other than on the basis of a scheme applicable to the employees of such company or when secured by security as may be approved by the director of CBSL., nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remittance without such approval is void and has no effect.

6. IDENTIFICATION OF RELATED PARTY TRANSACTIONS.

- The company shall quarterly provide a questionnaire to all directors and Key Management Personnel (KMP) requesting information on Related Parties. It is the obligation of directors and KMP to complete or update the form upon request.
- The company shall develop a master list of all Related Parties based on information given to the questionnaires and provide it to the branches and head of unites to identify and report monthly.
- In addition to this, a list of related parties identified is circulated via intranet in order to facilitate the staff in dealing with them fairly and it is updated quarterly.
- This report will be referred (including any proposed transactions) to the Board of Directors for approval where necessary.
- The company shall disclose Related Party transactions in the Company’s annual report.
- The following transactions are exempt from any determination as a Related Party Transaction and shall be deemed pre-approved:
 - (a) Compensation paid to a person for service as a director or KMP;
 - (b) Transactions with a Related Party for trust, funds depositary or similar payment services with fees based on those for the same or similar transactions with non-related persons;
 - (c) Transactions with Related Parties that are the result of a competitive bidding process or involving the rendering of services as a common carrier, or public utility at rates or charges fixed in conformity with law or governmental authority;
 - (d) Any transaction in which the Related Party’s interest arises solely from the ownership of the Company’s equity securities and all holders of the Company’s equity securities receive the same benefit on a pro rata basis, such as dividends;
 - (e) Transactions available to employees in general.
 - (f) Transactions with related parties which is recurrent, or revenue or trading nature and which is necessary for day-to-day operations of an entity or its subsidiaries and, in the opinion of the Related Party Transaction Review Committee, terms are not favorable to the related party than those generally available to the public;

- (g) The payment of dividend, issue of securities by the entity by way of a capitalization of reserves or for cash including the exercise of rights, options or warrants, subdivision of shares, or consolidation of shares.
- (h) The grant of options, and the issue of securities pursuant to the exercise of options, under an employee share option scheme/ employees share purchases schemes
- (i) A transaction in marketable securities carried out in the open market where the counterparty's identity is unknown to the listed entity at the time of the transaction.
- (j) The provision or receipt of financial assistance or services, upon normal commercial terms and in the ordinary course of business, from a company whose activities are regulated by any written law relating to banking, finance companies or insurance companies or are subject to supervision by the Central Bank of Sri Lanka or Insurance Board of Sri Lanka; and
- (k) Directors fees and remuneration, and employment remuneration;

No Director/ KMP of the company may engage in any Board or Committee discussion or approval of any Related Party Transaction in which he or she is a Related Party; provided however, that such director must provide to the Board or Committee all material information reasonably requested concerning the Related Party Transaction. It means, that Director/ KMP should not be in the quorum for relevant agenda item at the board meeting/ Committee and also the proposal should be sanctioned with not less than two-third of the number of votes in favor at that quorum (except relevant officer/ related party). Minutes of the Board should clearly mention that the particular member of Board had left the meeting at the time of discussion and voting to avoid conflict of interest.

Identifying connected parties in finance companies is crucial for various reasons, including tax compliance and risk assessment.

some key points to consider:

1. Definition of Connected Parties:

- Connected parties refer to entities or individuals that have a close relationship with each other. This relationship can arise due to ownership, control, or other factors.
- Common examples of connected parties include:
 - **Associated Companies:** These are companies that are related to each other. They can be associated through ownership, control, or other criteria.
 - **Management and Shareholders:** Individuals who hold significant ownership or management positions in a company.
 - **Subsidiaries and Holding Companies:** Companies that are part of the same corporate group.
 - **Directors and Key Personnel:** Individuals who play a significant role in decision-making within the company.
 - **Affiliates and Related Entities:** Entities that share common interests or business relationships.

2. Tests for Connection:

- Several tests can help determine whether parties are connected:
 - **Percentage Share Ownership:** If one party owns a significant percentage of shares in another, they may be connected.
 - **Voting Power:** Control through voting rights can establish a connection.
 - **Rights and Entitlements:** Consider any special rights or entitlements held by one party over the other.
 - **Assets on Winding Up:** Assess whether one party has entitlement to assets if the other company winds up.

3. Tax Implications:

- Loan relationships between connected parties are subject to special rules for tax purposes.
- These rules ensure consistent treatment when connected parties lend to each other.
- For instance, loan relationships between connected companies are taxed based on the **amortized cost basis of accounting**.

7. RELATED PARTY TRANSACTION DISCLOSURES

- If a transaction required the approval of the shareholders, said approval should be obtained prior to the transaction or subject to such approval.

Disclosures under LKAS 24

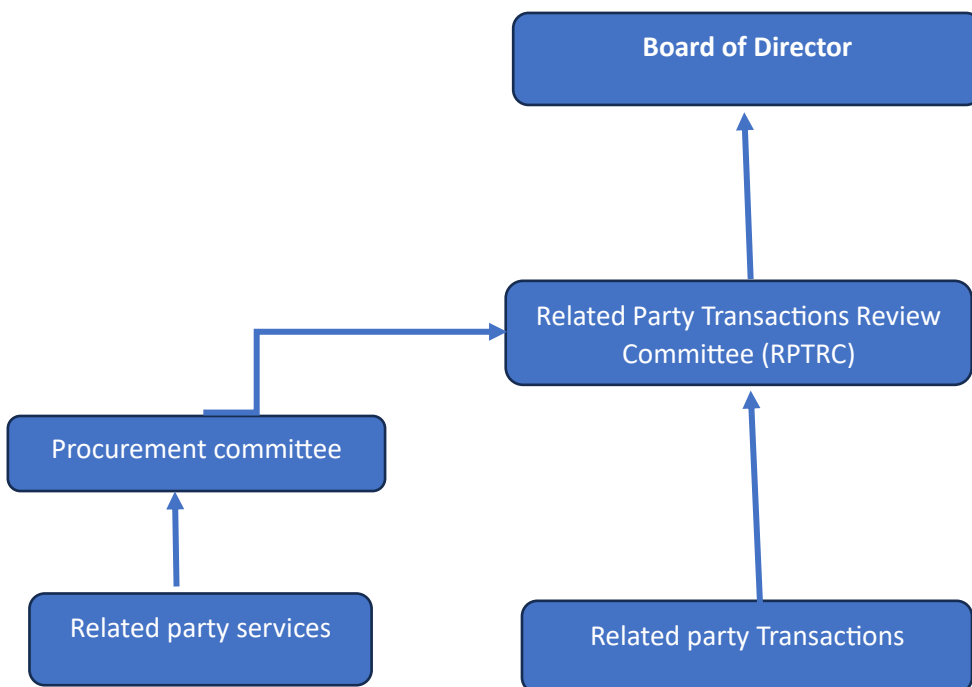
- Relationships between a parent and its subsidiaries
 - I. Name of its parent and, if different, the ultimate controlling party
 - II. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed
- To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.
- The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in LKAS 27 and SLFRS 12 Disclosure of Interests in Other Entities.
- Next most senior parent means the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.
- If there are RPT during the periods covered by the financial statements,
 - I. Nature of the related party relationship
 - II. Information about those transactions
 - III. Outstanding balances
- At a minimum, disclosures shall include:

- a. The amount of the transactions;
- b. The amount of outstanding balances, including commitments, and:
 - i. Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. Details of any guarantees given or received;
- c. Provisions for doubtful debts related to the amount of outstanding balances; and
- d. The expense recognized during the period in respect of bad or doubtful debts due from related parties.
- Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
- Disclose KMP compensation in total and for each of the following categories
 - (a) short-term employee benefits;
 - (b) post-employment benefits;
 - (c) other long-term benefits;
 - (d) termination benefits; and
 - (e) share-based payment

8. REVIEW OF RELATED PARTY TRANSACTIONS BY THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE AND RELATED PARTY TRANSACTION APPROVALS

- All the transactions which are identified as related party transactions and any subsequent material modifications should be reviewed by the Related Party Transactions Review Committee (RPTRC) before entering into such transactions. The RPTRC shall consider all relevant factors while deliberating the related party transactions for its approval
- At each subsequent scheduled Committee meeting, the senior management shall update the Committee as to any proposed material changes in any previously reviewed Related Party Transactions and seek approval of the Committee for such proposed material changes prior to the completion of the transaction.
- When seeking the views of the Committee pertaining to a Related Party Transaction, the senior management shall provide the Committee with the facts and circumstances of the proposed Related Party Transaction, including where applicable:
 - ✓ The Related Party's relationship to the Listed Entity and interest in the transaction;
 - ✓ The material facts of the proposed Related Party Transaction, including the proposed aggregate value of such transaction;
 - ✓ The benefits to the Listed Entity of the proposed Related Party Transaction;
 - ✓ The availability of other sources of comparable products or services; and
 - ✓ An assessment of whether the proposed Related Party Transaction is on terms that are comparable to the terms generally available to an unaffiliated third party under the same or similar circumstances, or to employees generally.
- No director shall participate in any discussion of a proposed Related Party Transaction for which he or she is a Related Party, except that the director, at the request of the Committee, may participate in discussions for the express purpose of providing information concerning the Related Party Transaction to the Committee. Where deemed necessary considering the issues of potential conflict, which were presented

to the Committee, the Committee may recommend the creation of a special committee to review and approve the proposed Related Party Transaction



9. PROCEDURE TO AWARD CONTRACT TO RELATED PARTIES

Whenever service of an organization identified as a Related Party is the tender procedure and executing formal agreement between the company and the Related Parties is necessary to secure the transaction.

10. REVIEW OF THE POLICY

- This Policy shall be reviewed by the Head of Compliance as and when necessary, and in any case at least annually, and shall be updated accordingly.
- In case of any conflict in the Policy with the Act / Regulations, the provisions of the Act/ Regulations shall prevail.

HEAD OF COMPLIANCE

CEO/ EXECUTIVE DIRECTOR