

POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS

1. INTRODUCTION

The Board of Vallibel Finance PLC (“Vallibel Finance”) whilst ensuring adherence to corporate governance practices, is also responsible for the establishment and reviewing of risks in line with the Company’s business strategy and governance framework to be in conformity with the directions stipulated under the Finance Business Act Direction No. 05 of 2021 issued by the Central Bank of Sri Lanka (CBSL) and the Listing Rules of the Colombo Stock Exchange.

2. SCOPE OF THE POLICY AND FUNCTIONS OF THE INTEGRATED RISK MANAGEMENT COMMITTEE ON IDENTIFYING AND MITIGATING RISKS AND ESTABLISHING INTERNAL CONTROLS

The purpose of this Policy is to integrate risk management into all business activities and develop an organization wide risk ownership with a supportive culture. Accordingly, risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk appetite / risk limits and controls, and to monitor risks and adherence to limits.

The Company’s risk management policy sets out the Company’s approach to its risk management and attaches great importance to the internal control system and internal audit since a sound internal control system reduces business and operational risk to an acceptable level, and helps to discover the shortcomings at the right time. It also helps to make the Company's financial reports accurate and reliable, and helps the Company achieve its defined goals efficiently. The following areas form the framework adopted by the Company in this regard;

(1) Control Environment

The Company’s business policies reflect its stance on promoting a culture of honesty and principles and expresses it through clearly defined business goals in both the short and long term. In view of this, internal control policies and procedures set out the guidelines to combat the misappropriation of Company Assets and other malpractices.

(2) Risk Assessment

In view of the assessment of risks, the Company conducts an in-depth risk analysis of risk factors, which takes into account both internal and external risk factors. There are risks that could lead to fraud or improper actions. Accordingly, the Company has set out clear forms of reporting in terms of both financial and non-financial matters that are of particular concern to its day to day operations and acceptable risk tolerance levels as appropriate.

(3) Control Activities

The internal control currently followed by the Company ensure that risks are reduced to acceptable levels, which includes preventive controls, control of the Company's assets, and appropriately setting the monetary and authority limitations.

(4) Information & Communication

The Company ensures that important information is promptly reported to the board, for analysis and decision-making, through its Committees established for designated policy implementation.

(5) Monitoring Activities

The adequacy and effectiveness of the risk management systems and internal controls are monitored by the Internal Audit Department.

The BIRMC is responsible for developing and monitoring the Company's overall risk management policies in their specified areas. For an effective risk management, separate management level committees, namely, the Credit Committee, Asset and Liability Management Committee and IT Steering Committees have been established to ensure management level co-operation and oversight of risk mitigation, through separate risk management policies being established.

The Risk Management Policies and systems shall be reviewed on an annual basis to reflect changes in market conditions, products and services offered. Set out below (a to d) is the Board's overall responsibility in terms of risk appetite, risk management and internal controls;

- (a) Establishing and reviewing the Risk Appetite Statement (RAS) in line with the Company's business strategy and governance framework.
- (b) Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.
- (c) Adopting and reviewing the adequacy and effectiveness of the Company's internal control systems and management information systems periodically.
- (d) Approving and overseeing business continuity and disaster recovery plan for the Company to ensure stability, financial strength and preserve critical operations and services under unforeseen circumstances.

3. RISK APPETITE STATEMENT (RAS)

The Risk Appetite Statement provides a comprehensive summary of Risk Appetite parameters guiding the operations of Vallibel Finance. Its main purpose is to facilitate summarized presentation and informed periodic review of the amount of risk the Company is prepared to take in its key activities.

Most of the parameters described in this Statement have been adopted in dedicated policy instruments.

This Statement is updated annually to reflect changes in such underlying policies.

4. REPORTING AND RISK TREATMENT

The Senior Management shall meet on a regular basis through operational level teams to monitor and assess the effectiveness of internal controls, processes, systems and mitigation strategies in place and to decide on the necessary corrective action. Finding of these meetings are to be reported to the BIRMC.

The BIRMC is to take measures to treat the risks which will be selected and implemented according to their significance and the ranking.

Risk treatment may include, but is not limited to, risk control, risk avoidance, risk transfer and risk financing.

The order of treating the risks faced by the Company is proportionate to the significance of particular risk on the overall impact on the Company.

5. REVIEW OF THE POLICY

This policy shall be reviewed as and when necessary in accordance with the changes in the regulatory and business environment. Any revision or amendment to this policy shall be approved by the Board.

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