



Alliance Finance Co. PLC

Make the world a better place through sustainable finance



# POWERING

## THE SOCIO-ECONOMIC REVIVAL

**Alliance Finance Company PLC**

Annual Report 2022/23





# POWERING

## THE SOCIO-ECONOMIC REVIVAL

At Alliance Finance Company PLC, in an ever-evolving global landscape, our commitment to driving positive change remains unwavering. As we navigate the currents of progress, our focus on igniting transformative growth becomes increasingly vital. The intricate interplay between societal and economic dynamics necessitates innovative strategies to propel advancement and foster resilience. Embracing this ethos, we diligently channel our efforts towards a future where empowerment and progress converge harmoniously. In doing so, we contribute to a more robust and dynamic world where the intricate tapestry of social and economic revival flourishes.

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## CHAIRPERSON'S MESSAGE

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"Our uniquely differentiated position in Sri Lanka's finance industry, with the successful integration of the concept of social and environmental sustainability into our business model has helped us earn the confidence of International Development Finance Institutions and Impact Investors."



## DEPUTY CHAIRMAN / MANAGING DIRECTOR'S MESSAGE

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"AFC's history spanning over sixty five years, and the stature it enjoys today, I believe validates the value we have placed on ESG."

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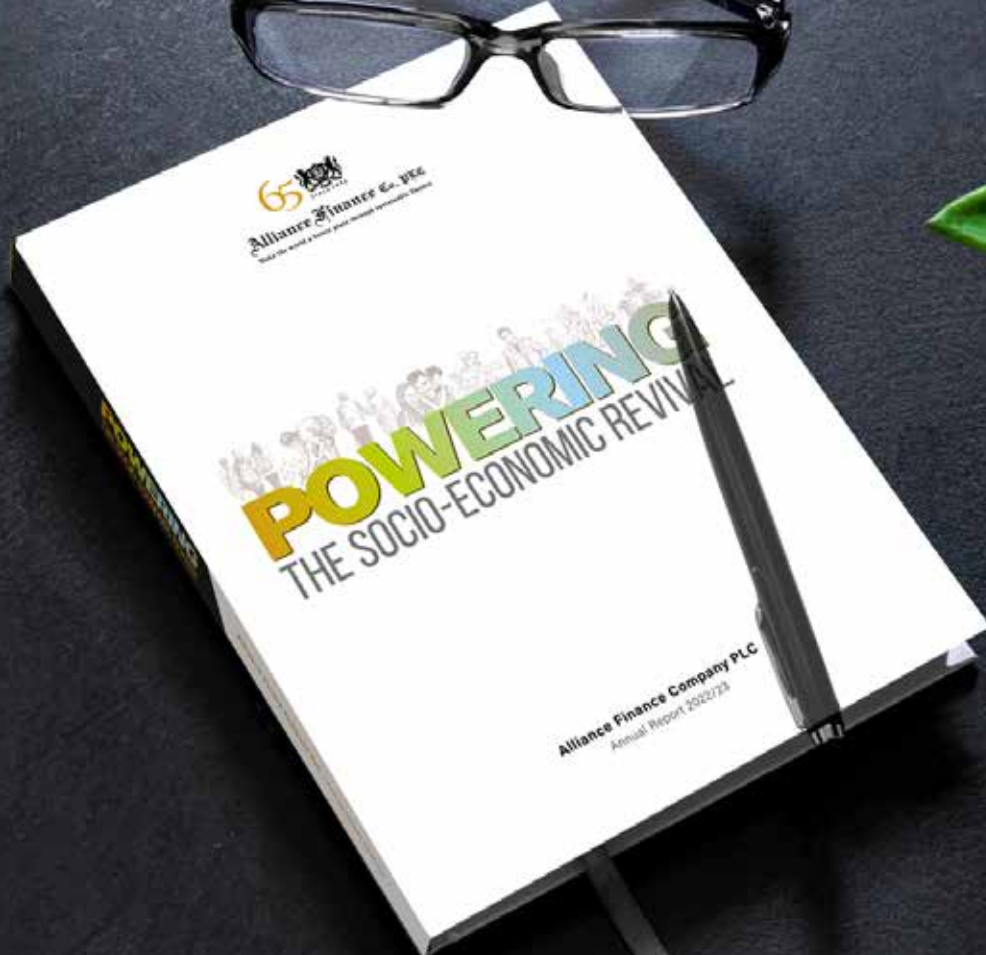
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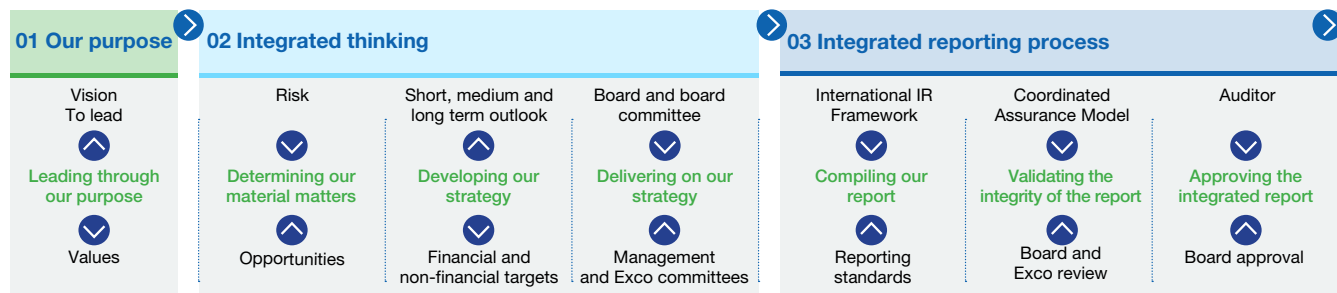


# WELCOME TO OUR INTEGRATED ANNUAL REPORT

GRI 2-2   GRI 2-3   GRI 2-5   GRI 205-1

Our 67th Integrated Annual Report, under the theme “Powering the Socio-economic Revival” demonstrates a balanced view of our financial, social and environmental performance and the progress made towards achieving our strategic priorities. It enables stakeholders, including our capital providers, to make informed decisions about Alliance Finance Company PLC’s (“AFC” or “the Company”) long-term prospects and our ability to create and sustain value and covers the operations for the 12-month period 1st April 2022 to 31st March 2023. During the year under review there were no significant changes to the company’s size, shareholding or supply chain. In addition, there were no significant re-statements of previously reported economic, social or environmental information.

## Incorporating integrated thinking

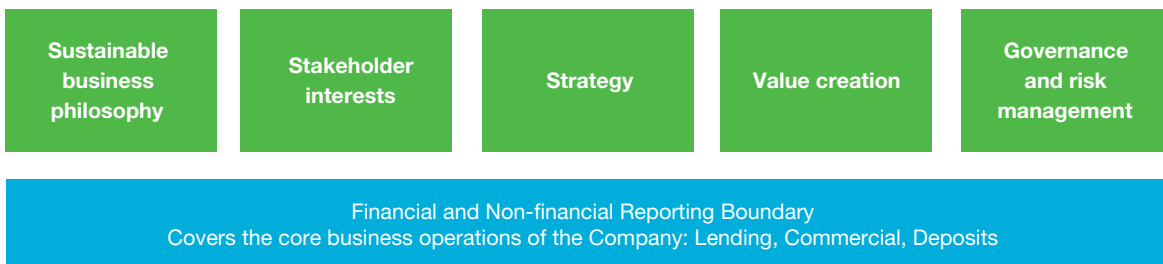


The report has been prepared in line with the Integrated Reporting Framework of the International Integrated Reporting Council and includes information on how the Company addressed the challenges and opportunities through its purpose and high-impact goals. By adopting the principle of materiality and

applying integrated thinking, we create an integrated report that provides a comprehensive view of the organization’s performance and its impact on all stakeholders, while also highlighting the issues that are most important to those stakeholders. Accordingly, this report focuses particularly on those

issues, opportunities and challenges that impact materially on our six capitals in the short, medium and long term and the company’s ability to be a sustainable business that consistently creates, protects and minimizes the erosion of value for all stakeholders.

The Integrated report's scope and boundary covers the following aspects of the Company for the period of 1st April 2022 to 31st March 2023.



### Frameworks applied

Financial Reporting	Corporate Governance	Sustainability Reporting
<ul style="list-style-type: none"> <li>- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka</li> <li>- Companies Act No. 07 of 2007</li> <li>- Finance Business Act No. 42 of 2011 and amendments thereto</li> <li>- Listing Rules of the Colombo Stock Exchange (CSE)</li> </ul>	<ul style="list-style-type: none"> <li>- Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka</li> <li>- The Finance Business Act Directions No.05 of 2021 on Corporate Governance issued by the Central Bank of Sri Lanka for Licensed Finance Companies.</li> <li>- Finance Leasing Act No. 56 of 2000</li> <li>- Anti-money Laundering Laws and Regulations</li> <li>- Inland Revenue Act No. 24 of 2017 and amendments thereto</li> <li>- Shop &amp; Office Employees Act No. 19 of 1954 and amendments thereto</li> </ul>	<ul style="list-style-type: none"> <li>- International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)</li> <li>- In accordance with the Global Reporting Initiative (GRI) Standards issued by the Global Sustainability Standards Board</li> <li>- United Nations Sustainable Development Goals (SDGs)</li> </ul>

### Assurance

AFC's external auditor, M/s. Baker Tilly Edirisinghe & Co. has provided assurance on the annual financial statements of the Company and reviewed the accuracy of the financial information that appears in this report. The external auditor's report is available on page 172.

### Forward looking statements

The report contains, where applicable, forward-looking statements that reflect the Company's plans and beliefs at the time of preparing the report. These statements involve an element of risk and uncertainty, as they relate to events and depend on circumstances that may or may not occur in the future. Nevertheless, we do not commit to publicly updating or revising these forward-looking statements, whether to incorporate new information, upcoming events, or for any other reason.

### Statement of responsibility

The Board hereby confirms that the report addresses all relevant material matters and fairly represents the Company's integrated performance. The Board also agrees that the Integrated Annual Report has been presented in accordance with the International Integrated Reporting Council's Integrated Reporting Framework 2021. The Board of Directors further acknowledges that reasonable care has been exercised in the preparation and presentation of this integrated report and financial statements while preserving its integrity.

### Feedback

Your comments or questions on this Report are welcome and we invite you to communicate your feedback. You may direct your feedback to the designated person below.

#### AGM Finance

Alliance Finance Company PLC  
 "Alliance House",  
 No.84, Ward Place, Colombo7,  
 Sri Lanka.  
 Email: info@alliancefinance.lk

### Navigating the report

- ◆ ABOUT US
- ◆ APPROACH TO SUSTAINABILITY
- ◆ STAKEHOLDER ENGAGEMENT
- ◆ MATERIALITY
- ◆ STRATEGY
- ◆ VALUE CREATION
- ◆ OUR CONTRIBUTION TO SDGS



# ABOUT ALLIANCE FINANCE

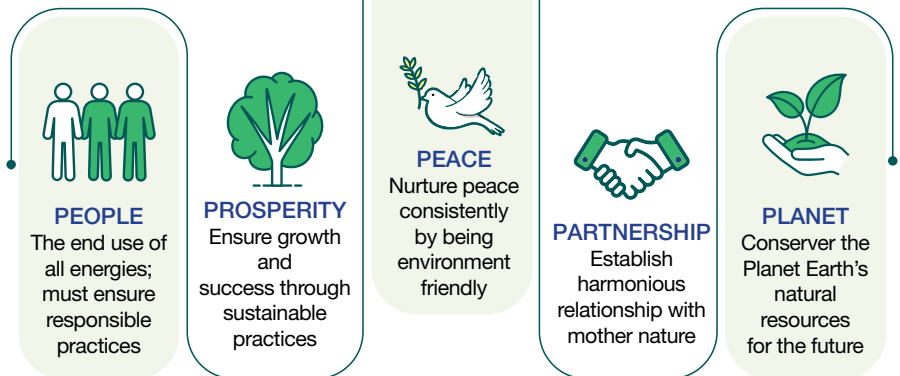
GRI 2-22

Alliance Finance Co. PLC (AFC) is the oldest finance company in Sri Lanka with a legacy of over 65 years of serving its loyal customers, supporting financial inclusion and sustainability. Incorporated in 1956 as a licensed finance company registered under the Central Bank of Sri Lanka, it now operates with an island-wide network of 89 points of presence and a dedicated, performance driven team of 1,411 employees. AFC has a shared vision to foster growth and prosperity of its customers whilst building trust and long-lasting relationships with the company. Environmental and sustainability initiatives are at the center of AFC's sustainability agenda, which embodies the company's drive towards supporting local and global sustainability priorities.

As we journey to becoming more sustainable, we continue to focus on strengthening our commitment to the United Nations Sustainable Development Goals. Ensuring full integration across the Company from an execution and reporting perspective enables value creation for all our stakeholders.

Our Purpose motivates us to deliver against the outcomes of the 5ps-people, planet, peace, partnership, prosperity, with the determination of driving positive change.

## Sustainable Development



**OUR PURPOSE |** Make the world a better place through sustainable finance.

## What we support



### Our values

#### TRUST

Our customers need to TRUST us and be happy

#### TEAMWORK

TEAMWORK will make us stronger

#### ETHICS

ETHICS and integrity are critical

#### RESPECT

We RESPECT each other and the environment we live in

#### ACCOUNTABILITY

Every one of us is ACCOUNTABLE for our actions

#### INNOVATION

We are open, brave and willing to drive INNOVATION and change

We are the **st**

Non-Bank Financial Institution (NBFI) in South Asia to become a holistic, sustainability-certified, value driven financial institution under the pioneering Sustainability Standards and Certification Initiative (SSCI)

Organization in Sri Lanka's NBFI Sector to receive Certification for BCMS (Business Continuity Management Systems) ISO 222301: 201

Sri Lankan company in the Banking and NBFI Sector to receive the British Standard for BCMS Certification (Business Continuity Management System)

Finance company to introduce Savings Accounts

Financial institution to be awarded the ISO 9001: 1994 status by DET NORSKE VERITAS (DNV)

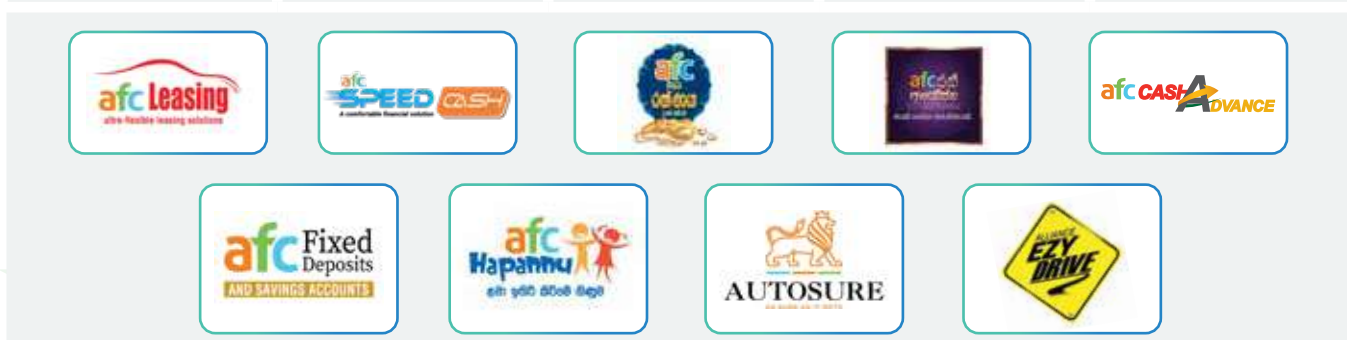


## Our ownership structure



## What we offer

<p><b>Inclusive financial solutions for MSME and SME sectors</b></p> <p>Vehicle Leasing, Term Loans, Gold Loans</p>	<p><b>Climate-Smart transport solutions</b></p> <p>Gas converted three-wheelers</p>	<p><b>Innovative zero emission clean-energy technology</b></p> <p>Clean-energy equipment leasing</p>	<p><b>Investment solutions</b></p> <p>Fixed Deposits, Savings, Gold investments</p>	<p><b>Vehicle trade - in and hiring services</b></p> <p>Autosure, Ezy Drive</p>
---------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------	---------------------------------------------------------------------------------



Leasing and Loans	Gold Loans	Savings and Deposits	Commercial Division
<ul style="list-style-type: none"> <li>Vehicle and equipment leasing</li> <li>Quick Cash</li> <li>Speed cash</li> <li>Pledge loans</li> <li>Term loans</li> </ul>	<ul style="list-style-type: none"> <li>Short term advances collateralized against gold</li> <li>Instalment based gold investments</li> </ul>	<ul style="list-style-type: none"> <li>Fixed deposits</li> <li>Savings deposits with special products to senior citizens and minors</li> </ul>	<ul style="list-style-type: none"> <li>Operating Lease</li> <li>Vehicle trade-in service</li> <li>Rental service</li> <li>Automotive service centre</li> </ul>
<p>Portfolio: LKR 30,865 Mn</p> <p>No of Customers: 52,662</p>	<p>Portfolio: LKR 9,876 Mn</p> <p>No of Customers: 39,462</p>	<p>Deposit Base: LKR 20,476 Mn</p> <p>No of Investors: 13,678</p>	<p>Hiring Vehicle Fleet: 45</p>

# VALUE ADDED STATEMENT

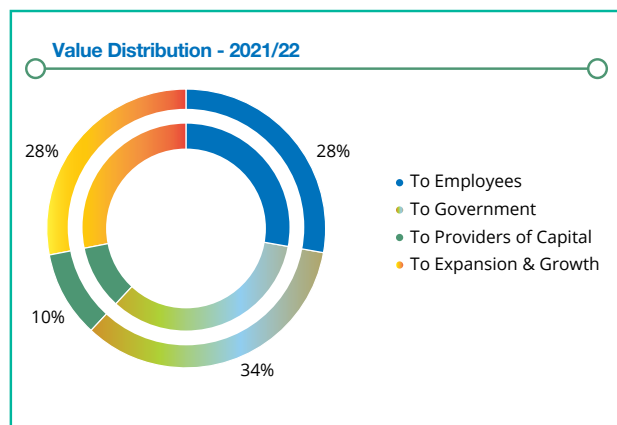
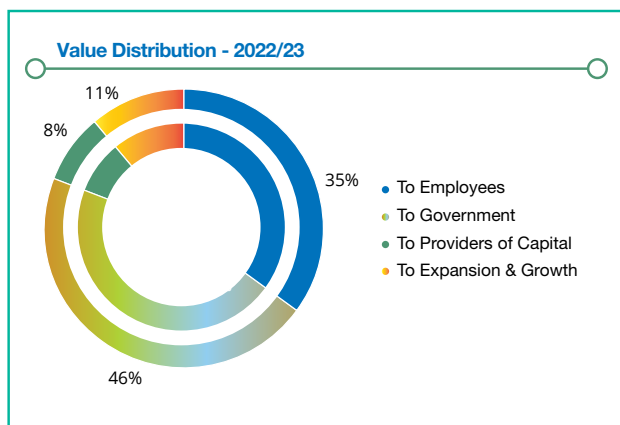
GRI 201-1

We are purpose-driven and resolute in our transition to being a sustainable entity while creating shared value for all our stakeholders.

For the year ended 31st March	2023 LKR Mn	2022 LKR Mn
<b>VALUE ADDED</b>		
Income	12,174	8,442
Interest Expense	(7,411)	(2,651)
Cost of External Services	(1,247)	(1,594)
	3,516	4,197

## Value distributed

<p>Employees – <b>35%</b></p> <p><b>LKR 1,219 Mn</b></p> <p>Salaries &amp; other benefits</p>	<p>Government – <b>46%</b></p> <p><b>LKR 1,629 Mn</b></p> <p>Taxes</p>	<p>Providers of Capital – <b>8%</b></p> <p><b>LKR 270 Mn</b></p> <p>Dividend paid</p>	<p>Expansion &amp; Growth – <b>11%</b></p> <p><b>LKR 162 Mn</b></p> <p>Depreciation</p> <p><b>LKR 235 Mn</b></p> <p>Reserves</p>
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# OUR PERFORMANCE IN 2022/23

GRI 404-1

## People



Human Capital



Social and Relationship Capital

	Unit	2022/23	2021/22	Y-o-Y Change (%)
Employees	No.	1,411	1,552	(9%)
Investment in Training & Development	LKR Mn	3.8	3.1	23%
Training Hours	Hours	12,489	8,186	53%
Customers	No.	105,802	96,534	10%
Female Customer Base	No.	39,025	33,121	18%
Social Sustainability Initiatives	LKR Mn	23.3	13.6	71%
CSR Initiatives	LKR Mn	5.6	5.3	6%

## Planet



Natural Capital

	Unit	2022/23	2021/22	Y-o-Y Change (%)
No. of trees planted	No.	525,310	366,254	43%
Electricity Consumption	kWh	229,534	288,333	(20%)
Fuel Consumption	Litres	15,605	26,132	(40%)
Water Consumption (H/Os)	Cubic Meters	8,283	10,411	(20%)
Paper Consumption	Tons	12.3	16.9	(27%)
Environmental Sustainability Initiatives	LKR Mn	9.8	6.2	(58%)

## Profits



Financial Capital



Manufactured Capital



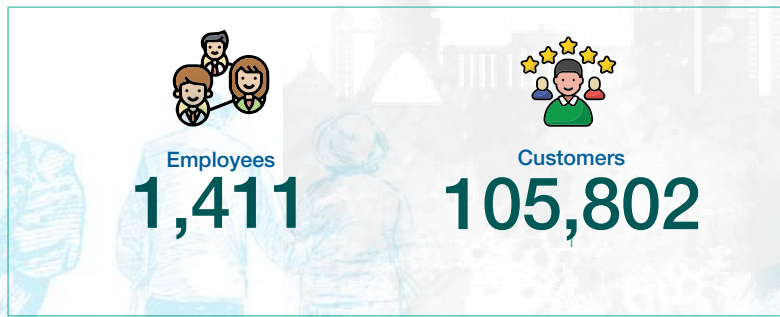
Intellectual Capital

	Unit	2022/23	2021/22	Y-o-Y Change (%)
Net Interest income	LKR Mn	4,536	5,201	(13%)
PAT	LKR Mn	505	1,463	(66%)
Total assets	LKR Mn	52,248	48,140	9%
ROA after tax	%	1.01%	3.56%	(72%)
ROE after tax	%	7.40%	23.41%	(68%)
Cost to Income	%	65.90%	47.93%	(38%)
Overall gross NPL ratio (90 Days)	%	13.12%	11.00%	19%
EPS	LKR	14.98	43.42	(66%)
Net Asset Value Per Share	LKR	206.50	198.28	4%
Dividend per share	LKR	5	14.5	(66%)
Market price per share	LKR	66.80	70.40	(5%)
Points of presence	No.	89	89	-
Capital Expenditure	LKR Mn	250	238	5%
Credit rating		BBB-(Stable)	BBB-(Negative)	
New products	No.	1	2	(50%)
Awards and accreditations	No.	1	8	(88%)
Investment in digital infrastructure	LKR Mn	209	157	(33%)

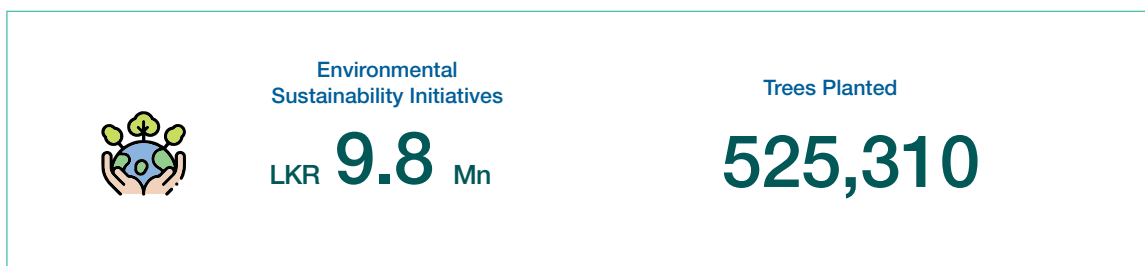
# TRIPLE BOTTOM LINE VALUE CREATION

GRI 404-1

	Unit	2022/23	2021/22	Y-o-Y Change (%)
<b>Human Capital</b>				
Employees	No.	1,411	1,552	(9%)
Investment in Training & Development	LKR Mn	3.8	3.1	23%
Training Hours	Hours	12,489	8,187	53%
<b>Social and Relationship Capital</b>				
Customers	No.	105,802	96,534	10%
Female Customer Base	%	37%	34%	9%
Social Sustainability Initiatives	LKR Mn	23.3	13.6	71%
CSR Initiatives	LKR Mn	5.6	5.3	6%



	Unit	2022/23	2021/22	Y-o-Y Change (%)
<b>Natural Capital</b>				
No. of trees planted	No.	525,310	366,254	43%
Electricity Consumption (H/Os)	kWh	229,534	288,333	(20%)
Fuel Consumption(H/Os)	Liters	15,605	26,132	(40%)
Water Consumption(H/Os)	Cubic Meters	8,283	10,411	(20%)
Paper Consumption	Tons	12.3	16.9	(27%)
Environmental Sustainability Initiatives	LKR Mn	9.8	6.2	58%



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Net Asset Value Per Share	LKR	206.50	198.28	4%
Dividend per share	LKR	5.00	14.50	(66%)
Market price per share	LKR	66.80	70.40	(5%)
<b>Manufactured Capital</b>				
Points of presence	No.	89	89	-
Capital Expenditure	LKR Mn	250	238	5%
<b>Intellectual Capital</b>				
Credit rating		BBB- (Stable)	BBB- (Negative)	
New products	No.	1	2	(50%)
Awards and accreditations	No.	1	8	(88%)
Investment in the core banking system and investment in CRM	LKR Mn	209	157	(33%)

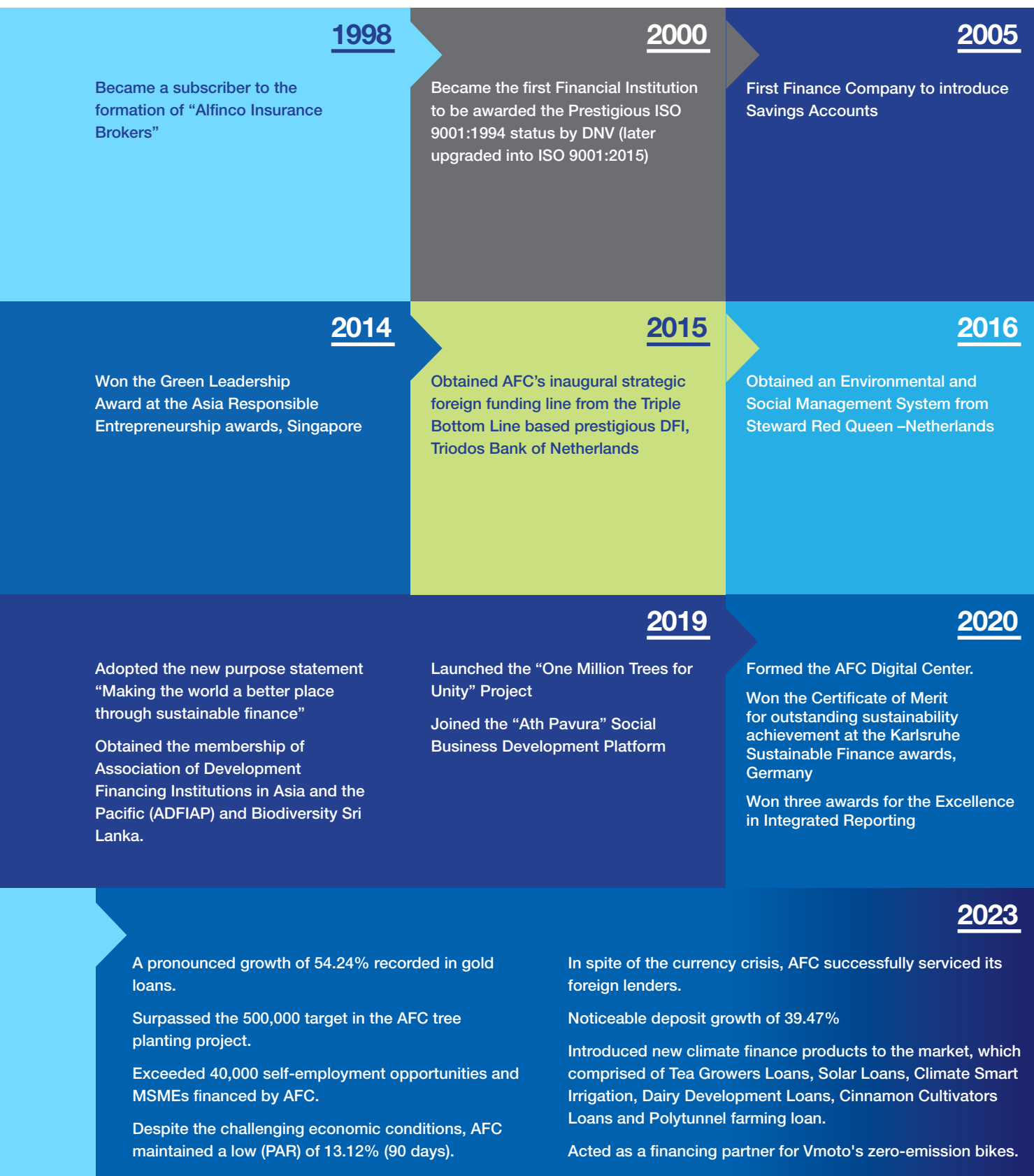


EPS

LKR **14.98**Capital  
ExpenditureLKR **250** MnTotal  
AssetsLKR **52,248** Mn

# AFC MILESTONES





# AWARDS AND ACCOLADES

## 2012

1. Joint Gold Award in the NBFi sector category at National Business Excellence Awards 2011, National Chamber of Commerce, Sri Lanka
2. Silver Award for Best Management Practices in the NBFi sector category, at the National Business Excellence Awards, National Chamber of Commerce in Sri Lanka

## 2013

1. Certificate of Recognition in NBFi sector category, ICASL Annual Report awards,
2. Sri Lanka Best Innovation in Sustainable Financial Services Merit award, EOSD Global Sustainable Finance Awards, Germany

## 2014

1. Winner of the Green Leadership Award, Asia Responsible Entrepreneurship Awards, Singapore

## 2015

1. Certificate of Recognition in NBFi sector category, ICASL Annual report awards, Sri Lanka

## 2016

1. Merit Award in the large scale of the service sector category of the Social Dialogue and Workplace cooperation Awards, organized by the Department of Labour, Ministry of Labour and Trade Union Relations, Sri Lanka
2. Certificate of Recognition for a Best employer with outstanding employee culture in Sri Lanka, Employer Brand Awards, organized by Employer Branding Institute, India
3. Certificate of Compliance, in the NBFi sector category, ICASL Annual reports awards, Sri Lanka
4. Marketing Campaign of the year award for AFC, Motorbike Show 2016, CMO Asia for Excellence in Branding and Marketing in Sri Lanka

## 2017

1. Certificate of Compliance, in the NBFi sector category, ICASL Annual reports awards, Sri Lanka

## 2018

1. 2018 Sustainability Leader of the Year, Merit Award, Karlsruhe Sustainable Finance Awards, Germany
2. Certificate of Merit, in the NBFi sector category CMA Annual Report Awards, Sri Lanka
3. Certificate of Compliance, in the NBFi sector category, ICASL Annual Reports awards, Sri Lanka

## 2019

1. Merit award for Local Economic Development, Association of Development Finance Institutions in Asia and the Pacific (ADFIAP) Awards, Philippines
2. Certificate of Merit at CMA Excellence in Integrated Reporting Awards, Sri Lanka

## 2020

1. Certificate of Merit for Outstanding Sustainability achievement for Integrating Sustainability into the Corporate Strategy, Karlsruhe Sustainable Finance Awards, Germany
2. Winner, in the Insurance and Finance sector category, ACCA Sustainability Reporting Awards, Sri Lanka
3. Certificate of Merit, in the NBFi sector category, CMA Excellence in Integrated Reporting Awards Sri Lanka
4. Certificate as a finalist, Asia Sustainability Reporting Awards, Singapore.

## 2021

1. ADFIAP awards 2021 - Merit award under the Outstanding Development Project - Corporate Social Responsibility category, for the 'One Million Trees for Unity' project
2. ADFIAP Awards 2021 -Special award for the Best Sustainability Report
3. Main award for the Outstanding Sustainable Project Finance - Karlsruhe Sustainable Finance Awards 2021, Germany



4. Appreciation Award for the most contributing Non- Government institute of Sri Lanka, awarded by the State Ministry of Rural Roads and Other Infrastructure Sri Lanka
5. SAFA Awards - Best presented annual report awards, Integrated reporting awards, and SAARC anniversary award for governance disclosure 2020 - Joint second runner up - Finance Service Category
6. ACCA Sustainability Reporting Awards - Winner, in the Insurance and Finance Sector category
7. Top ten Winner - Best Management Practices Company Awards 2022, awarded by the Institute of Chartered Professional Managers of Sri Lanka
8. National Business Excellence Awards 2021 - Runner up of non-banking financial service sector

**2022**

1. Certificate of Compliance at the TAGS Awards 2022.



## CHAIRPERSON'S MESSAGE



**"Our uniquely differentiated position in Sri Lanka's finance industry, with the successful integration of the concept of social and environmental sustainability into our business model has helped us earn the confidence of International Development Finance Institutions and Impact Investors."**

**Q: How did the Company perform during the financial year?**

**A:** The Company reported satisfactory performance during the financial year despite multiple challenges that unfolded due to the worst ever economic crisis in the country post independence. Further, we were able to strengthen our commitment to sustainability with several new strategic initiatives which includes the introduction of climate finance products and relaunching of our child savings product with environmental focus.

The year was one in which every Sri Lankan was required to make sacrifices as the country experienced its hardest economic downturn since independence, to adjust to macro-economic instability following the depletion of foreign reserves and a debt crisis. The economy thus contracted by a significant 7.8%. A sharp depreciation of the Rupee

since early 2022, combined with a rise in interest rates and galloping inflation impacted the purchasing power of Sri Lankans across the board whilst these challenges were also exacerbated by the supply chain disruptions due to shortages of fuel and other essentials.

But it is most encouraging that the Licensed Finance Companies (LFC's) and Specialised Leasing Companies (SLC's) sector managed to continue its expansion during 2022 amidst the crisis environs that prevailed. Despite the many challenges of shrinking credit growth, declining profitability and an increase in non-performing loans as indicated by Stage 3 loans, the LFCs and SLCs sector grew in terms of Assets and Deposits and had adequate capital and liquidity buffers during 2022.

In the backdrop of above, the Company was able to achieve a Profit Before Tax of LKR 951 Mn and a Profit After Tax of LKR 505 Mn. The decrease in profitability was mainly driven by the margin compression due to the increase in cost of funds in line with the market rates. Our total assets expanded marginally due to cautious lending and low credit demand given the high interest rates in the market. The Deposit base grew by 40% as we were able to successfully leverage our branch network to mobilize deposits supported by the high interest rate regime whilst the Gold Loan portfolio grew by over 54% due to the heightened need for liquidity by the MSME sector amidst reduced availability of bank funding.

**Q: Could you comment on Governance at AFC?**

**A:** AFC believes that the highest standards in Governance is indispensable to creating long term value for its stakeholders and must be pursued uncompromisingly. The Board sets the tone at the top by promoting professional standards and corporate values that

cascade down to senior management and other employees of the Company and thereby the Board ensures that mechanisms for good governance are constantly reviewed and benchmarked and strengthened to meet evolving requirements. The Group's benchmark setting international standards and accreditations also help in ensuring Governance by encouraging value based business operations.

In addition, AFC's Board composition, comprising four Executive Directors and four Non Executive Independent Directors, facilitates an appropriate balance of the strength for implementation with an objective outsider perspective. Shareholders draw confidence from knowing that there were as many as four Executive Directors holding responsibility for operational overview and implementation of Board decisions and hence ensuring strong execution; whilst four Non Executive Directors are able to offer an independent assessment of implementation with the perspective of an outsider looking in, thus improving transparency and overall Governance.

**Q: What does Sustainable Value mean to AFC?**

**A:** Our uniquely differentiated position in Sri Lanka's finance industry, with the successful integration of the concept of social and environmental sustainability into our business model has helped us earn the confidence of International Development Finance Institutions (DFI's) and Impact Investors. In 2020, we became the first company in South Asia to achieve the prestigious endorsement of "a holistic sustainability certified financial institution". This has lent further credence to our brand equity and commitment to a Triple Bottom Line model and bolstered our ability to attract funding from leading DFI's even during the most challenging operating environs of last year.

I am heartened to note that the year under review saw us surpass a milestone of having created 40,000 self employment opportunities and MSME's in the country. This role we play in the socio-economic upliftment of the country is one which we hold high and will continue to prioritise, recognising its importance, now, more than ever, to contribute to Sri Lanka's "socio-economic revival".

Challenging external environments can often prompt one to look within, and extend oneself to expand one's potential. Whilst capitalizing on a strong sustainable model, AFC also reviewed and fine-tuned its processes and reaffirmed its commitment to a leaner and agile model. In keeping with its Triple Bottom Line focus and ethos, it will continue to make effort and invest to ensure a sustainable mindset in all its people.

**Q: What are some of the opportunities and challenges in the current Industry & Regulatory Environment?**

**A:** Financing of agriculture to improve productivity and ensure food security is a key to Sri Lanka's economic revival and long term economic sustainability and we see tremendous win-win opportunity there. Accordingly, we plan to gradually expand the role we play in this sector given the climate risks associated vulnerabilities. Further, the leasing of equipment to Agri sector comes across various other risks. These risks include the lack of a secondary market for equipment in Sri Lanka unlike vehicles and gold that have a strong second hand market and liquidity. It also requires that the industry makes a concerted effort to strengthen the technical skills and knowledge base and works with policy makers to have a more conducive policy framework to propel equipment leasing.

## CHAIRPERSON'S MESSAGE

As mentioned previously, the NBFi sector remains intensely competitive, with a large number of players with similar product offerings catering to the same customer base; thus prompting volume driven competition, resulting in a possible compromise of credit quality and the core principals of the financing models and margin compression; thereby challenging the stability of the NBFi sector. The encouragement of consolidation in the industry is hence, a welcome move.

The classification of Non Performing Loans (NPL's) in the NBFi sector to 90 days past due came into effect in April 2023; thereby placing it on par with the classification for Banks. As we have enumerated before, the implementation of this direction, has compelled the NBFi sector to change its business model and undertake more stringent credit appraisal and recovery processes. As Sri Lanka's NBFi sector is the primary provider of leasing to the most disadvantaged sectors of the economy, this regulatory direction discourages providing such Financial Services to Micro and emerging SME sectors whose cash flows are more variable and vulnerable than those of established MSME's and corporates serviced by the banks. I would hence like to reiterate the call for authorities to consider past due age tolerance for NPL classifications based on product risk and business model adopted by the NBFi's to accommodate the disadvantaged sectors of the economy, thereby creating financial inclusivity and reducing economic disparities.

### Q: How do you see the year ahead and beyond?

A: While short-term challenges are inevitable, we remain optimistic that the economy will gain momentum over the medium-term. The approval of an Extended Fund Facility by the IMF together with coordinated policy interventions to restore macro-economic stability have set Sri Lanka's economy

on a tepid path to recovery. Against this backdrop, as per CBSL estimates, the country's economic contraction is expected to be limited to 3% in 2023, before recovering to a growth of 1.3% in 2024.

Furthermore, declining inflationary pressures and the easing of monetary policy begun over the recent weeks, support our optimism that economic activity will be rekindled this year and we look ahead with renewed vigour, as AFC, with its strong credit model for small ticket lending to vulnerable segments of society, stands well poised to contribute to fuel this revival.

In our report of two years preceding, I mentioned that it was opportune that the industry looks beyond the financing of motor vehicles as their core business, and considers developing new products, in order support the more established SME's to access Capital goods to enhance their productivity and efficiency. This strategy proved prudent and in fact a necessity for the LFC sector in 2022, as the restrictions imposed by the Government on the importation of motor vehicles, as a measure to restrict foreign currency outflows, continued during the year. This also urges us to expedite our plans for the lending business to integrate environmental sustainability into our products.

Accordingly, we launched new climate smart financing products and will test these products in the year ahead whilst also expanding Agriculture financing. The Agri-financing help farmers to invest in their businesses, expand their operations, improve productivity and profitability. These in turn can lead to increased income generation, help food security and overall economic growth. It is also important to note that agri-finance products must be tailored to meet specific needs and circumstances of target communities and take into account the unique opportunities and challenges

of the agriculture sector. We will utilize the USAID designed adaptation programmes towards this end. Improving the appeal of agriculture to the younger generation is vital, for which the infusion of technology is a must. It is our hope that the impediments we have mentioned above could be overcome.

We will also further build on our strength in Gold Loans to grow this segment in the next few years.

The new generation of customers will be more conscious of, and demand, sustainable business, delivered in a sustainable manner. The Company thus finds itself well positioned with a head start to meet new opportunities in the future. Technology, as for most industries, is an imperative to enhance value creation and sustain our competitiveness. We have prioritised the enhancement of our IT systems to enhance operational efficiencies and customer convenience. We will look at creating virtual branches as a win-win to improve efficiencies as well as enhance customer convenience and service.

As a Company "Built on trust"; AFC will continue with direct and personalized customer engagement, nurturing long term relationships, and in turn gaining greater market and customer insights. Excellence in Customer Service has been a priority at AFC and a critical element in our ability to understand customer needs, from point of approaching potential customer to offering them customized solutions and handling recoveries and sustaining relationships for the long term. We will continue to enhance and pursue delivering excellence in customer service through continuous and appropriate training, investment in technology and recruitment of people with the right attitudes and aptitudes.

**Q: What do you have to say finally?**

**A:** I take this opportunity to place on record my grateful thanks to the Deputy Chairman/ Managing Director for his exemplary leadership in navigating through difficult times, ably supported by the Deputy Managing Director and two versatile Executive Directors.

Further, the invaluable contribution made by the two outgoing executive directors, Mr. Mahinda Gunasekera and Mr. Ravi Rambukwella, is greatly appreciated.

I also wish to thank the Independent Directors for their valuable insights and guidance extended to me at Board deliberations.

On behalf of the Board of Directors I wish to convey our appreciation to the senior management and staff for their steadfast commitment to forging ahead despite volatile market conditions, the regulators for the guidance and support provided, the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka for the cooperation extended during the year, to the outgoing auditors M/S Baker Tilly Edirisinghe & Company and our Company Secretaries for the professional services provided exercising due care at all times, to our borrowers and lessees for their patronage and to our loyal and valued depositors, shareholders and lenders for the continued trust and confidence placed in our Company.

We reiterate our pledge to embrace a sustainable business model that creates value beyond financial goals, securing the interest of all stakeholders.



**Tamara Dharmakirti-Herath**  
Chairperson

27th June 2023

## DEPUTY CHAIRMAN / MANAGING DIRECTOR'S MESSAGE



**"AFC's history spanning over sixty five years, and the stature it enjoys today, I believe validates the value we have placed on ESG."**

### **Q: How did the operating environment impact AFC's performance last year?**

**A:** The year was undoubtedly most challenging and it was an unprecedented year for the entire country. An environment of high interest rates, and a depreciating Rupee amidst recessionary conditions reduced the appetite for borrowing which dampened our performance as our loan portfolio and Net Interest Margins (NIM) declined. Profits hence declined to LKR 505 Mn from LKR 1,463 Mn in the previous year.

Our gross loan portfolio declined to LKR 41 Bn from LKR 42 Bn in the previous year, whilst NIM declined to 9.97% from 14.31% in the previous year due to the high interest rate regime that prevailed throughout the year. However our Deposit portfolio, supported by the high interest rate regime and our reputation grew from LKR 15 Bn to LKR 20 Bn.

The NPL ratios increased; with the 90 day NPL's increasing from 11% to 13.12% whilst the 180 day NPL increased from 3.6% to 5.3% in 2022/23.

Amidst the recessionary conditions and low economic activity; Leasing, -one of our core products, declined in volume due to a multitude of factors such as the lack of economic activity, coupled with high interest rates, the erosion of purchasing power and import restrictions. Our other core product, Gold loans, grew by 54% , supported by the flexibility that this short term product offers in a high interest rate environment. The aggressive marketing strategy adopted by AFC and the appreciation of the US Dollar also contributed significantly to this positive outcome. The Term Loan portfolio declined from LKR 35 Bn in 2021/22 to LKR 31 Bn during the year.

#### **Q: What were the highlights / key strategic initiatives last year?**

**A:** We launched several initiatives in 2022 to bolster our platform to sustain profitability into the future and to upscale our business over the next decade.

Our thrust on Sustainability was accelerated during the year to further bolster the ESG framework at AFC. With a 8% pledge of Net profit After Tax, we doubled our commitment towards Sustainability reaffirming our position as the highest contributor to sustainability amongst all financial institutions in Sri Lanka.

We introduced a new line of financing for electric motorcycles to the Sri Lankan automotive industry during the year, in collaboration with Satva Automotive. The motorcycles are 100% electric and hence have a zero negative impact on the environment. It is a most timely Triple Bottom line initiative which addresses multiple stakeholder concerns, namely, pollution and high fuel costs. The range of products made available includes basic scooters for delivery and modern, trendy scooters for transportation, and high-end street sports motorcycles. We

have also begun reducing the volumes of leasing of internal combustion engine (ICE) motor vehicles, urged by the depreciation of the Rupee and our intention to reduce the carbon foot print created by our product offering in line with the SSCI standards.

Having formulated a long-term digital strategy two years ago, the year under review saw us pursue technology with added vigor, for the digital delivery of our financial products and services, for brand communication, as well as for empowering our team and enhancing our internal processes. Accordingly, we acquired a new software platform for customer front end processes thus making progress towards a virtual business model. Customer onboarding and lease/loan origination will soon be enabled by a mobile application whilst recoveries and collections are facilitated via the X Gen web application.

We initiated a communication campaign to align our brand with its core strengths and distinguished position as a trusted financial institution serving four generations over six decades, emphasizing our reputation that has been built on a foundation of trust and long-term sustainability.

We continued to strengthen our HR practices. The hybrid model of working from home and/or office, which began with the “New Normal” was formalized as a policy and approved by the Board during the year, enhancing the work life balance for our people as well as resource efficiency for both the Company and employees.

The HR agenda also gave priority to talent development with a focus on two categories; of identifying, developing and retaining top talent whilst developing career paths for Senior Branch Managers of the Company.

#### **Q: How do you explain the doubling of investment into Sustainability in a challenging year in which profits declined?**

**A:** Yes, it reflects the strong belief we have in a Triple Bottom Line focus as a trail blazer in sustainability in the financial services sector in Sri Lanka; and of not being daunted by the immediate challenges to lose sight of our higher purpose and long term objectives. It is also a reflection of the visionary approach as Sri Lanka’s oldest Non Bank Financial Institution. We have adopted an approach of sustainability long before it became a buzz word and AFC’s value creation has thus been driven by the objective of enabling economic inclusivity for the marginalized and of protecting the environment. Our expertise in this realm is now being leveraged globally by organisations committed to sustainable development.

AFC’s history spanning over sixty five years, and the stature it enjoys today, I believe validates the value we have placed on ESG. Whilst on the other hand, the future where we can see economies shifting from linear to circular economies; underscore the importance of integrating the wider society and planet earth into all value creation models, in order for businesses to be sustainable, relevant and thrive in the longer term.

We are able to appreciate the value of our best practices and our sustainability ethos and the opportunities they have created, especially in these adverse operating environs.

In 2020, we became the first company in South Asia to achieve the prestigious endorsement of “a holistic sustainability certified financial institution”, by adopting the pioneering global Sustainability Standard and Certification Initiative (SSCI). During the year we also commenced the preparation to obtain

## DEPUTY CHAIRMAN / MANAGING DIRECTOR'S MESSAGE

certification for Version 2.0 of this initiative which takes on a more extensive approach to the sub-categories of the Octagon model of value generation and pays attention to the progress of High Impact Goals in terms of their effectiveness on the economy, society and the environment. SSCI is the first measurable and certifiable sustainability standard for value driven financial institutions, which encompasses a framework for the holistic integration of social and environmental sustainability, aimed at driving innovation within the organisational structure for long-term benefits for all stakeholders. SSCI also aims to create new income streams and opportunities for mobilising funds, for businesses and projects that create meaningful social and environmental impact, in addition to simply creating wealth or economic value. The framework of the SSCI serves as an external endorsement of our credibility and has expanded opportunities for AFC to obtain funding from international banks and funding agencies on terms and rates which are more favorable than the volatile market rates in Sri Lanka.

Supported by the SSCI framework, we have begun expanding our support to the SME sector which accounts for 52% of the nation's GDP.

AFC also partnered the USAID Climate Adaptation Project which aims to enhance the adaptive capacities of the private sector and local communities in Sri Lanka to climate change impacts, via ways that create sustained inclusive markets. We have begun funding areas such as Cinnamon Cultivation, dairy development, climate smart irrigation, polytunnel farming, solar loans and tea growers' loans under Green Financing.

A sustainable focus has also helped enhance the agility of our business, to respond and adapt to crisis situations quickly and effectively. The year 2012, saw AFC become the first Sri Lankan entity from the Banking and NBF

Sector, to receive Certification for BCMS (Business Continuity Management Systems), BS 2599 which was upgraded to ISO 222301: 2012. The compliance with these standards has meant that AFC is able to ensure continuity of its business in the event of any natural or man-made disaster including pandemics. The infrastructure, systems and processes which were already in place thus gave AFC a head start in responding to a lock down and in working remotely in the "New Normal" with minimal inconvenience to customers.

### **Q: What measures were taken during the year to further bolster AFC's sustainable platform and engage society through CSR?**

**A:** The "AFC Helping Hand" initiative expanded during the year to carry out a host of projects through its island wide branch network of 88 branches. Each branch was asked to submit proposals and the projects were allocated funding based on their profitability and given the go ahead. We are really heartened and inspired by the enthusiasm and the effort demonstrated by the entire branch network with 65 projects completed during the year with an investment of over LKR 4 Mn. Donations of computer equipment, educational playground and medical equipment and water tanks to schools, hospitals, police stations and Covid care centres were amongst the ways in which we lent a "helping hand" to those in need.

We also continued with the "One Million Trees For Unity" programme and bettered this pledge to 1.33 Million trees by 2030, with a milestone set to reach 650,000 trees by end of this year. A total of over 500,000 trees were planted in 2023, and our progress to date makes us the private sector entity to have planted the highest number of trees in the country. The fact that this environmental consciousness has been embraced by our people with many deciding to celebrate their birthdays with a donation

of plants, is most encouraging and is a validation of the culture that has been built.

We also continued with our projects to protect the biodiversity and conserve the Leopard in Sri Lanka's hill country and details of this are shared under the Natural Capital section of this report.

### **Q: How do you expect the macro economic environment to recover in the year ahead?**

**A:** As the country as a whole and our businesses absorb the negative impacts of 2022 we expect 2023 to continue to be challenging. And the conditions necessitated by Sri Lanka's macro economic imbalance and the IMF requirements will create some necessary hardships before an upturn begins. However, we expect Sri Lanka's agriculture sector to recover from the unprecedented set back it suffered in 2022. We also expect inflation to begin a downward trend, and, combined with the appreciation of the rupee over the next few months, which will help us to offer some relief to consumers. At the same time, recessionary conditions as projected, in most world economies, would have some impact on our economy via reduced demand for our manufactured exports and tourism.

### **Q: What are AFC's plans and prospects?**

**A:** As we expect Sri Lanka's Agriculture sector to recover in 2023, we see tremendous opportunity for value addition in the sector through financing as well as establishment of novel market linkages and developing entrepreneurial skills amongst farmers; thereby ensuring high levels of income for those engaged in Agriculture and related activities. AFC, with its presence in the rural sectors of the country hence sees myriad opportunities to add significant value to Sri Lanka's Small and Medium scale Enterprises.



The world is expected to move into recession in 2023. However we feel that Sri Lanka's rural economy with its essential agriculture base stands relatively well insulated from the impacts of a world recession, although the impacts on tourism and manufactured exports would have some negative impacts.

The population outside the Western province comprising a largely rural segment, accounts for as much as 70% of AFC's customer base and this will help AFC to be somewhat cushioned from the global recessionary conditions. Hence the Company is well poised to grow in this relatively well insulated market segment.

As mentioned earlier, the SME sector accounts for as much as 52% of Sri Lanka's GDP and we look ahead with renewed vigour to fueling the growth of this sector and playing our part in the revival of the Sri Lankan economy. Moreover, as much as 48% of Sri Lanka's population still borrow from the country's informal sector; AFC will continue to be driven by its sustainability integrated value creation business model, to relieve the indebtedness and the burden of the informal sector loans and provide financial inclusion in line with the National Development Agenda goals.

Supported by the framework of the SSCI, the Company stands well poised to harness opportunities for more international funding and to create myriad opportunities for social and environmental value creation in the domestic economy. Accordingly, we will continue to pursue three broad High Impact Goals namely, contributing to reduce the national carbon footprint, improving the living standards in Northern province and other rural marginalized areas and developing SME entrepreneurs. Further, promoting organic agriculture, climate smart technology and promoting and sponsoring biodiversity conservation and eco system

restoration are also among our strategic priorities. AFC has affirmed and made its commitment to these overarching objectives tangible, by encompassing them within the Job Descriptions and the Key performance Indicators of our people.

Our initiatives to reduce the dependence on the brick and mortar channel will be completed by year end enabling AFC to stride towards branchless operations.

Our philosophy of making the world a better place through sustainable finance is in sync with the national development agendas of emerging and developing countries and the United Nations' Sustainable Development Goals (SDGs) which are today opening up new economic opportunities. Moreover, the fight against climate change is creating brand new industries which are replacing CO2-intensive industries with cleaner technologies. The sectors we have been funding has given us a head start on this journey and the SSCI certification's version 2.0 provides us the framework to create an internal eco system for innovation driven by institutional purposes which will find us well supported to create long term value for all our stakeholders.

#### **Q: What would you like to say, finally?**

**A:** With the unwavering backing of all our stakeholders and under the insightful guidance of the Board, led by the Chairperson, we will persist in advancing our role in fostering a financially inclusive nation. We extend our deep appreciation to the Central Bank of Sri Lanka for their invaluable support and guidance. A special note of thanks goes out to our auditors and bankers for their continued support towards the company. Gratitude is also owed to our steadfast shareholders and customers who continue to place their faith in us. The dedication and performance achieved in the past year are attributed to our committed team

of employees, whom I am honoured to lead. This achievement is dedicated to them, and we acknowledge the entire Alliance family for standing by us during unprecedented challenges.

Moving forward confidently, our commitment to environmental, social, and governance excellence remains strong. This dedication ensures enduring, holistic value creation for all stakeholders.



**Romani de Silva**  
Deputy Chairman/ Managing Director

27th June 2023

# BOARD OF DIRECTORS



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**01. Mrs. G. S. Tamara Dharmakirti-Herath**  
Chairperson

**02. Mr. R. K. E. P. de Silva**  
Deputy Chairman/ Managing Director

**03. Mr. J. M. Gunasekera**  
Executive Director-Sustainability  
(Retired on 15th July 2023)

**04. Mr. W. P. K. Jayawardana**  
Deputy Managing Director

**05. Mr. R. E. Rambukwelle**  
Executive Director - Credit Operations & Marketing  
(Retired on 06th April 2023)

**06. Mrs. P. de Silva**  
Independent Non-Executive Director

**07. Mr. L. J. H. de Silva**  
Independent Non-Executive Director

**08. Mr. D. L. I. Hettiarachchi**  
Independent Non-Executive Senior Director

01.

**Mrs. G. S. Tamara Dharmakirti-Herath**  
Chairperson

Independent Non Executive Director

(Chairperson of the Board Integrated Risk Management Committee and Related Party Transactions Review Committee, Member of the Board Audit Committee and Remuneration Committee)

Mrs. G. S. Tamara Dharmakirti-Herath was appointed to the AFC Board of Directors as the Chairperson on 22nd October 2020. She holds over 40 years of experience in the financial services sector and has made significant contributions to the industry and was involved in the setting up two Non-Banking Financial Institutions (NBFI) in the country. In her long professional career, she has been in senior management positions in a few of the premier NBFIs and as a consultant providing technical skill and knowledge to NBFIs and banks engaged in Leasing and Factoring. She has vast knowledge and experience in the multiple aspects of the finance industry. She has facilitated knowledge and skill development to young leasing professionals in Sri Lanka (pro-bono) and advocates best practices and gender equality in the management of the NBFI sector.

02.

**Mr. R. K. E. P. De Silva**  
Deputy Chairman/Managing Director

(Member of Board Integrated Risk Management Committee)

Mr. Romani de Silva is a Fellow of the Institute of Credit Management and was appointed to the Board on 9th March 1990 and currently holds the position of Deputy Chairman and Managing Director of Alliance Finance Co. PLC. He is a Non Executive Director of Alfinco Insurance Brokers (Pvt) Ltd, Macbertan (Pvt) Ltd., and also holds Directorates in many other companies and counts over 30 years' experience in the finance industry. He is a Life member of the Sri Lanka Institute of Directors, Founder Director of the National Advisory Board for Impact Investing in Sri Lanka and a member

of the Chamber of Young Lankan Entrepreneurs.

Mr. De Silva serves as a Council Member on the Sustainability Standards & Certification Initiative and the Finance 4.0 - initiative of the European Organization for Sustainable Development - an European Union initiative. He currently heads the Sub Committee of the FHA on Sustainability and serves as a Council Member of the Finance Houses Association of Sri Lanka (FHASL). He also serves as the Honorary Treasurer of the SLICM - an educational institution dedicated for the development of the leasing and hire purchase industry in Sri Lanka, which was incorporated by an Act of Parliament.

He has represented the FHASL on the Steering Committee initiated by the Central Bank of Sri Lanka to develop a Sustainable Finance Road map for Sri Lanka for the Non-Bank Financial Sector and also on the National Financial Inclusion Strategy Project initiated by the World Bank Group, IFC, and the Central Bank of Sri Lanka. He also represents The Finance Houses Association of Sri Lanka on the CBSL, Multi Stakeholder Committee for the Implementation of the Roadmap for Sustainable Finance in Sri Lanka.

Mr. De Silva has also represented Alliance Finance Company PLC as a Founder Investor in the pioneering "Ath Pavura" reality TV Programme co-founded by the Lanka Impact Investing Network (LIIN) and Social Enterprise Lanka (SEL) in Sri Lanka which aims to create awareness on social enterprise and develop an impact investing culture in the country.

03.

**Mr. J. M. Gunasekera**  
Executive Director-Sustainability  
(Retired on 15th July 2023)

(Member of the Board Integrated Risk Management Committee)

Mr. J. M. Gunasekera was appointed to the AFC Board of Directors on 23rd June 2015. He currently serves as the

Executive Director Sustainability of AFC. An industry expert in rural financing, he counts over 30 years of experience in Microfinance, SME financing, livelihood development and agri-business Sri Lanka, Afghanistan, Bangladesh and Nepal. He has also served in multilateral agencies such as the US Agency for International Development and undertaken special assignments with the World Bank/IFC, the ADB and US based INGOs/PVOs in many markets such as Philippines, Thailand, Japan and the United States. He holds an MBA, BSc in Agriculture and Microfinance training from the University of Colorado. He has previously functioned as Managing Director/ CEO of three MFIs, one in Afghanistan and two in Sri Lanka.

04.

**Mr. W. P. K. Jayawardana**  
Deputy Managing Director

(Member of the Board Integrated Risk Management Committee)

Mr. W.P.K. Jayawardana was appointed to the AFC Board of Directors on 4th April 2017 and currently serves as Deputy Managing Director. He brings over 25 years of experience in investment banking, corporate finance, credit and operations.

He is involved in and has led teams in launching several innovative products in Sri Lanka and Bangladesh, including securitization structures, convertible securities and derivatives and has executed several landmark capital market transactions. He played a key role in setting up NDB Capital Limited, Bangladesh and Emerald Sri Lanka Fund, being the first private equity country fund set up in Sri Lanka. He is a Chartered Financial Analyst, an Associate Member of the Chartered Institute of Management Accountants and the Chartered Global Management Accountants. He was also an Associate Member of the Association of Chartered Certified Accountants-UK. He holds an MBA from the Open University of Sri Lanka in collaboration with Commonwealth of Learning, Canada.

## BOARD OF DIRECTORS

Mr. Jayawardana is also an independent director of Lanka Ventures PLC and LVL Energy Fund PLC and is a member of several board sub-committees of these two companies.

His previous appointments include, Managing Director/CEO of NDB Capital Limited, Bangladesh and COO of NDB Capital Holdings Limited. He has held Board positions in several listed and private entities including Resus Energy PLC, Panasia Power PLC, Lanka Communication Services Limited and NDB Capital Limited.

05

**Mr. R. E. Rambukwelle**  
Executive Director-Credit Operations and Marketing

(Member of the Board Integrated Risk Management Committee)

Mr. R. E. Rambukwelle was appointed to the AFC Board of Directors on 6th September 2018 and serves as the Executive Director Credit Marketing and Operations. His wealth of experience spans over 35 years' in Management both in Sri Lanka and overseas and his expertise and extensive knowledge of the industry is his hallmark. His last position was Director Marketing and Operations in one of the largest Non-Bank Financial Institutions in the country, where he was employed for twenty-four years until his retirement in June 2018.

He possesses a Bachelor's Degree in Economics and Political Science from the Peradeniya University, a Diploma in Marketing from the Chartered Institute of Marketing UK and a Diploma in Commerce from the Institute of Commerce UK.

06

**Mrs. Priyanthi de Silva**  
Independent Non-Executive Director

Appointed to the Board on 8th August 2018 as an Independent Non-Executive Director, she functions as the Chairperson of the Audit Committee and is also a Member of the Integrated Risk Management Committee.

Mrs Priyanthi de Silva is a Fellow of the Chartered Institute of Management Accountants (FCMA) and the Chartered Global Management Accountants (CGMA) of UK and a Fellow of Certified Practising Accountants, (FCPA) of Australia. She was also an Associate member of the Association of Chartered Certified Accountants of UK (ACCA).

She has over 30 years of experience in the FMCG, Leisure, Healthcare, Travel and Financial Services sectors in Sri Lanka and Australia. The senior positions held by her in Sri Lanka include Chief Financial Officer at Foundation of Goodness, Manager Compliance at SriLankan Airlines and Manager Finance and Systems at SriLankan Catering, Financial Controller of Hemas Holdings PLC, Finance Manager at Arpico Finance PLC, Manager Finance and MIS at Eagle NDB Fund Management and in Australia as a Financial Specialist at Goston Avend Pty Ltd, and as an Accountant at GE Money and Coles Express (Melbourne).

07

**Mr. L. J. H. de Silva**  
Independent Non-Executive Director

(Chairman of the Remuneration Committee, Member of Related Party Transactions Review Committee and Audit Committee)

Mr. L. J. H. de Silva was appointed to the AFC Board of Directors on 16th October 2019 as an Independent Non-Executive Director. He is presently the Managing Director of Alliance Agencies Ltd., exclusive agents in Sri Lanka for Heidelberger Druckmaschinen AG Germany and Drive One (Pvt) Ltd., sole distributor for Audi AG, Germany. He has over 30 years of management experience. He has acquired significant experience in brand building, strategic planning and key account management. He is a former President of the Association for Print and Design Professionals and is a Member of the Board of Governors of the Institute of Printing in Sri Lanka. Mr. de Silva attended Hauchler Studio College and Print Media Academy Heidelberg,

Germany, is a fellow of the Sri Lanka Institute of Printing and has over 40 years of experience in the graphic arts industry.

08

**Mr. D. L. I. Hettiarachchi**  
Independent Non-Executive Director

(Member of the Remuneration Committee and the Related Party Transactions Review Committee)

Mr. D. L. I. Hettiarachchi was appointed to the AFC Board of Directors on 22nd October 2020 as an Independent Non-Executive Director. He has over 28 years' experience in management and administration. Since 2002 he owns and manages a private civil law practice and has over 34 years' experience in commercial and civil litigation in original/appellate courts and arbitrations in a range of matters. He possesses in-depth and wide experience in transactional legal services and consultancy, including a wide scope of matters covered in a commercial/ corporate law practice. He is an Attorney at Law of the Supreme Court of Sri Lanka and holds Master of Laws and a Doctor of Civil Law, degrees obtained from McGill University in Montreal, Canada.

# THE MANAGEMENT TEAM

Name	Designation
Romani de Silva	Deputy Chairman / Managing Director
Kusal Jayawardena	Deputy Managing Director
Ravindra Rambukwella	Executive Director - Credit Operations & Marketing (Retired w.e.f 6th April 2023)
Mahinda Gunasekara	Executive Director - Sustainability (Retired w.e.f 15th July 2023)
Michael Benedict	Executive Director - Recoveries & Collection (w.e.f 1st September 2023)
Emmanuel Muttupulle	Chief Talent & Stakeholder Management Officer
Aruna Rodrigo	Chief Operating Officer
Ajantha Kumara	Chief Commercial Officer
Ajit Subasinghe	Chief People Officer
Champa Nakandala	Chief Deposit Officer
Roshan Rathnayaka	Senior Assistant General Manager- Deposits Marketing
Sujith Fernando	Assistant General Manager - Digital Transformation and Collaboration Finance
Dimuthu Tillakaratne	Assistant General Manager - Finance
Roshan Carrim	Assistant General Manager - Recoveries
Surendra Rodrigo	Assistant General Manager- Gold Loan Operations
Asanka Atapattu	Assistant General Manager - Treasury
Harsha Wijesinghe	Assistant General Manager - Credit
Wasantha Maldeniya	Assistant General Manager - Regional Head
Udaya Suranjith	Assistant General Manager - Regional Head
Mallika Baddage Jayathilaka	Assistant General Manager - Regional Head
Saman Medagoda	Assistant General Manager - Regional Head
Isanka Gayan	Assistant General Manager - Regional Head
Nishanth Selvaratnam	Assistant General Manager - Regional Head
Nalin Kodagoda	Senior Manager - Regional Head
Mathieswarann Ganeshalingam	Senior Manager - MIS
Achala Wanniarachchi	Senior Manager - Legal
Udesh Indika Heenatigala	Senior Manager - Information Technology
Chatura Senarathne	Senior Manager - Procurement
Manoj Siriwardena	Senior Manager - Channel Development
Chrishanthi Delisheya Wewita	Senior Manager - Deposits
Nishantha Peiris	Senior Manager - Deposits
Lalith Peiris	Senior Manager - Finance Operations
Dushan De Silva	Senior Manager - Marketing Communications & Branding
Ashithinda Ramanayake	Senior Manager - Risk

## THE MANAGEMENT TEAM

Name	Designation
Navarethinarajah Ramunahar	Senior Manager - Process Improvement
Vijekumar Rathnam	Senior Manager - Credit & SME
Darshana Sampath De Silva	Senior Operations Manager
Venothkumar Rajendran	Deputy Head - Internal Audit
Roshan Hewage	Compliance Officer
Anupa Jayasekara	Manager - Premises Management
Samapath Wijesuriya	Manager - Administration
Amal Somarathne	Manager - Strategic Planning & Sustainability
Senani Kaluarachchi	Manager -Customer Care & Relationship Management
Duminda Niranjan	Acting Regional Head
Upul Pathirana	Deputy Regional head
Poorna Sanjeewa Pothuduwage	Deputy Regional Head
Lasantha Pradeep Kumara	Acting Deputy Regional Head
Priyantha Priyadarshana Guruge	Acting Deputy Regional Head
Thusitha Sampath Karunarathna	Acting Deputy Regional Head
Supun Sithumina Jayasundara	Acting Deputy Regional Head
Selvaratnam Ratnarasa	Acting Deputy Regional Head
Meganathan Thayaparan	Acting Deputy Regional Head
Ranil Rohan Palansuriya	Acting Deputy Regional Head
Dharshana Pushpakumara	Senior Branch Manager
Hirosh Ramanayaka	Senior Branch Manager
Ruwan Ranga Tennakoon	Senior Branch Manager
Manoj De Silva	Senior Branch Manager
Achira Senarathne	Senior Branch Manager
Kasun Randika Gunasekara	Senior Branch Manager
Dinesh Asanka Sanjeewa	Regional Recovery Incharge
Rajapaksha Malalasekara	Regional Recovery Incharge
Chinthaka Nuwan De Silva	Regional Recovery Incharge
Shasitha Priyadarsha Appuhami	Regional Recovery Incharge
Sebestin Daya Colin Rodrigo	Regional Recovery Incharge
Chamila Nishantha Hiriliyedda	Regional Recovery Incharge
Ajith Kumara	Regional Recovery Incharge
Seevarathnam Pradeep	Regional Recovery Incharge



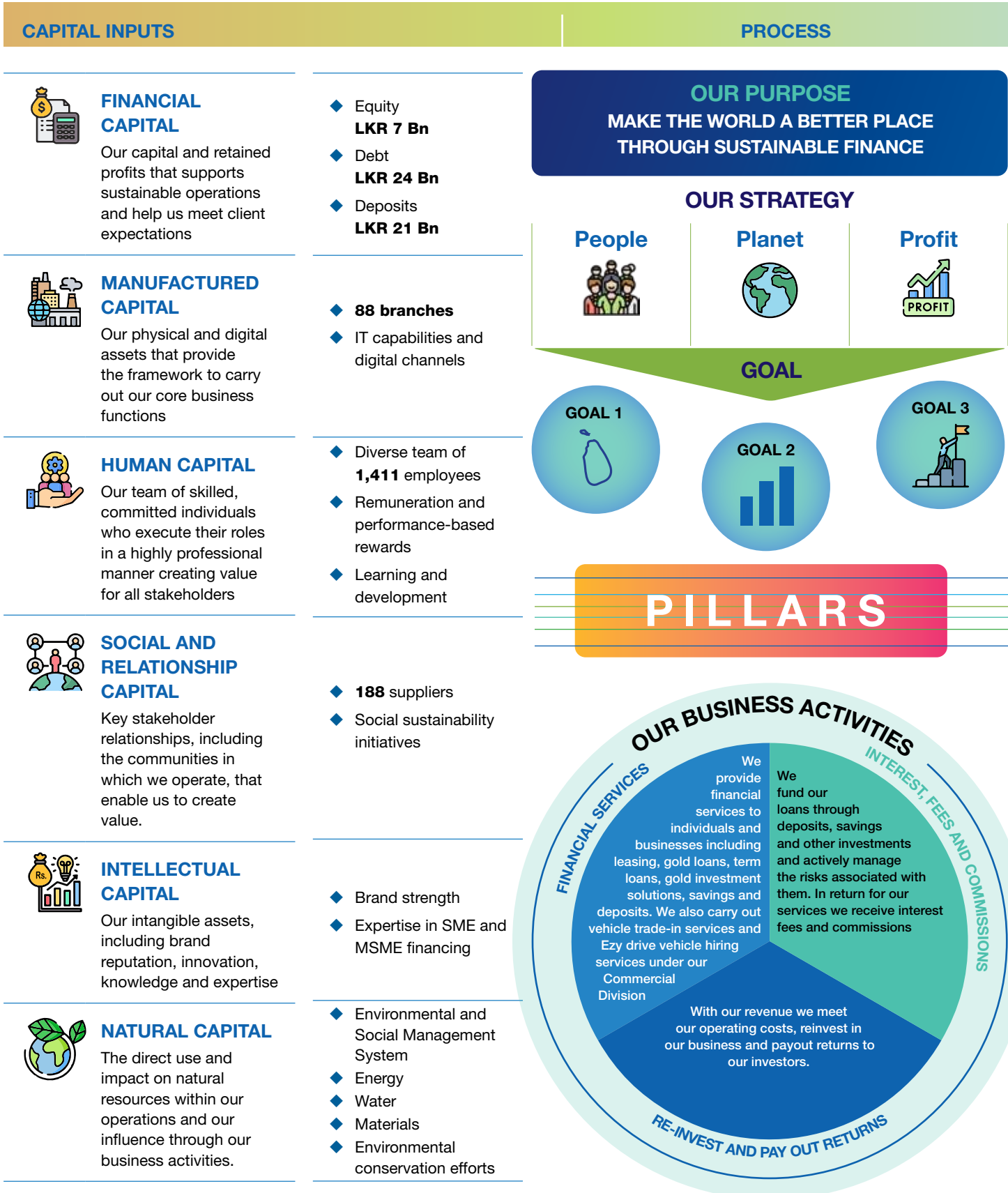
# PERFORMANCE AGAINST STRATEGY

Measuring performance in relation to strategies, helps companies make agile decisions, allocate resources efficiently and stay competitive, innovative and sustainable.

# OUR VALUE CREATION MODEL

GRI 2-6

30





	OUTPUTS	VALUE CREATED
 <b>Improving profitability</b>  <b>Business growth through digitization</b>  <b>Increase employee productivity</b>  <b>Improve brand visibility</b>  <b>Social and environmental best practices</b>  <b>Corporate stewardship</b>	 <b>FINANCIAL CAPITAL</b> PAT: <b>505 Mn</b> ROE: <b>7.40%</b> EPS: <b>14.98</b>	<b>Shareholders</b> <ul style="list-style-type: none"> <li>◆ Sustainable growth</li> <li>◆ NAV per share</li> <li>◆ Gross dividend</li> </ul>  <b>1 NO POVERTY</b>  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>
	 <b>MANUFACTURED CAPITAL</b> Touchpoints: <b>89</b>	<b>Customers</b> <ul style="list-style-type: none"> <li>◆ Operational efficiency</li> <li>◆ Customer satisfaction</li> <li>◆ Financial security</li> <li>◆ Debt moratorium and other concessions for COVID-19 affected segments</li> </ul>  <b>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</b>  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>  <b>13 CLIMATE ACTION</b>  <b>17 PARTNERSHIPS FOR THE GOALS</b>
	 <b>HUMAN CAPITAL</b> Investment in training: <b>4 Mn</b> Training hours: <b>12,489 hr</b> Staff promotions: <b>168</b>	<b>Employees</b> <ul style="list-style-type: none"> <li>◆ Diverse and inclusive organizational culture</li> <li>◆ Safe working environment</li> <li>◆ Career progression</li> <li>◆ Empowerment</li> <li>◆ Equal opportunity</li> </ul>  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>  <b>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</b>  <b>11 SUSTAINABLE CITIES AND COMMUNITIES</b>  <b>13 CLIMATE ACTION</b>  <b>17 PARTNERSHIPS FOR THE GOALS</b>
	 <b>SOCIAL AND RELATIONSHIP CAPITAL</b> Customer base: <b>105,802</b> Investment in social sustainability: <b>LKR 5.5 Mn</b>	<b>Regulators</b> <ul style="list-style-type: none"> <li>◆ Taxes paid: <b>LKR 1.6 Bn</b></li> <li>◆ Compliance with regulatory requirements</li> </ul>  <b>5 GENDER EQUALITY</b>  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>  <b>10 REDUCED INEQUALITIES</b>
	 <b>INTELLECTUAL CAPITAL</b> Branch rating: <b>55</b> Credit Rating: <b>BBB-(Stable)</b>	<b>Business partners and suppliers</b> <ul style="list-style-type: none"> <li>◆ Long term relationships</li> <li>◆ Transparency</li> </ul>  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>  <b>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</b>  <b>10 REDUCED INEQUALITIES</b>
	 <b>NATURAL CAPITAL</b> Green lending portfolio: <b>3%</b> Trees planted: <b>525,310</b> Carbon footprint: <b>2900 tCO2e</b>	<b>Funding and network partners</b> <ul style="list-style-type: none"> <li>◆ Long term relationships</li> </ul>  <b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b>  <b>17 PARTNERSHIPS FOR THE GOALS</b>  <b>7 AFFORDABLE AND CLEAN ENERGY</b>  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>  <b>9 INDUSTRY INNOVATION AND INFRASTRUCTURE</b>  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>  <b>13 CLIMATE ACTION</b>  <b>15 LIFE ON LAND</b>

# OUR FOCUS ON SUSTAINABILITY

GRI 2-22

GRI 2-29

GRI 305-1

AFC takes an approach where sustainability is integrated into all aspects of our operations, strategy and value chain. It goes beyond mere corporate social responsibility initiatives and aims to create long-term value for the company, society and the environment. Under the Sustainability Standards and Certification Initiative (SSCI), a Sustainable Business Model is defined as the framework that enables us to profitably deliver unique and valuable benefits to our customers and through them serve societal needs and foster inclusive, resource-efficient, environmentally friendly and net zero economic development on a long-term basis.

Our sustainability-embedded business model focuses on developing innovative products and services that address sustainability challenges. We create solutions that minimize negative environmental impacts, conserve resources, promote social well-being and meet changing customer expectations for sustainable choices which will embrace a culture of continuous improvement. We regularly assess our practices, set ambitious goals and adapt strategies based on new knowledge and emerging sustainability trends. This iterative approach ensures that sustainability remains at the core of the business.

The transactional relationship focuses on a quick gain for AFC but doesn't establish a long-term relationship which is needed to gain a competitive edge, achieve the High Impact Goals and our targets and drive long-term profitability. This will help develop the strongest possible value propositions, improve customer loyalty and retention, deliver a unique competitive advantage and boost profitability on a long-term basis.

As per the framework that we developed to achieve the sustainability integrated business model for AFC, we cast around for a collaborative engagement of each and every department of AFC.

## Sustainability governance

The responsibility and accountability of integrating sustainability practices into our operations, decision-making processes and overall strategy are crucial for driving long-term success and a positive impact. To effectively implement sustainability initiatives, it is essential to have strong commitment and leadership from the senior management and the board of directors.

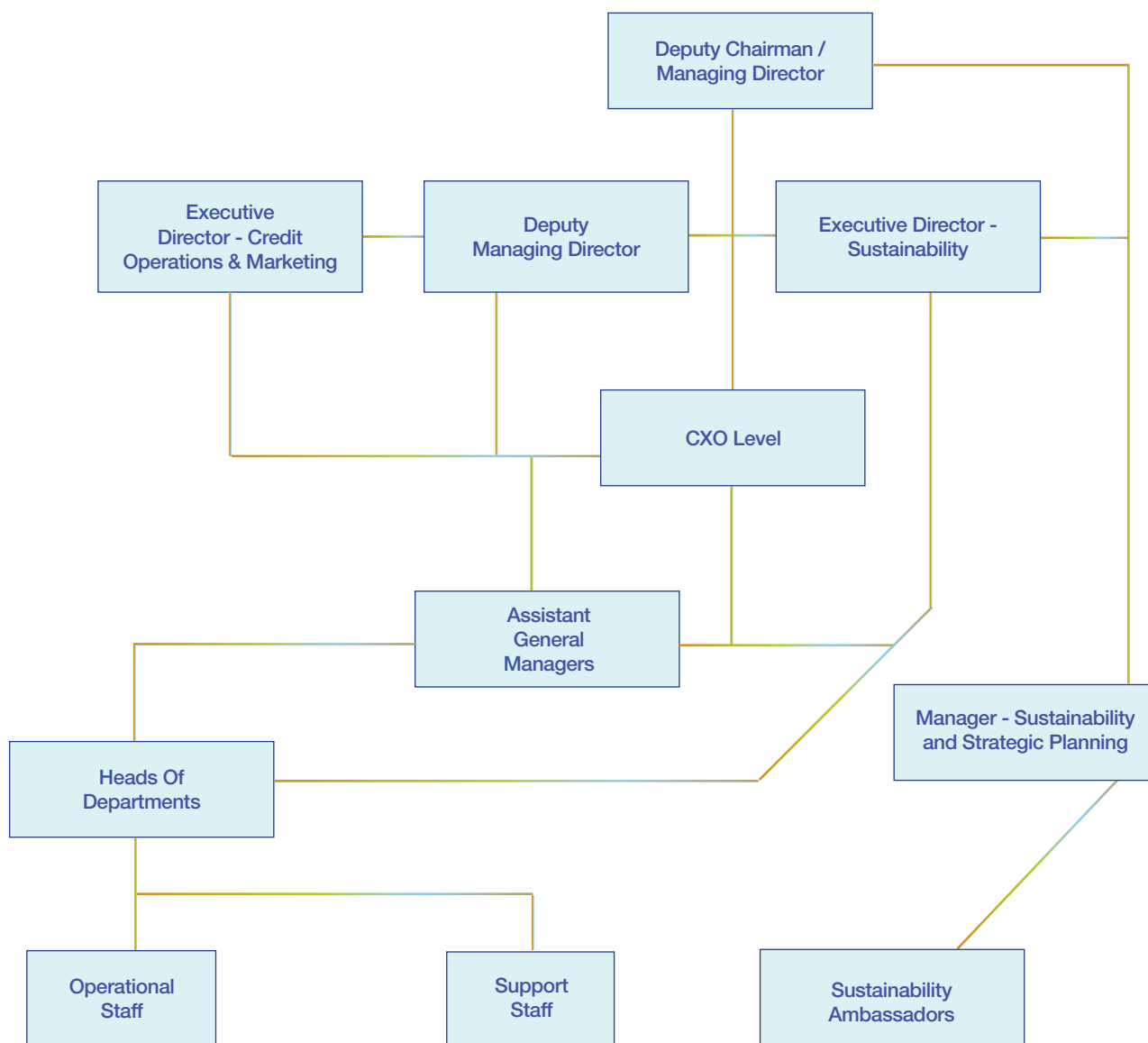
At the top level of the organization, the senior management and the board of directors play a pivotal role in setting the purpose statement and direction for sustainability. They establish clear sustainability goals that align with the company's values and objectives. By articulating a compelling purpose statement for sustainability, they inspire and engage employees at all levels of the organization to contribute to sustainability efforts.

AFC has established a governance structure to ensure that sustainability becomes an integral part of the company's strategic direction. This structure explicitly addresses sustainability considerations and assigns responsibility for sustainability at the executive level. By designating a specific executive responsible for sustainability, the company demonstrates its commitment to driving sustainability outcomes.

A dedicated sustainability department supports the executive responsible for sustainability. This department brings together individuals with expertise in sustainability and related fields to provide guidance, insights, and oversight. Their role is to drive sustainability initiatives, monitor progress and make recommendations to senior management and the board.

Integrating sustainability considerations into risk management and compliance frameworks is another essential aspect of the governance structure. By assessing and managing sustainability-related risks, the company ensures that potential environmental, social and governance (ESG) issues are identified and addressed proactively. This helps mitigate risks, build resilience and safeguard the company's reputation.

Furthermore, sustainability ownership extends beyond the executive level and governance structure. It involves engaging employees across all departments and levels of the organization. This can be achieved through communication, training programs and fostering a culture of sustainability. By empowering employees to contribute to sustainability efforts, organizations can tap into their creativity, knowledge and dedication, driving innovation and continuous improvement.



### Sustainability policy

This Sustainability Policy AFC defines the sustainability principles the company follows while conducting its business operations. It also articulates the accepted practices of AFC when dealing with its stakeholders and undertaking the projects to ensure the desired sustainable value creation.

These principles and practices are formulated based on the core values of AFC, accepted global sustainable best practices, SSCI guidelines and other global standards of sustainability, to which AFC is compliant.

The SSCI, the first global standard developed for value creating financial institutions, governed by the International Council of Sustainability Standards for Value-Driven Financial Institutions in Germany offers the perfect platform to integrate sustainability into the business with a positive and measurable outcome. AFC has become the first

## OUR FOCUS ON SUSTAINABILITY

financial institution in South Asia to receive the SSCI Certification, the world's first measurable and certifiable standard for value driven financial institutions with holistic sustainability integration to the business.

While providing a comprehensive framework, this standard has been instrumental in streamlining and fine-tuning our entire business model to create sustainable value to the society, environment and economy ensuring that each and every function, policy, procedure and employee role has been aligned with the company's purpose and high impact goals.

SSCI puts the social well-being of the communities the AFC serve and country- specific economic development, at the heart of corporate business strategy. It also creates a bond among ecosystem members. For the first time since the inception of formal financial services, it is the only initiative to provide standards for making the protection of environmental assets a valuable business proposition for the financial institutions. The SSCI 2.0 drives AFC to drastically reduce and ultimately eliminate the negative environmental impact caused directly, indirectly or induced by our business activities and create environmental value within and wherever possible and applicable, beyond the geographic area of our operations.

We do not engage in businesses that cause any harmful impact to the society or the environment. We ensure that our approach is in line with this concept by complying with the IFC exclusion list, that aims to prevent lending to activities that have a potential negative impact on the society and the environment.

### Sustainability awareness and training

The governance structure is designed to ensure that the contribution of all employees collectively helps drive the sustainability agenda of the company. Every employee has the opportunity to contribute to the high impact goals and sustainability ambitions regardless of their position or location. Furthermore, the roles of the departments, teams and individuals are linked to the strategies and sustainability goals of the company. To make them an active part of our commitment and nurture a sustainability culture, we have worked on several initiatives during 2022 as outlined below:

Training program	Type	No. of participants
Company Purpose Statement & Sustainability session under Induction Program	Internal	143
Training on Social Entrepreneurship and Awareness on the Legal Process	Internal	88
Training on Sustainable Finance products and FDs	Internal	77
ESG – is no longer a choice	External	4

### SSCI 2.0

- ◆ Takes a more extensive approach to the sub-categories of the Octagon Value Generation Model.
- ◆ Pays very close attention to how High Impact Goals and initiatives are progressing in terms of their effectiveness on the economy, society and the environment.
- ◆ Overall achievement for sustainability level 01 has been increased to 60% in SSCI 2.0.

### How we improved our processes

- ◆ Combined each division's executive management in decision-making and assembling relevant management systems.
- ◆ Created a task force for each module as per the SSCI system, representing each department/division that can execute the process of getting the Board's approvals or modelling expected management systems as expressed in the SSCI. This navigates AFC's processes in a collaborative technique.
- ◆ Assigned the core responsibility of each module to the divisions according to the weight of relevance for each module.
- ◆ Scaled the longevity and reliability of the implemented frameworks/management systems using the monitoring outcomes over a considerable period.
- ◆ Active support and endorsement of the Board towards achieving the desired sustainability objectives by way of revising the corporate strategy, risk management aspects, as well as relevant policies and procedures.

### Sustainable business practices

AFC adheres to all regulatory frameworks relevant to the non-bank financial institution (NBF) sector, ensuring full compliance. Additionally, we ensure that all our communications align with the respective regulations and uphold the ethical standards set forth in the Code of Ethics.

We also make it a point to integrate environmental, social, and governance (ESG) criteria into the investment decision-making processes by encouraging investments in companies with sustainable practices, renewable energy and social impact initiatives while

avoiding investments in industries with negative environmental or social impacts complying with the IFC exclusion list.

Further strengthening our sustainable value proposition we offer green financing options to support environmentally friendly projects and businesses. This includes loans/ financial products specifically designed for renewable energy projects, energy-efficient initiatives, sustainable agriculture or eco-friendly technologies.

AFC has also implemented sustainable practices within the institute itself, such as reducing paper usage, minimizing

energy consumption, promoting remote work options to reduce commuting and sourcing eco-friendly office supplies for internal sustainability practices.

Our dedicated sustainability arm “AFC Dalu” spearheads a host of social and environmental sustainability programs dedicated to support valuable causes, that ensure social and environmental well-being. The company annually allocates 8% of its profits to undertake specific sustainability initiatives. (Further details on these projects are available on pages 32 to 40).

### Sustainability performance measurement

#### Assessing Impact and Quantifying Value:

AFC aims to evaluate the social and environmental impact of its investments and initiatives. This involves analyzing the effects of these activities on various aspects such as reducing carbon emissions, promoting renewable energy, improving social well-being and preserving ecosystems. Additionally, AFC seeks to quantify the value created by these efforts, which can include financial benefits, cost savings, enhanced reputation and positive societal outcomes.

#### Alignment with UN SDGs:

The SDGs are a set of 17 global goals established by the United Nations to address pressing social and environmental challenges. AFC endeavours to align its sustainability efforts with 13 SDGs. By identifying which SDGs are most relevant to its business and industry, AFC is able contribute to addressing those specific challenges and track progress toward achieving the corresponding targets.



#### Tracking Progress and Setting Goals:

To ensure progress and effectiveness, AFC establishes specific goals and targets related to sustainability. By defining clear objectives, AFC can measure its performance and monitor its advancements in areas such as reducing carbon emissions, promoting sustainable practices, fostering social inclusion or conserving resources. This tracking of progress allows AFC to continuously improve its sustainability practices and report on its achievements.

#### Engaging with Stakeholders:

Stakeholders are individuals or groups who have an interest or are affected by AFC's activities. AFC recognizes the importance of engaging with these stakeholders to understand their expectations, concerns and feedback regarding sustainability performance. AFC employs various methods, such as surveys, meetings and dialogues, to gather insights and incorporate stakeholder perspectives into its sustainability strategies. This inclusive approach helps ensure that AFC's sustainability efforts are responsive to the needs and interests of its stakeholders.

# OUR FOCUS ON SUSTAINABILITY




## Engaging with Stakeholders:

AFC selects appropriate metrics to measure and assess its sustainability performance. These metrics are chosen based on the organization's sustainability goals, the specific industry context in which AFC operates and the expectations of its stakeholders. By using relevant metrics, AFC can effectively track and report on its progress, evaluate the success of its sustainability initiatives and communicate its performance to stakeholders and the wider public.


### Sustainability metrics

AFC has pledged its commitment to contribute towards the sustainable development goals by becoming a signatory to the Karlsruhe Resolution in 2017, in Germany. Furthering this commitment in 2019, we have linked our value creation model and the high impact goals to UN SDGs, to intensify and focus our efforts.


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High Impact Goals	Cumulative target for 2022/23	Achievement in 2022/23	Related SDG
<b>Goal 1</b> - Reduce the national carbon footprint of Sri Lanka by 120,000 tCO <sub>2</sub> e, by 2030	650,000 tCO <sub>2</sub> e	13%	
<b>Goal 2</b> - Improve the living standards of 5% of the households in the northern province and other marginalized and rural areas through inclusive financial products and services by 2025/26	60,712 number of households	72%	
<b>Goal 3</b> - Develop 100,000 MSME entrepreneurs and self-employment opportunities by 2025/26	49,000 entrepreneurs and self-employment opportunities	84%	


Each year, we track our progress against our targets and define specific action plans to meet our goals under the 5Ps – People, Planet, Prosperity, Peace and Partnerships and we have reported the impact of our operations on the UN SDGs based on this classification of the goals.

	Unit	2022/23	2021/22
<b>PEOPLE</b>			
A diverse workforce that feels connected to the purpose of AFC.			
Ensure social wellbeing through sustainable and responsible financial services.			
Inclusivity and accountability to promote peace and inclusivity in communities.			
<b>SDG Goals</b>			
			
<b>SDG targets</b>			
1.4, 2a, 4.4, 4.7, 5.1, 5.2, 5.5, 5.a, 5.c			
<b>Diversity and empowerment</b>			
Female representation at senior management levels	%	7%	7%
Training programs	Nos	98	50
<b>Inclusive financing</b>			
Portfolio in rural and marginalized areas	LKR Bn	14.7	14.3
District presence	%	100%	100%
Geographical presence outside the Western Province	%	67%	66%
Female customer base	%	37%	34%
Portfolio - Female customers	LKR Bn	6.7	7.8
Lending to Female customers	%	37%	27.6%
<b>Community upliftment</b>			
Social sustainability initiatives	LKR Mn	5.5	4.1
Sustainability initiatives conducted with multi-cultural collaboration	Nos	10	5
Investment in social sustainability initiatives	LKR Mn	23.3	13.6

## OUR FOCUS ON SUSTAINABILITY


<p><b>PLANET</b></p> <p>Ensure environmental well-being by supporting environmentally friendly businesses and undertaking environmental protection initiatives</p>	<p><b>SDG Goals</b></p> 		
	<p><b>SDG targets</b></p> <p>13.2, 13.3 15.1, 15.2, 15.4, 15.5</p>		
	Unit	2022/23	2021/22
<b>Reduce carbon emissions</b>			
Energy saving	kWh	<b>229,534</b>	288,333
Water saving	m <sup>3</sup>	<b>8,283</b>	10,411
Paper saving	t	<b>12.3</b>	16.9
Carbon footprint	tCO <sub>2</sub> e	<b>2,900</b>	2,700
<b>Climate financing</b>			
New products introduced	Nos	<b>01</b>	02
Hybrid vehicles financed	Units	<b>831</b>	43
Hybrid vehicle portfolio	LKR Mn	<b>12.4</b>	14.8
<b>Building awareness</b>			
No. of sustainability trainings conducted for staff	Nos	<b>2</b>	-
<b>Conservation</b>			
Environmental sustainability initiatives	Nos	<b>85</b>	12
Investment in environmental sustainability	LKR Mn	<b>9.8</b>	5.6
Flora and fauna species identified for conservation	Nos	<b>36</b>	36




<p><b>PROSPERITY</b></p> <p>Support the economy by creating an environment for our existing and prospective customers to prosper through our sustainable financial solutions.</p>	<p><b>SDG Goals</b></p> 
	<p><b>SDG targets</b></p> <p>7.a 8.2, 8.3, 8.5, 8.7, 8.8, 8.10 10.2, 10.5, 10.b 11.6, 11.7</p>

	Unit	2022/23	2021/22
<b>Brand strength</b>			
Credit rating		<b>BBB- (Stable)</b>	BBB- (Negative)
<b>Financial strength</b>			
Total lending portfolio	LKR Bn	<b>39</b>	40
Profit after tax	LKR Mn	<b>505</b>	1,463
ROA (Post Tax)	%	<b>1.01%</b>	3.56%
ROE (Post Tax)	%	<b>7.40%</b>	23.41%
Net Asset Value per Share	LKR	<b>206.50</b>	198.28
Market Price per Share	LKR	<b>66.80</b>	70.40
Earnings per Share	LKR	<b>14.98</b>	43.42

## OUR FOCUS ON SUSTAINABILITY

<p><b>PEACE</b></p> <p>Inclusivity and accountability to promote peace and inclusivity in communities.</p>	<p><b>SDG Goals</b></p> 
	<p><b>SDG targets</b></p> <p>16.2, 16.5, 16.6, 16.7</p>

	Unit	2022/23	2021/22
Portfolio in Northern, Eastern provinces and plantation regions	%	<b>27%</b>	24%
No. of tree planting initiatives conducted in collaboration with multi-cultural collaboration/ Multi-cultural areas	Nos	<b>10</b>	05

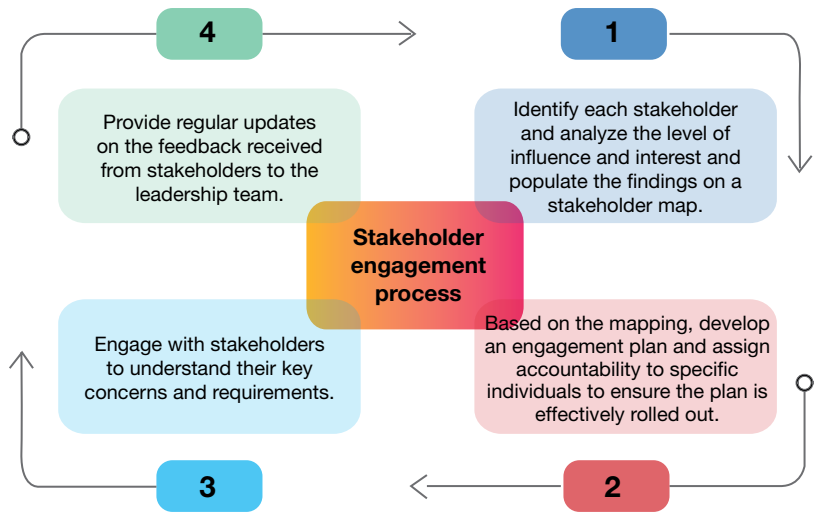
<p><b>PARTNERSHIPS</b></p> <p>Build partnerships and join networks to fuel the sustainable development momentum at national and global levels.</p>	<p><b>SDG Goals</b></p> 
	<p><b>SDG targets</b></p> <p>17.3, 17.16, 17.17</p>

	Unit	2022/23	2021/22
Network partners/Associations		<b>27</b>	08
Investment in partnerships and networks	LKR Mn	<b>6.7</b>	7.4
Impact Investors engaged	Nos	<b>04</b>	04
Total supplier base	Nos	<b>188</b>	203

# ENGAGEMENT WITH STAKEHOLDERS

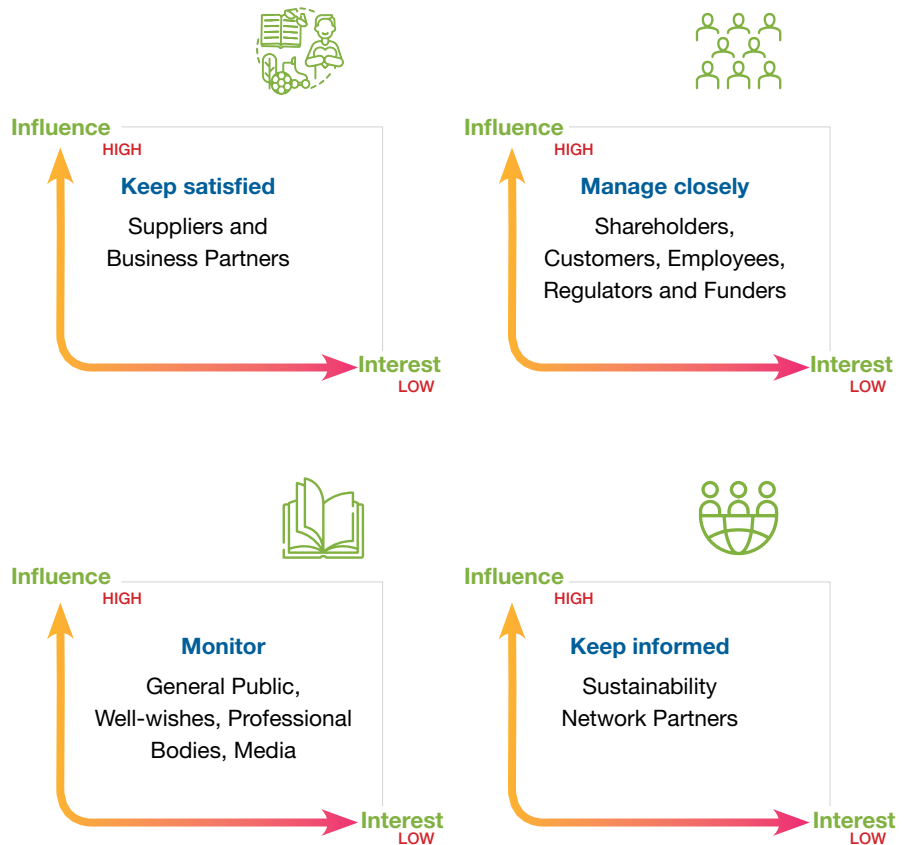
GRI 2-25 | GRI 2-29

Stakeholders provide AFC with critical resources that enable the company to generate competitive sustainable value in the short, medium and long term. Engaging with the key stakeholders allows us to understand their viewpoints and their expectations and needs. The feedback generated enables us to develop effective strategies for value creation through the refinement of our service offering. We engage with our stakeholders via multiple channels on a periodic basis and have formulated a Stakeholder Management Plan (SMP) for stakeholder engagement monitoring and evaluation purposes. The Customer Care Unit holds responsibility towards monitoring and producing an annual report based on the Board approved SMP report format.



## Stakeholder engagement process

Stakeholder engagement entails five phases including identify and assess, plan, engage, review and report. Upon identifying our main stakeholders and based on the respective stakeholder group's importance and impact on AFC, we carry out our assessment and planning to determine the scope and objectives as well as the resources to be allocated to address their needs. The mode of engagement is a vital factor which enables us to effectively evaluate their concerns and formulate our strategies. Monitoring and review is continuously carried out and findings are duly reported.



## ENGAGEMENT WITH STAKEHOLDERS

	SHAREHOLDERS	EMPLOYEES	CUSTOMERS
<b>How we engage</b>	<ul style="list-style-type: none"> <li>◆ AGM and Annual Report</li> <li>◆ Interim Financial Statements</li> <li>◆ Corporate website</li> <li>◆ Announcements to the CSE</li> <li>◆ Press releases</li> </ul>	<ul style="list-style-type: none"> <li>◆ Employee feedback survey</li> <li>◆ Performance appraisal</li> <li>◆ Multi-level staff meetings</li> <li>◆ Open-door policy</li> <li>◆ Training needs assessment</li> <li>◆ Social media platforms</li> <li>◆ Work-life balance initiatives</li> </ul>	<ul style="list-style-type: none"> <li>◆ Customer satisfaction survey</li> <li>◆ Customer relationship management function</li> <li>◆ Customer exit surveys</li> <li>◆ Customer hotline</li> <li>◆ Customer education programs</li> <li>◆ Online and social media platforms</li> </ul>
<b>Their concerns</b>	<ul style="list-style-type: none"> <li>◆ Sustainable growth</li> <li>◆ Adequate risk return balance</li> <li>◆ Corporate governance and risk management framework</li> <li>◆ Corporate reputation and brand</li> <li>◆ Transparency and credibility of disclosures</li> </ul>	<ul style="list-style-type: none"> <li>◆ Competitive remuneration</li> <li>◆ Equal opportunity</li> <li>◆ Opportunities for skill development and career progression</li> <li>◆ Work-life balance</li> </ul>	<ul style="list-style-type: none"> <li>◆ Value for money</li> <li>◆ Convenience and accessibility</li> <li>◆ Innovative product offerings</li> <li>◆ Security of deposits and favourable returns</li> <li>◆ Ease of transacting</li> <li>◆ Sustainable business growth and stability</li> <li>◆ High quality of service</li> <li>◆ Corporate reputation and brand</li> <li>◆ Access to transparent and credible information</li> </ul>

	BUSINESS PARTNERS AND SUPPLIERS	FUNDING AND NETWORK PARTNERS	REGULATORS	COMMUNITY
	<ul style="list-style-type: none"> <li>◆ Direct dialogue</li> <li>◆ Service quality survey</li> <li>◆ Stakeholder feedback survey</li> </ul>	<ul style="list-style-type: none"> <li>◆ Annual Report</li> <li>◆ Interim Financial Statements</li> <li>◆ Monitoring reports</li> <li>◆ Progress presentations</li> <li>◆ Corporate website</li> </ul>	<ul style="list-style-type: none"> <li>◆ Regulatory reporting</li> <li>◆ CBSL audits</li> <li>◆ Special meetings for regulatory clarifications</li> <li>◆ Press releases and CSE publications</li> </ul>	<ul style="list-style-type: none"> <li>◆ Community activities</li> <li>◆ Island-wide presence</li> </ul>
	<ul style="list-style-type: none"> <li>◆ Ease of transactions</li> <li>◆ Business expansion</li> <li>◆ Capacity building and financial support</li> <li>◆ Equitable and on-time payments</li> </ul>	<ul style="list-style-type: none"> <li>◆ Favourable business performance</li> <li>◆ Submission of timely and credible progress information</li> <li>◆ Transparency</li> <li>◆ Sustainable performance</li> </ul>	<ul style="list-style-type: none"> <li>◆ Good governance and compliance</li> <li>◆ Sustainable business practices</li> <li>◆ Ethical business</li> </ul>	<ul style="list-style-type: none"> <li>◆ Inclusive financing</li> <li>◆ Partnering sustainable development</li> <li>◆ Responsible corporate citizen</li> </ul>

## ENGAGEMENT WITH STAKEHOLDERS

	SHAREHOLDERS	EMPLOYEES	CUSTOMERS
<b>Our Response</b>	<ul style="list-style-type: none"> <li>◆ Revised strategic way forward with sustainability integrated corporate plan and high impact goals</li> <li>◆ Revised targets aimed at Triple Bottom Line value creation</li> <li>◆ Corrective actions to further improve Credit Recovery and Risk Management aspects of AFC</li> </ul>	<ul style="list-style-type: none"> <li>◆ Attractive compensation package and benefits</li> <li>◆ Conducive environment to learn and grow</li> <li>◆ Opportunities for career advancement</li> <li>◆ Programs that promote health and well-being</li> <li>◆ Opportunities to volunteer in social and environmental value creation activities</li> <li>◆ Performance based remuneration structure</li> <li>◆ Training and development opportunities</li> </ul>	<ul style="list-style-type: none"> <li>◆ With sustainability integrated corporate plan and high impact goals</li> <li>◆ Attractive terms and rates in accordance with the government policies and regulations</li> <li>◆ Range of products and services that ensures responsible and inclusive financing</li> <li>◆ Highest level of service quality and customer concern</li> <li>◆ Island-wide network of 42 customer touchpoints to provide all products and services under one roof</li> </ul>
<b>Strength of relationship</b>	●	●	●
<b>Key metrics</b>	<ul style="list-style-type: none"> <li>◆ NAV per share</li> <li>◆ Dividends paid and dividend cover</li> <li>◆ ROE</li> </ul>	<ul style="list-style-type: none"> <li>◆ Turnover</li> <li>◆ Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>◆ Customer satisfaction rating</li> <li>◆ Customer complaints</li> <li>◆ Brand value</li> </ul>
<b>Further information</b>	<ul style="list-style-type: none"> <li>◆ Chairperson's and Deputy Chairman/Managing Director's messages on pages 16 to 23 and Financial Capital Report on pages 66 to 73.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Human Capital report on pages 78 to 83.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Social Capital report on pages 84 to 90.</li> </ul>

**Strength of relationship**

● Strong      ● Moderate      ● Low

	BUSINESS PARTNERS AND SUPPLIERS	FUNDING AND NETWORK PARTNERS	REGULATORS	COMMUNITY
	<ul style="list-style-type: none"> <li>◆ Maintain long-term partnerships based on mutual trust and understanding</li> <li>◆ Engage like-minded partners in line with our sustainable business agenda</li> <li>◆ Ensure timely payments and required support</li> <li>◆ Dedicated team to engage with, to exchange an effective service</li> </ul>	<ul style="list-style-type: none"> <li>◆ Revised strategic way forward with sustainability integrated corporate plan and high impact goals</li> <li>◆ Revised targets aimed at Triple Bottom Line value creation</li> <li>◆ Corrective actions to further improve Credit, Recovery and Risk Management aspects of AFC</li> </ul>	<ul style="list-style-type: none"> <li>◆ Adhere to all provided compliance requirements</li> <li>◆ Provision of timely and accurate information/ reports</li> <li>◆ Facilitate on-site/off-site audits</li> <li>◆ Sustainability embedded corporate plan</li> </ul>	<ul style="list-style-type: none"> <li>◆ MSME development initiatives</li> <li>◆ Financial literacy and capacity building activities</li> <li>◆ Philanthropic activities for livelihood development and community wellbeing</li> </ul>
	●	●	●	●
	<ul style="list-style-type: none"> <li>◆ Service quality ratings</li> </ul>	<ul style="list-style-type: none"> <li>◆ Triple Bottom Line value creation target achievements</li> </ul>	<ul style="list-style-type: none"> <li>◆ Taxes paid</li> <li>◆ Compliance</li> <li>◆ Capital adequacy and liquidity</li> </ul>	<ul style="list-style-type: none"> <li>◆ Investment in CSR</li> </ul>
	<ul style="list-style-type: none"> <li>◆ Social Capital report on pages 84 to 90 and Manufactured Capital report on pages 74 to 77.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Financial Capital Report on pages 66 to 73 and Social Capital report on pages 84 to 90.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Governance report on pages 102 to 146.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Social Capital report on pages 84 to 90.</li> </ul>

# MATERIALITY ASSESSMENT

GRI 3-1   GRI 3-2   GRI 3-3

Materiality assessment helps us in identifying, refining and assessing potential economic, environmental, social and governance issues that could have an impact on our business and are of interest to our stakeholders. These material topics were identified based on interaction with our internal and external stakeholders after considering various other relevant internal and external forces. Each year we assess our material topics in line with the changes in the business environment, social environmental and technological developments.

## Materiality assessment process

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### Context analysis

- ◆ Assess the context related to the finance industry, sustainable finance and stakeholder value creation to identify the potential material topics

### Identifying material topics

- ◆ List down the selected material topics and assess the significance of each topic based on their relevance to our mandate, their impact and stakeholder expectations

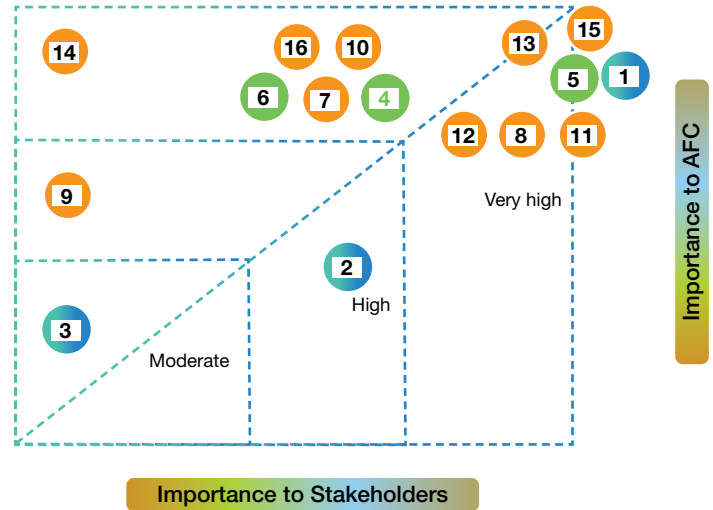
### Review and revise




- ◆ Based on the impact and significance, identify and list down the most important topics for the company in consultation with the Board of Directors

### Topic prioritizing





- ◆ Review the matrix annually, in consultation with different internal and external stakeholder groups and revise accordingly

## The Materiality Matrix










Category	No.	Aspects
 Economic	1	Sustainable development - Economic growth
	2	Innovation and digitization
	3	Supply chain development
 Environmental	4	Sustainable development - environmental well-being
	5	Energy efficiency
	6	Battling climate change and environmental protection
 Social	7	Sustainable business practices
	8	Business ethics
	9	Talent attraction and retention
	10	People development
	11	Business ethics
	12	Non-determination
	13	Sustainable development- Community empowerment
	14	Reputation and brand value
	15	Stakeholder satisfaction and transparency
	16	Customer attraction and retention



Material Topic	Stakeholders impacted	Strategic priority and relevance to risk	SDGs	Page Reference
<p><b>Sustainable development</b></p> <p>Economic performance is the key enabler of Triple Bottom Line value creation and the key performance indicator that reflects the operational success, efficiency and productivity of the company. It defines the direct economic benefits generated and distributed to the external stakeholders as we aim to strike a balance between economic, environmental and social performance in order to provide sustainable value to our stakeholders.</p>	<ul style="list-style-type: none"> <li>◆ Shareholders</li> <li>◆ Funding and Network Partners</li> </ul>	<p>Improving profitability</p> <p>R1 R2 R5</p>		<p>Our business philosophy pages 32 - 40</p> <p>Financial capital pages 66 - 73</p>
<p><b>Innovation and digitization</b></p> <p>Innovation and digitization are the forefront drivers of the business success today and continued innovation is crucial to AFC's future competitiveness. We actively encourage our teams to contribute ideas for new products and services and to enhance our delivery.</p>	<ul style="list-style-type: none"> <li>◆ Shareholders</li> <li>◆ Customers</li> <li>◆ Employees</li> </ul>	<p>Business growth through digitization, Increase Employee Productivity</p> <p>R3</p>		<p>Manufactured capital pages 74 - 77</p>
<p><b>Supply chain development</b></p> <p>AFC nurtures relationships with responsible, like-minded suppliers whose practices align with the sustainability mandate.</p>	<ul style="list-style-type: none"> <li>◆ Business Partners and Suppliers</li> </ul>	<p>Social and environmental best practices</p> <p>R4</p>		<p>Social capital pages 84 - 90</p>
<p><b>Energy efficiency</b></p> <p>AFC places high priority on energy saving initiatives to reduce the carbon footprint as well as to reduce the energy related costs of the company.</p>	<ul style="list-style-type: none"> <li>◆ Employees</li> <li>◆ General public</li> </ul>	<p>Social and environmental best practices</p> <p>R5</p>		<p>Natural capital pages 95 - 101</p>

# MATERIALITY ASSESSMENT

Material Topic	Stakeholders impacted	Strategic priority and relevance to risk	SDGs	Page Reference
<p><b>Battling climate change and environmental protection</b></p> <p>Contributing to reduce the carbon footprint of the country is one of the high impact goals of AFC. Accordingly, we undertake many initiatives to introduce new products as well as projects with the focus of battling climate change.</p>	◆ General public	<p>Social and environmental best practices, Corporate stewardship</p> <p><b>R5</b></p>	   	Natural capital pages 95 - 101
<p><b>Sustainable business practices</b></p> <p>We aim to establish and adhere to sustainable business practices in accordance with our mandate and encourage these practices across all spheres of the Company.</p>	◆ Shareholders	<p>Social and environmental best practices</p> <p><b>R4 R5</b></p>	   	Our business philosophy pages 32 - 40
<p><b>Business ethics</b></p> <p>AFC does not compromise on integrity and strives to uphold the highest levels of governance and ethical practices throughout the business operations and all other activities we undertake.</p>	◆ Employees	<p>Social and environmental best practices</p> <p><b>R4</b></p>	  	Intellectual capital pages 95 - 101
<p><b>Talent attraction and retention</b></p> <p>People are our key resource and thus, AFC aims to attract the right talent and provide meaningful and competitively remunerated work while promoting an inclusive corporate culture and a diverse workforce.</p>	◆ Employees	<p>Increase Employee Productivity</p> <p><b>R4</b></p>	   	Human capital pages 78 - 83
<p><b>People development</b></p> <p>Our competitive advantage is underpinned by a highly skilled committed workforce. Therefore, we aim to nurture a culture of continuous learning to develop the technical and soft skills of our staff who can support the sustainability business philosophy of the company.</p>	◆ Employees	<p>Increase Employee Productivity</p> <p><b>R4</b></p>	 	Human capital pages 78 - 83
<p><b>Non-discrimination</b></p> <p>AFC advocates diversity and equality and upholds the highest level of best practices related to non-discrimination and providing equal opportunities.</p>	◆ Employees	<p>Social and environmental best practices</p> <p><b>R4</b></p>	  	Human capital pages 78 - 83

Material Topic	Stakeholders impacted	Strategic priority and relevance to risk	SDGs	Page Reference
<p><b>Reputation and brand value</b></p> <p>Our brand reputation built over 67 years sets us apart from our competitors and highlights our unique offering which in turn builds brand loyalty and respect. Accordingly, the company takes all measures to uphold its reputation and build a brand as the most sustainable finance company in Sri Lanka.</p>	<ul style="list-style-type: none"> <li>◆ Customers</li> <li>◆ Employees</li> </ul>	<p>Improve brand visibility</p> <p><b>R4</b></p>		<p>Intellectual capital pages 91 - 94</p>
<p><b>Stakeholder satisfaction and transparency</b></p> <p>The company's performance, achievement of goals and existence is highly defined by our stakeholders. Thus, AFC maintains meaningful engagement with all its stakeholders to identify their changing requirements in order to proactively cater to their needs and expectations.</p>	<ul style="list-style-type: none"> <li>◆ All</li> </ul>	<p>Social and environmental best practices, Improving profitability</p> <p><b>R1 R2 R4</b></p>		<p>Stakeholder engagement pages 41 - 45</p>
<p><b>Customer attraction and retention</b></p> <p>AFC embraces responsible and inclusive lending practices in order to support and uplift customer lives and livelihoods. We aim to provide best in class service to our customers in order to maintain strong and long-standing relationships.</p>	<ul style="list-style-type: none"> <li>◆ Customers</li> </ul>	<p>Improve brand visibility, Social and environmental best practices</p> <p><b>R1 R4</b></p>		<p>Social capital pages 84 - 90</p>

**R1**: Credit risk

**R2**: Liquidity and market risk

**R3**: IT risk

**R4**: Operational risk

**R5**: Environment risk

# OPERATING CONTEXT

GRI 2-23 | GRI 201-2

The global economy in 2022 was shaped by a number of events, chief among them being the Russian invasion of Ukraine. While the impacts of the pandemic continued to exert pressure on global economic activity, the war in Ukraine unleashed a new crisis sending food and energy commodities to scarcity and propelling an unprecedented rise in their prices. This was followed by excessive inflation, especially in countries prone to energy and food shortages.

The financial environment continued to be fragile, especially as central banks emphasised on shrinking their balance sheets. Most central banks continued to tighten monetary policy throughout 2022, reflecting persisting broad price pressures and the need to prevent high inflation from becoming embedded in inflation expectations and cost pressures.

Towards the third quarter of the year, economic growth proved to be surprisingly better than anticipated with stable household consumption and business investment and adaptation to the energy crisis. The supply side too showed promise with easing bottlenecks and reducing costs of transportation which lowered pressures on input prices and allowed for a rebound in sectors that were previously constrained. However, despite this positive spin, the fourth quarter reflected rather dim prospects of economic revival with a global growth rate that plunged from 6.1% in 2021 to 3.2% in 2022, as per the IMF projections.

The operating landscape for the company and its stakeholders remained volatile and uncertain for most part of the year, reflecting Sri Lanka’s economic complexities, political instability and social unrest, especially during the first half of 2022. Key dynamics which shaped the operating landscape in 2022 are listed below through a PESTEL analysis where we look at the risks and opportunities that impacted our value creation and the strategies we adopted to leverage or mitigate these.

## Political turbulence

The entire political landscape underwent extraordinary turbulence during the year under review.

The Government’s inability to pay for critical imports such as fuel, medicine and gas, a rapidly deteriorating currency, contraction in economic growth and sovereign debt default led to political unrest and mass protests. This culminated in a change of the ruling Government in July 2022.

Impact on AFC	Our response
<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>◆ Disruptions to business operations due to power cuts, fuel shortages and political and civil unrest</li> <li>◆ Changes in the fiscal and monetary policies, which increased the interest rates putting pressure on margins of the sector</li> </ul> <p><b>Link to risk: Credit risk (Pg 165)</b></p>	<ul style="list-style-type: none"> <li>◆ Greater emphasis placed on minimizing asset liability mismatches</li> <li>◆ Enhanced focus to improve the asset quality</li> <li>◆ Lending rates increased to be in line with the market rates</li> <li>◆ Maintaining liquidity buffers</li> <li>◆ Pursued a subdued growth strategy with more focus on gold loans and fixed deposits</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>◆ Policy support towards strengthening the MSME’s</li> </ul>	

## Economic volatility

**Economic growth:** The Sri Lankan economy experienced a negative growth of 7.8% in 2022. All three major economic activities contracted in 2022, with industry activities recording a significant decline of 16.0%. Agriculture and service activities also declined by 4.6% and 2.0%, respectively. Long standing structural weaknesses and economic mismanagement over the past few decades resulted in a severe economic crisis and the impact of these unprecedented events were deeply felt across all segments of the economy.

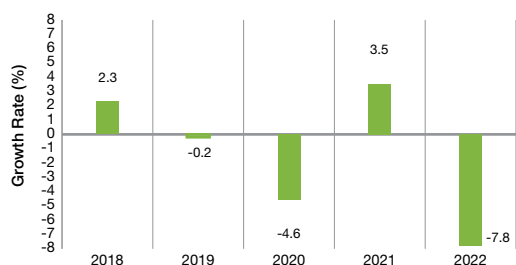
**Inflation:** Inflation reached unprecedented levels during the year with headline inflation measured by the year-on-year change in the Colombo Consumer Price Index (CCPI) standing at 50.3% in March 2023 compared to 18.17% in March 2022. Headline inflation measured by the year-on-year change in the National Consumer Price Index (NCPI) stood at 49.2% in March 2023 compared to 21.5% in March 2022.

**Interest rates:** The year also witnessed a sudden spike in policy rates (SDFR, SLFR and the Bank Rate) which increased by 700 basis points in April 2022 with the aim of stemming inflationary pressures.

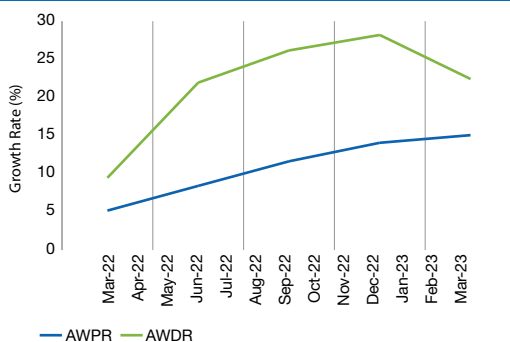
**Exchange rate:** The Sri Lankan Rupee depreciated against the USD during the year with the dismissal of the USD peg, to record LKR 363 by the end of 2022 compared to LKR 200 recorded by the end of 2021.

**Debt:** With the default of the foreign debt service obligations, international credit rating agencies continued to downgrade the sovereign credit rating of Sri Lanka limiting the country's access to international markets. As the crisis deepened, the government commenced talks with the International Monetary Fund (IMF) to secure financial assistance by way of an Extended Funded Facility (EFF) to support Sri Lanka's economic policies and reforms. As a result, IMF Board approved a 48-month extended arrangement with total funding amounting to USD 2.9 Bn in March 2023.

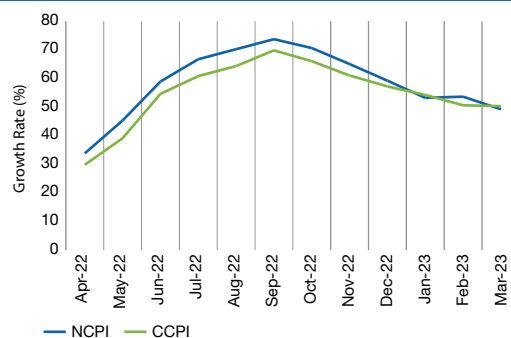
### Annual Real GDP Growth (%)



### Interest rates (%)



### Inflation- NCPI & CCPI (%)



# OPERATING CONTEXT

Impact on AFC	Our response
<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>◆ Potential adverse impact on credit quality due to weakened repayment capacity of customers</li> <li>◆ Prolonged import ban on motor vehicles</li> </ul> <p><b>Link to risk: Credit risk (Pg 165)   Market Risk (Pg 166)   Liquidity (Pg 168)   Operational Risk (Pg 169)</b></p> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>◆ Emerging opportunities in the MSME and SME segments</li> <li>◆ Greater scope for green lending</li> </ul>	<ul style="list-style-type: none"> <li>◆ Greater focus on its credit, recoveries and collection processes</li> <li>◆ Provided moratoria to customers impacted by the economic crisis</li> <li>◆ Developed non-motor products consist of climate finance products to reduce the dependence on motor financing</li> </ul>

## Social trends

The ways consumers access financial services continues to change rapidly as newer entrants like FinTech’s and big tech firms disrupt the marketplace. As the younger demographic gains more financial power, they increasingly demand more compelling digital experiences which has transformed the way in which most financial service organisations interact with them. Furthermore, the serious talent drain that Sri Lanka began experiencing in the height of the economic crisis resulting in a mass exodus of skilled workers has emerged as a key concern across sectors.

Impact on AFC	Our response
<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>◆ Heightened competition in terms of digital solutions for customers</li> <li>◆ Limited availability of skilled talent</li> <li>◆ Greater stress on employees with the rising cost of living</li> </ul> <p><b>Link to risk: Operational Risk (Pg 169)</b></p> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>◆ Adopting new ways of working</li> </ul>	<ul style="list-style-type: none"> <li>◆ Proceeded with the implementation of the core banking system that would lay the foundation for future digital strategy</li> <li>◆ Relocation of branches to more accessible locations to facilitate financial inclusion</li> <li>◆ Adoption of a hybrid working model to ensure smooth business functionality</li> <li>◆ Carried out 70 branch sustainability projects that made positive contribution to the local community</li> <li>◆ Provided moratoria for customers with genuine needs</li> </ul>

## Technological acceleration

The financial services industry is experiencing an ongoing and aggressive focus on digitization and the adoption of new and emerging technologies to bring in operational efficiencies, enhance speed-to-market and deliver superior customer experiences. As mobile and online banking become more popular among customers, organizations have begun offering mobile-friendly solutions and digital self-service options that provide customers with anytime, anywhere access to financial solutions.

Key trends driving these innovations include ongoing digital transformation, collaboration with FinTech, and the increasing role of artificial intelligence and robotics.

Impact on AFC	Our response
<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>◆ Greater financial and reputational risk due to cyber-security threats</li> </ul> <p><b>Link to risk: IT Risk (Pg 169)</b></p> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>◆ Facilitate cost efficiencies and greater productivity</li> <li>◆ Greater market penetration</li> </ul>	<ul style="list-style-type: none"> <li>◆ Progressed with our revamped digital roadmap</li> <li>◆ Significant progress made towards implementation of the new Core Banking system</li> <li>◆ Strengthened the data security systems</li> <li>◆ Automation of certain internal processes to facilitate better customer service</li> </ul>

## Environmental aspirations

Each year, sustainability and environmental, social and governance (ESG) initiatives scale-up in importance as an area of strategic focus for financial services organizations. To achieve the goal of net-zero carbon emissions, companies are diversifying their product sets to offer more eco-friendly choices, like green loans and green funds and are also redesigning their operations and supply chains to reduce their carbon footprint. Tracking and measuring ESG impact and investments has also become increasingly important with greater regulatory scrutiny and oversight.

Impact on AFC	Our response
<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Negative impacts of adverse weather patterns on social and economic wellbeing <b>Link to risk: IT Risk (Pg 169)</b></li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Opening avenues for more sustainable, environment friendly products, services and businesses. Increase in lending opportunities in renewable energy/climate smart agriculture</li> <li>Increasing environmental consciousness in communities</li> </ul>	<ul style="list-style-type: none"> <li>Allocating a separate budget for sustainability initiatives</li> <li>Passed the 500,000 target of planting trees</li> <li>Engaging interested parties in our tree planting initiatives through our 'AFC Dalu' platform</li> <li>Continued our partnership with the Wilderness and Wildlife Conservation Trust to strengthen biodiversity conservation efforts</li> </ul>

## Legal developments

The legal and regulatory framework in the country provides the foundation for safeguarding the stability and sustainability of the NBFIs sector. The rules and regulations applicable to NBFIs have continued to evolve with increasing frequency as the CBSL strives to further strengthen overall system stability.

Impact on AFC	Our response
<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Extension of debt moratoria for businesses and individuals</li> <li>Increased taxation <b>Link to risk: Operational Risk (Pg 169)   Legal risk (Pg 170)</b></li> </ul> <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Support our customer base during their time of need and further strengthen the relationships</li> </ul>	<ul style="list-style-type: none"> <li>Complied with all stipulated regulations and directions of the CBSL</li> <li>Took proactive measures to maintain adequate liquidity reserves</li> <li>Provided required moratoria and other concessions to adversely impacted customers to facilitate the revival of their livelihoods</li> </ul>

## OPERATING CONTEXT

### Non-bank financial institutions sector review

The economic crisis which unravelled in 2022 took a toll on the non-bank financial sector comprising of Licensed Financial Companies (LFCs) and Specialized Leasing Companies (SLCs). Despite performing considerably well in 2021 and showing signs of recovery from pandemic induced pressures up until the first quarter of 2022, rising interest rates, prolonged restrictions on vehicle imports as a measure to limit forex outflows and the low purchasing power of households led to weaker performance during the remainder of the year. The sector asset quality as measured by the gross non-performing loans ratio deteriorated, undoing much of the progress made during the prior year. In this context, the lease and hire purchase products; the core loan products of the LFC and SLC sectors were curtailed with the motive of containing the credit risks, while the pawning/gold loan products experienced a notable growth. Accordingly, the concentration on leasing and hire purchases decreased to 44% at end March 2023, compared to 49% recorded at the end of the prior year. The concentration on pawning/gold loans advances of the sector rose to 16% as at year end from 11% of the previous year.

With a contracting loan book, the earnings and profits of the sector witnessed a decrease during the year. For the financial year ended 31st March 2023, the sector's net interest income stood at LKR 115 Bn, a 10% decrease compared to the previous year. The total income for the sector stood at LKR 353 Bn while the total expenses stood at LKR 301 Bn. The sector made a profit after tax of LKR 32 Bn. The liquidity position of the sector remained satisfactory with Regulatory Liquid Assets to Total Assets remaining at 13%, a marginal increase compared to the 9.86% in March 2022.

The sector's core capital adequacy ratio (CAR) and total capital adequacy ratio increased to 20.53% and 21.88% respectively, from the prior year record of 16.15% and 17.68%. Moderate growth of risk weighted assets and higher growth of capital led to this higher CAR during the year under review.

Like most other sectors, the NBF sector continued to be vastly transformed by digitalization. Digitalization is now embedded in the lifestyle of the modern consumer and thus, for the NBF sector to stay relevant and remain competitive, it sustained its momentum on digitizing and integrating end-to-end processes to allow for more effective and optimum business performance.

The financial services industry has demonstrated its ability to successfully navigate unprecedented levels of uncertainty over the past few years backed by robust financial infrastructure that ensured stability and uninterrupted functioning. The impacts of the crisis are expected to cascade down to 2023 as well and special emphasis would need to be placed on maintaining portfolio quality. NFBIs continue to play an integral role in the financial service sector as well as in the economy through increasing financial inclusion and economic stimulation and thus the smooth functioning of the NBF sector will remain vital for financial stability.



# DELIVERING OUR STRATEGY

GRI 404-2

Our strategy is executed through six strategic priorities, which are designed to deliver our purpose and create value in the short, medium and long term. Within these priorities, we have identified key focus areas with the anticipated outcomes as more fully described below. To execute our strategy, we use the pools of capitals available and in turn, our strategy impacts these capitals. We carefully monitor this process to ensure the ultimate outcome is enhanced value creation for our stakeholders.

## AFC TRIPLE BOTTOM LINE STRATEGY

### People



- People development
- Best practices of social sustainability
- Corporate stewardship

### Planet



- Reduce carbon footprint
- biodiversity conservation and eco-system restoration
- Best practices of environmental sustainability
- Corporate stewardship

### Profit



- Increase operational efficiency
- Improve the scalability of the business
- Maintain a healthy portfolio quality
- Improve employee productivity
- Manage core capital efficiency

## HIGH IMPACT GOALS

### GOAL 1



Reduce the national carbon footprint of Sri Lanka by 120,000 CO<sub>2</sub>Mt by 2030

### GOAL 2



Improve the living standards of 5% of the households in the Northern province and other marginalized and rural areas through inclusive financial products and services by 2025/26

### GOAL 3



Develop 100,000 MSME entrepreneurs and self-employment opportunities by 2025/26.







## PURPOSE STATEMENT

**MAKE THE WORLD A BETTER PLACE THROUGH SUSTAINABLE FINANCE**



# DELIVERING OUR STRATEGY

Our high impact goals were revised in line with the changing business landscape and in alignment with Sustainability Standards and Certification Initiative (SSCI) 2.0. Six key strategies continued to drive AFC's Triple Bottom Line strategy and given below is the progress made during 2022/23 towards achieving the set targets.

STRATEGY	 <b>Improving profitability</b>	 <b>Business growth through digitization</b>	 <b>Increase Employee Productivity</b>	 <b>Improve brand visibility</b>	 <b>Social and environmental best practices</b>	 <b>Corporate stewardship</b>
PLANNED TARGETS FOR 2022/23	<ul style="list-style-type: none"> <li>◆ Improve credibility and profitability whilst minimizing risks</li> <li>◆ Strengthen the organizational structure</li> <li>◆ Reduce the over-reliance on vehicle financing</li> <li>◆ Create new business lines</li> </ul>	<ul style="list-style-type: none"> <li>◆ Launch the new core-banking system</li> </ul>	<ul style="list-style-type: none"> <li>◆ Training and development</li> </ul>	<ul style="list-style-type: none"> <li>◆ Strengthen the credit marketing team</li> <li>◆ Improve the digital and social media marketing drive</li> </ul>	<ul style="list-style-type: none"> <li>◆ Increase the social sustainability footprint</li> <li>◆ Become a holistic sustainability certified financial institution</li> </ul>	<ul style="list-style-type: none"> <li>◆ Combat climate change</li> <li>◆ Biodiversity conservation and ecosystem restoration</li> <li>◆ Social Development</li> </ul>
ACHIEVEMENTS	<ul style="list-style-type: none"> <li>◆ 54.25% growth in the Gold Loan portfolio compared to 2021/22</li> <li>◆ Addition of 2 new branches and relocation of 5 branches</li> <li>◆ Expanded branch level savings</li> <li>◆ Started the development of one new gold loan product and mobile Gold Loan unit service</li> <li>◆ Development of climate financing products</li> </ul>	<ul style="list-style-type: none"> <li>◆ Reached the UAT second phase and expected to go live towards the end of year 2023</li> <li>◆ Launch of the Customer Relationship Management (CRM) module</li> <li>◆ E-Tendering Platform for Procurements</li> <li>◆ Workflow Automations</li> </ul>	<ul style="list-style-type: none"> <li>◆ 98 trainings provided to the employees during the financial year</li> <li>◆ Investment in training and development LKR 4 Mn.</li> </ul>	<ul style="list-style-type: none"> <li>◆ 47 new recruits added to the credit marketing team</li> <li>◆ Set up a Marketing Call Center (MCC) to provide exceptional customer service and building a strong brand</li> <li>◆ The fan growth of the Company has increased by;  Facebook - 61.86%  Instagram - 32.83%</li> </ul>	<ul style="list-style-type: none"> <li>◆ Conducted 70 branch sustainability projects under the "AFC Helping Hand" program, with the collaboration of 89 branches</li> <li>◆ Signed up to obtain the SSCI certification Version 2.0</li> </ul>	<ul style="list-style-type: none"> <li>◆ Contributed 159,056 no. of plants during the year surpassing the 500,000 mark of total trees provided for planting</li> <li>◆ Provided 470 native forest trees for the ecosystem restoration efforts of the Hill Country Leopard Conservation Project</li> <li>◆ Invested LKR 5.6 Mn on social development and wellbeing initiatives (LKR 5.4Mn in 2021/22)</li> </ul>

## Strategies and goals for Gender Parity

Inclusion of women in high impact goals	Inclusion of women in company strategies
<p><b>Improve living standards of 5% of the households in the Northern Province and other rural and marginalized areas through inclusive financial products and services by 2026:</b> Special focus to include potential women customers/ women headed households.</p>	<p><b>New and existing product development:</b></p> <ul style="list-style-type: none"> <li>◆ Women entrepreneurship development</li> <li>◆ Increased financial literacy</li> </ul>
<p><b>Develop 100,000 MSME entrepreneurs and self-employment opportunities by 2026:</b> Inclusive financing to increase women engagement beyond 50%.</p>	<p><b>Value creation in all aspects of sustainability; Social and Women development:</b></p> <p>Empower women entrepreneurs for livelihood development by making them a priority group for suitable existing products and designing tailor-made products exclusively for that segment.</p> <p>Product strategies - Consumer financing (leasing, gold loans) / savings and deposits: Focused products for housewives, working women and women who seek self-employment.</p>

### Future Strategies

- ◆ Enhancement of Climate Finance products
- ◆ Non-mobility solutions
- ◆ Develop a diversified and impact-oriented business
- ◆ Improve credibility and profitability whilst minimizing risks
- ◆ Embrace digitization to transform the Company to better position itself in the digitized economy
- ◆ Strengthen brand visibility and image as a value driven, sustainable financial institution
- ◆ Develop a sound Human Resource base to drive the AFC strategic mandate
- ◆ Reinforce the sustainability drive of the Company to support organizational, national and global sustainability priorities



# SEGMENT REVIEW

## LENDING

### Business segment review

AFC’s financing services, which are fully supervised and regulated by the CBSL, have contributed to improving the living standards of its customers, ranging from self-employed individuals to micro-entrepreneurs and small and medium enterprises (SMEs), to corporations. This section presents a snapshot of the performance of each of its key product segments.

#### LENDING

LENDING, COMPRISING OF LEASING AND LOANS, GOLD LOANS, AND RAN AYOJANA IS THE CORE SERVICE SEGMENT OF AFC, CATERING TO THE NEEDS OF 92,124 SRI LANKANS ACROSS THE ISLAND. IN RESPONSE TO CHANGING CUSTOMER NEEDS AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRIORITIES, WE CONTINUE TO ENHANCE OUR PRODUCTS AND SERVICES. THE ECONOMIC CRISIS THAT UNFOLDED IN 2022 POSED SIGNIFICANT CHALLENGES TO THE LEASING SEGMENT IMPACTING PORTFOLIO GROWTH AND MARGINS AND TACTICAL STRATEGIES WERE DEPLOYED WITH THE AIM OF CAUTIOUSLY MANAGING THIS SEGMENT AS THE COMPANY’S CORE BUSINESS. THE GOLD LOAN BUSINESS ON THE OTHER HAND MADE SIGNIFICANT PROGRESS DURING THE YEAR, IN AN ENVIRONMENT WHERE THE APPETITE FOR GOLD LOANS FROM THE MARKET KEPT GROWING. THUS, OUR STRATEGIC FOCUS WAS TO CONSOLIDATE OUR LENDING PORTFOLIO TO MANAGE THE CREDIT RISK AND MAINTAIN PROFITABILITY.

### Our products



During the year we introduced our ground-breaking new climate financing solution, designed to empower and support sustainable practices in various sectors. We offer a range of tailored loan options, specifically aimed at assisting small tea, coconut, and cinnamon estate owners. With our climate financing program, these entrepreneurs can now access much-needed financial resources

to enhance their operations and mitigate the impact of climate change. Moreover, we extend our support to individuals and businesses keen on adopting renewable energy sources by providing affordable loans for the installation of solar power systems. Recognizing the importance of efficient water management, we also facilitate loans for small-scale irrigation activities, enabling farmers to optimize

their irrigation practices while conserving water resources. Our comprehensive climate financing initiative aims to foster resilience, sustainability, and positive environmental impact across diverse industries, paving the way for a greener and more prosperous future.

## Strategy and performance review

### Leasing and Loans

The challenges which arose during the year had a significant impact on AFC's leasing business which was in any case under stress due to the ongoing vehicle import ban preventing new vehicles from entering the market. With the unprecedented rise in interest rates and the fuel crisis, demand for leases reduced drastically. Added to this the sharp rise in inflation affected the repayment capacity of our customers. Accordingly, AFC took a conscious decision to remain conservative in terms of its lending appetite within this challenging environment, which resulted in an overall decline in the leasing and loans portfolio during the year.

#### Key strategies

- ◆ Greater focus on credit quality
- ◆ Concentrate on small ticket leases to the rural community to reduce credit risk exposure.
- ◆ Intensify efforts on collection and recovery.
- ◆ Centralized the entire credit approval function to manage portfolio quality.
- ◆ Introduced 4 new products in line with sustainability mandate.

### Gold Loans

The growing demand for gold loans provided us with a good opportunity to expand our portfolio. We were able to cater to this rising demand and achieve a 54% growth in business volumes during the year. However, given the uncertain economic conditions, we strengthened our focus on preserving credit quality and conducted rigorous training sessions for our team with the engagement of internal as well as external industry professionals.

During the year we introduced the "AFC on Wheel", concept which is set to revolutionize the gold loan service industry. With this innovative solution, we aim to bring convenience and accessibility to a whole new level by offering doorstep gold loan services to our valued customers. "AFC on Wheel" is a well-branded and meticulously designed mobile Gold Loan office that brings the entire gold loan process right to the customers' doorstep.

The concept behind "AFC on Wheel" is simple yet impactful. We understand that our customers lead busy lives and may find it challenging to visit a physical branch for their gold loan needs. With this in mind, we have created a mobile office that is fully equipped with state-of-the-art technology, experienced professionals and robust security measures.

With "AFC on Wheel", we aim to provide our customers with a convenient, secure and efficient gold loan service, making the entire process hassle-free and easily accessible. By bringing our services directly to our customers' doorstep, we prioritize their comfort and convenience, while maintaining the highest standards of professionalism and security.

#### Key strategies

- ◆ Maintain focus on the grassroots level customers.
- ◆ Launched two new products – VIP and Platinum Gold Loans to retain our corporate customers.
- ◆ Offered longer settlement periods to give the maximum service to our customers.

# SEGMENT REVIEW

## LENDING

### Ran Ayojana

Given the uncertainty that prevailed we did not focus on achieving a high sales growth during the year. In line with this strategic decision, we recorded a 12% growth in volume and a 41% growth in value terms. We were able to maintain our 3+ NPL ratio at 6.23% as of 31st March 2023 which under the circumstances was a satisfactory outcome.

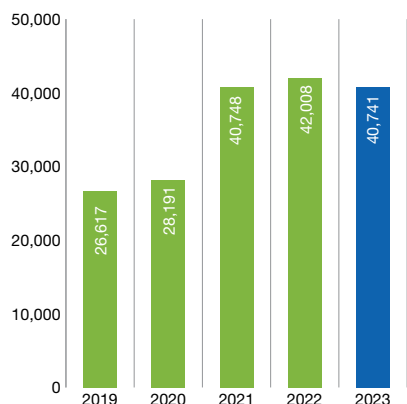
During the year we introduced a new sub-product under our esteemed Ran Ayojana offering the Ran Ayojana Loan for Government Sector Staff. This specialized loan is exclusively designed to cater to the financial needs of government employees, providing them with convenient and flexible financing options. One of the key features of this sub-product is the direct remittance of loan instalments to AFC. This streamlined process eliminates the hassle of manual repayments and ensures a seamless and efficient loan experience for our esteemed government sector customers.

The Ran Ayojana Loan for Government Sector Staff is a testament to our commitment to facilitate their financial well-being. By offering this tailored loan product with direct remittance to the AFC, we aim to provide a reliable and convenient financing solution that aligns with the unique needs and preferences of our valued government sector customers.

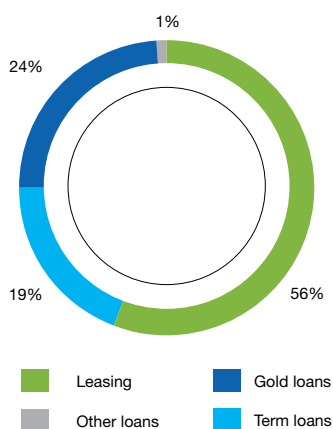
#### Key strategies

- ◆ Strengthened focus on recoveries.
- ◆ Recommended new Ran Ayojana campaigns during the last quarter of the financial year.
- ◆ Tied up with new jewellery suppliers

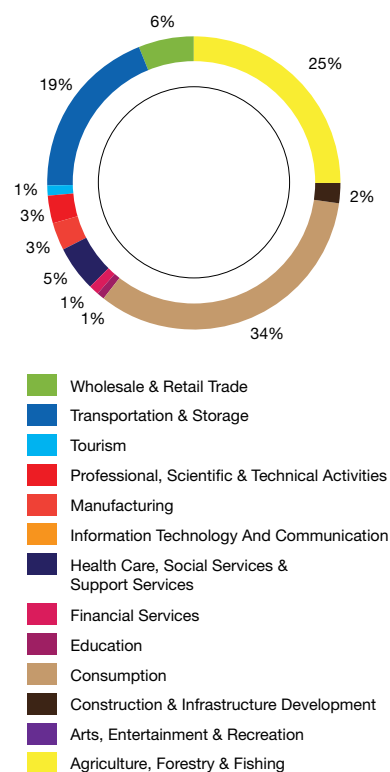
**Portfolio Growth (LKR Mn)**



**Product Wise Portfolio (LKR Mn)**



**Sector Wise Portfolio (%)**



LKR Mn	2022/23	2021/22
Interest income	11,947	7,852
Fee and commission income	183	268
Impairment charge	275	103
Net operating income	4,488	5,688

S	W	O	T
<ul style="list-style-type: none"> <li>◆ A legacy of over 65 years, with a market edge as a responsible, reliable and stable financial institution.</li> <li>◆ Emerging brand perception associated with genuine commitment to sustainable finance.</li> <li>◆ Strong leadership team and loyal workforce</li> <li>◆ Island-wide branch network with a strong presence in rural communities</li> <li>◆ Responsible lending culture and team strength</li> </ul>	<ul style="list-style-type: none"> <li>◆ We have identified the necessity of an integrated digital solution and we are currently working on this. Target implementation towards end 2023.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Expanding customer reach through our Island-wide fully fledged branch network</li> <li>◆ Increasing scope in climate finance</li> <li>◆ Financing needs of micro-entrepreneurs for the post-crisis economic revival</li> <li>◆ Increasing credit demand with declining interest rates</li> </ul>	<ul style="list-style-type: none"> <li>◆ Increased competition</li> <li>◆ Adverse economic landscape</li> <li>◆ Prolonged ban on imports</li> </ul>

### Our plans

Short to medium term	Long term
<p>We expect the economic conditions to improve in the upcoming year and as a result will focus on a more aggressive growth in the lending segment.</p> <p>We also hope to restructure our gold loan department which currently comprises of 4 regional supervisors and expand this to 5 regional supervisors and 12 branch supervisors to offer a better service to our customers and enhance internal controls of gold loan operations.</p> <p>Greater focus will also be directed towards the provision of climate-friendly products.</p> <p>Implementation of the core banking system.</p>	<p>Further strengthen our sustainable financing commitments with an increased focus on climate finance and financing rural communities.</p> <p>Reduce the reliance on motor financing.</p> <p>Implement our digital strategy, post go-live of the new core banking system.</p>

# SEGMENT REVIEW

## DEPOSITS

### DEPOSITS

OUR DEPOSITS BASE CONSISTING OF FIXED DEPOSITS AND SAVINGS DEPOSITS IS A PRIMARY SOURCE OF FUNDING FOR THE COMPANY. THE STABILITY AND ENDURING PRESENCE OF OUR BRAND ENABLED US TO ACHIEVE SIGNIFICANT GROWTH IN OUR DEPOSIT BASE DURING THE YEAR UNDER REVIEW. OUR DEPOSIT BASE WHICH WAS PREVIOUSLY PREDOMINANTLY CONCENTRATED ON THE WESTERN PROVINCE WAS EXPANDED THROUGH OUR BRANCH NETWORK DURING THE YEAR, ALLOWING US TO SERVE A GREATER NUMBER OF CUSTOMERS.

### Our products



### Strategy and performance review

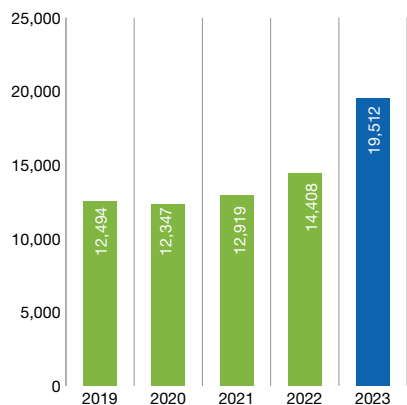
#### Fixed deposits and savings deposits

With the introduction of the new monetary policy by the CBSL, we witnessed an exponential hike in market interest rates during the year. In this context some of our corporate customers shifted their deposits to treasury bills and bonds and a majority of our deposits were re-priced posing a greater interest rate risk. However, as we strengthened our branch deposit base throughout the year and ambitiously worked towards achieving the set targets, we succeeded in recording a LKR 5 Bn growth in deposits to reach LKR 20 Bn as at the end of March 2023. We continued to enhance our service standards and adhered to best practices in order to safeguard our customers.

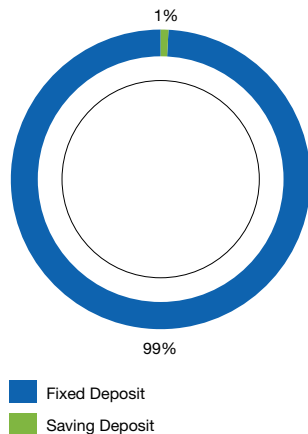
#### Key strategies

- ◆ Relaunch of our minor savings account.
- ◆ Special marketing campaigns to promote our deposit products.
- ◆ Launched a new TV commercial to promote the fixed deposit product and to increase the brand awareness.

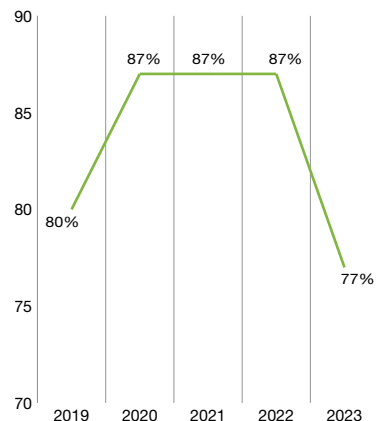
Deposit Base (LKR Mn)



Deposit Mix (%)

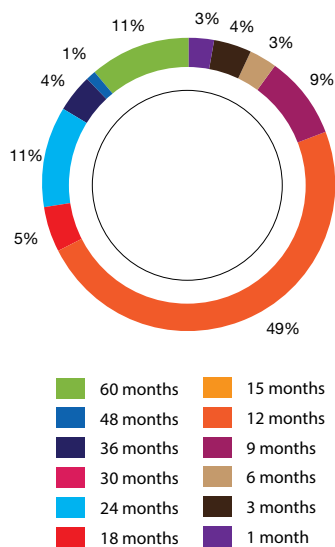


Customer Retention Ratio (%)





Tenure-wise FD (%)



	2022/23	2021/22
Annual effective rate	23.84%	9.4%
Renewal ratio	76.59%	86.95%
Net intake (LKR Mn)	5,271	1,763

S	W	O	T
<ul style="list-style-type: none"> <li>◆ Brand recognition as a longstanding, responsible and stable financial institution.</li> <li>◆ Range of products to suit customer needs and high levels of service standards.</li> <li>◆ Guaranteed, secured and high return on investment.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Lower customer accessibility via digital means.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Offering our deposit products via an increasing number of branches provides an opportunity to expand our deposit base.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Increased competition.</li> </ul>

Our plans

Short to medium term

The outbreak of the COVID-19 transformed the way businesses are conducted, with a more pronounced focus on digital technologies. AFC also embarked on a new digital strategy roadmap through which we hope to uncover new possibilities and enhance our digital product offering.

We also hope to expand our branch deposits more aggressively during the upcoming year.

Long term

Offer digital experience to our deposit and savings customers through technology.

# SEGMENT REVIEW

## COMMERCIAL

### COMMERCIAL

2022 WAS A CHALLENGING YEAR AMIDST POLICY MEASURES SUCH AS MONETARY POLICY TIGHTENING AND IMPORT RESTRICTIONS. ADVERSE ECONOMIC CONDITIONS SIGNIFICANTLY IMPACTED THE PURCHASING POWER OF CUSTOMERS WHICH IN TURN NEGATIVELY IMPACTED THE SEGMENTS PERFORMANCE DURING THE YEAR. HOWEVER, WE CONTINUED TO UPHOLD OUR PRESENCE AS A RESPONSIBLE, TRANSPARENT AND RELIABLE OPERATOR WHILE FOCUSING ON CONTINUOUS INNOVATION IN VALUE ADDED COMMERCIAL SERVICES TO CATER TO THE EVOLVING NEEDS OF THE NEW NICHES IDENTIFIED.

### Our products



### Strategy and performance review

As a result of the economic challenges that prevailed for most part of the year, the performance of this segment was adversely impacted. The automobile industry is mostly driven by leasing and with the sudden hike in interest rates there was a drastic drop in demand. We were able to sell only 75 vehicles during the year.

However, on a positive note, we managed to get a dealership with Vmoto, a manufacturer and distributor of electric motorcycles based in Australia which we started marketing in February 2023.

#### Key strategies

- ◆ Follow a zero-stocks approach to vehicle sales and instead focus on commission-based sales.

S	W	O	T
<ul style="list-style-type: none"> <li>◆ Brand value built over our journey of 66 years.</li> <li>◆ Customer convenience via the provision of a one-stop-shop for customers through a total value chain enhancement.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Lack of a supplier base for procurement</li> <li>◆ Limitation in cross-functional abilities.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Greater customer reach with the expansion of the business via the AFC branch network as well as the franchised dealer network.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Lower disposable consumer income leading to reduction in demand.</li> <li>◆ Prolonged vehicle import restrictions.</li> </ul>

**Our plans**

Short to medium term	Long term
<p>We look forward to expanding the division’s operations to provide a better and more efficient service to our customers as we are hopeful that the economic conditions will improve in the upcoming year.</p> <p>We have set ourselves an optimistic profit target and will look forward to further strengthen the segment’s capabilities to cater to the evolving market demands.</p>	<p>Re-start the branch distribution</p> <p>Re-activate the dealer network.</p>



AFC's financial capital comprises of equity funding, debt and retained earnings which support our strategic aspirations.

**How financial capital supports our value creation**

Funding to pursue growth opportunities and business expansion as well as delivering shareholder expectations

**Strategic priorities**

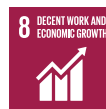
- ◆ Drive resource optimization to improve organisational effectiveness
- ◆ Preserve portfolio quality
- ◆ Preserve liquidity to meet stakeholder and other payment commitments

**Impact of our activities**

Supporting the growth of the businesses deposit base and lending portfolio

- + **52%** increase in total interest income
- + **9%** growth in asset base
- + **4%** growth in NAV per share
- **65.9%** cost to income ratio
- **13.12%** Gross NPL ratio (90 Day)

**SDG Focus**



Although the devastating COVID 19 eased off with an expectation of economic revival, the country fell into another unprecedented crisis at the onset of 2022. The country announced its inability to honor foreign debt payments in April 2022 resulting from a rise in unsustainable debts levels due to large fiscal imbalances and lack of access to international capital markets.

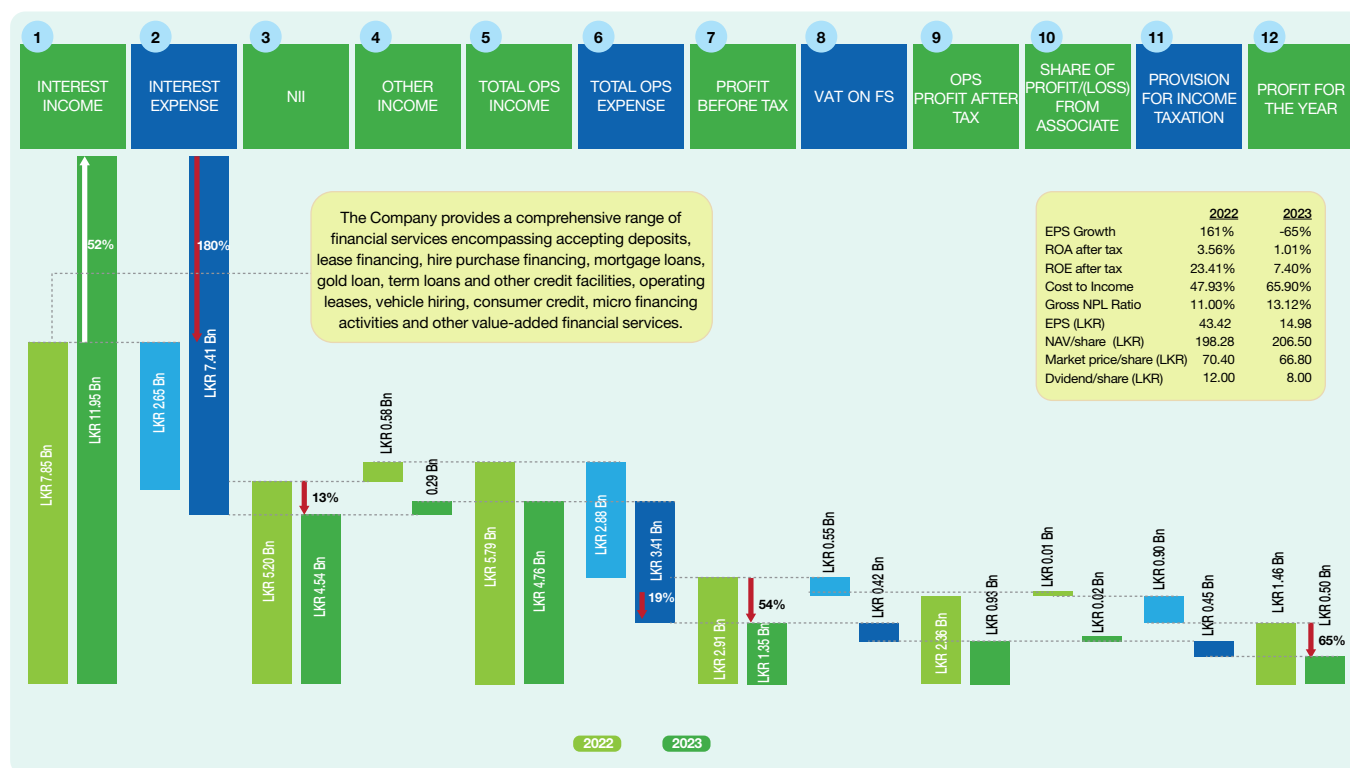
In order to preserve the foreign liquidity position of the Country, the Central Bank initiated a series of actions including curtailing of imports to absolute

essentials. CBSL increased its policy rates almost by 900 basis points over a period of a few months and inflation went up to historically the highest levels. Fuel shortages and frequent power cuts and prolonged queues for essentials created a severe uncertainty and social unrest among the general public. During the period fuel prices went up almost by 300% and the rupee depreciated almost by 82%.

The financial performance of the Company during the year was significantly impacted by the above

subdued and vulnerable economic activity. However, keeping in line with the Company's sustainability driven business mandate, the Company was able to navigate through the most painful times of the history of the country with a contented performance.

2022 Vs 2023 Income Statement



# FINANCIAL CAPITAL

## Interest Income, Interest Expense and Net Interest Income

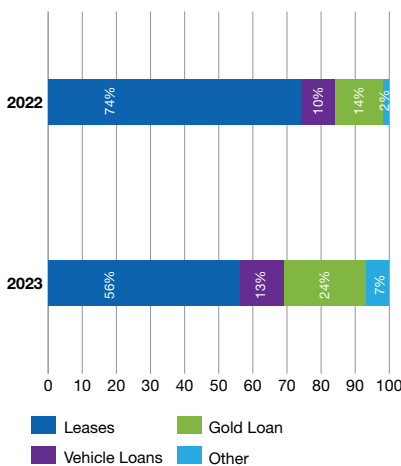
During the financial year, Total Interest Income grew by 52% compared to the previous financial year. Despite the depletion in the lease portfolio by 17%, interest income from leasing grew up by 15% due to the repricing of the portfolio in line with the upward movement in the interest rates. Increase in the Interest income from the gold loan portfolio was mainly due to the portfolio increase by 54% during the financial year. Significant increase in the shorter tenure gold loan portfolio fairly helped the Company to mitigate the margin compression due to the increase in cost of funds. As at the end of the financial year, the Gold Loan portfolio accounted for 24% of the Company's total lending base (16% – 2021/22) while accounting for 25% of the interest income composition as against 14% in the previous financial year. Although interest income from leases continued to be the highest contributory factor to the total interest income, interest income from leasing reduced to 56% from a high of 74% as a percentage from total interest income.

While the Company's long term lending portfolio was gradually re-pricing, the Company had a tripling effect on the re-pricing of its fund base including Time Deposits and the variable interest-bearing bank borrowings that caused a drastic reduction in the Net Interest Income and Interest Margins. As of the end of the financial year 95% of the Company's deposit base and 60% of bank borrowings re-priced to the market interest rates. Consequent to the above, the Company's interest expense increased by 179.5% compared to the previous financial year and the Net Interest Income decreased notably from LKR 5,201 Mn to LKR 4,536 Mn denoting a reduction of 13%.

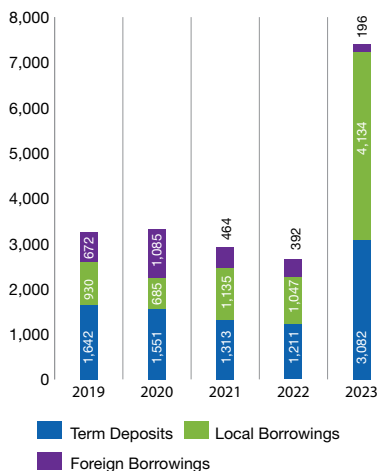
Similarly the Net Interest Margin reduced sharply from an average of 14% over last two years to 9.97% during the

financial year. In order to address the margin compression, the Company aggressively promoted its short - term lending portfolio secured by gold. In re-pricing the long-term lending portfolio secured by vehicles, the Company was mindful of the repayment ability and the difficulties faced by the customers and consciously followed a selective credit approach.

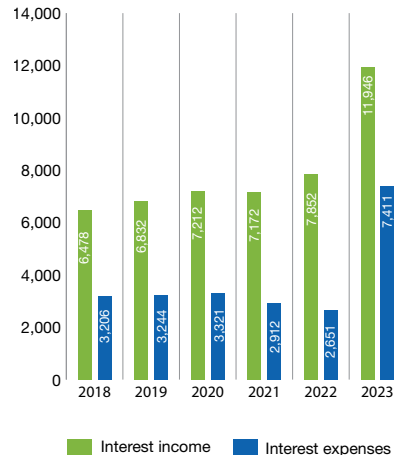
### Interest Income Composition (%)



### Interest Expense Composition



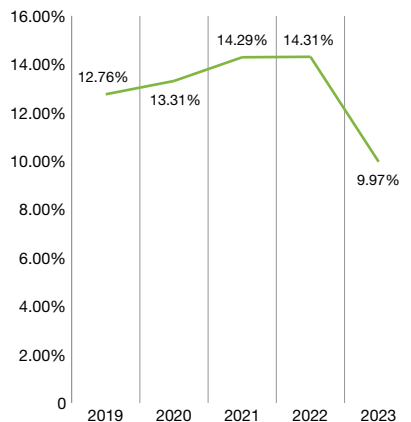
### Net Interest Income (Mn.)



### Cost of Funds (%)



### NIM (%)

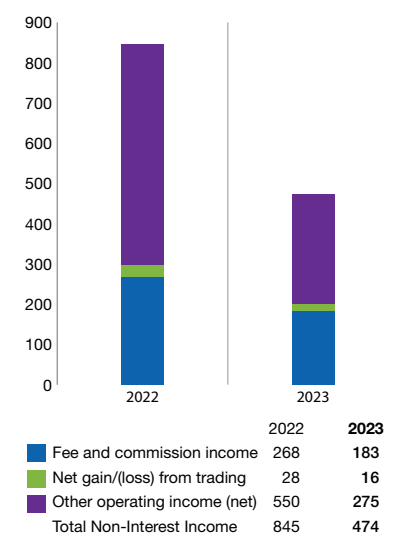


## Non-Interest Income

Non-interest income of the Company that includes fee and commission income, net gains from trading and other operating income decreased from

LKR 845 Mn in the previous year to LKR 474 Mn during the year under review. The resultant decrease mainly arose from the decrease in service charges from new businesses and due to the disposal gains accounted for in the previous financial year including investment property disposal and vehicle disposals.

### Non-Interest Income



## Impairment Charges

Impairment charges increased by LKR 172 Mn during the year which is an increase of 167% over the previous year. The above includes a significant amount of the voluntary impairment charge built as a management overlay given the high degree of uncertainty and unprecedented circumstances in the macro-economic outlook.

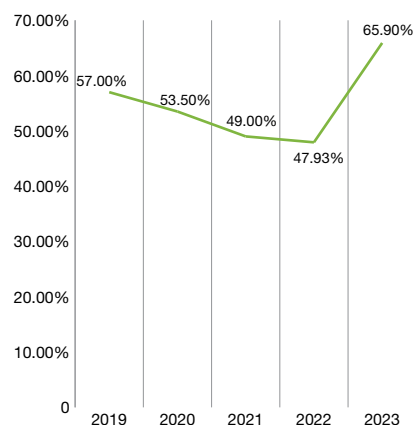
The Company's estimated Expected Credit Loss (ECL) was based on the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) after applying the forecasts and projections published by the Central Bank of Sri Lanka and the

International Monetary Fund with an assumption leading to adversity of the economy.

## Cost Management

The Company's operating expenses increased by 13% compared to the previous year. Inflation, huge upsurge of fuel prices and shortage of supplies resulted to an extreme pressure on the cost base of the Company. The Company adopted to a consolidation approach rather than expansion during the financial year while taking a series of cost rationalization techniques such as increase usage of virtual platforms and digital media. Nonetheless, the Company's cost to income ratio increased to 65.90% from 47.93% a year before due to the cost escalations and margin compressions.

### Cost to Income (%)



Cost to Income – (Operating Expenses (Excl. FSVAT) / Operating Income)

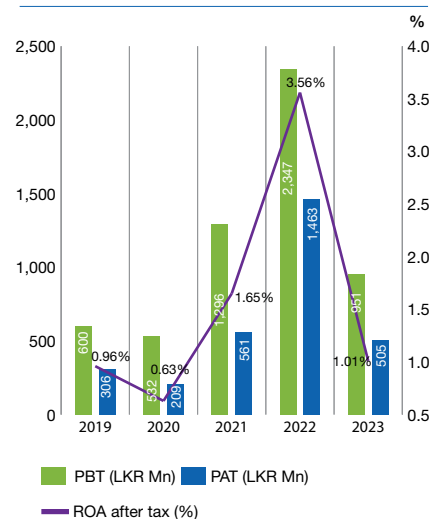
## Taxation

During the financial year the Company's contribution to the government revenue amounted to LKR 1,629 Mn by way of direct and indirect taxes paid. During the financial year new tax levy called Social Security Levy was introduced which takes a hit of 2.5% in addition to the prevailed 18% tax from the total value addition attributable to financial services.

Also the Value Added Tax increased from 12% to 15% w.e.f 01 September 2022 and the Corporate Income Tax was increased from 24% to 30% w.e.f 01 Oct 2022.

During the financial year, the reported Effective Income Tax Rate (ETR) for 2022/23 was 46.89%. The increase in the ETR from 38.11% in 2021/22 was largely driven by the increase in the corporate tax rate.

## Profitability



During the financial year the Company reported a 60% decline in its profits before taxes and a 65% decline in its profits after taxes.

Although the Company experienced a sharp decline in the profitability from LKR 1,463 Mn to LKR 505 Mn, the resulting financial performance of the Company showcases its ability to withstand against the external shocks and resilient approach the Company followed to navigate through the most painful times in the history of the Company as well as in the Country.

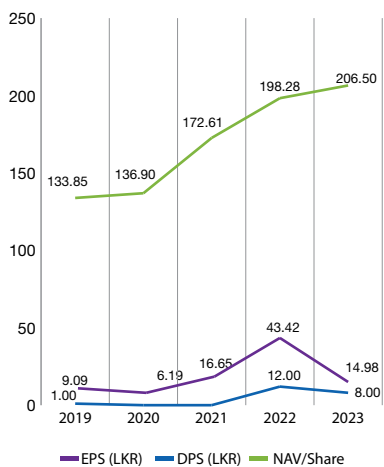
## Shareholder Value

Due to the drop in profitability, the Company experienced a significant decrease in Earnings per Share which was recorded at LKR 14.98 in

# FINANCIAL CAPITAL

comparison to LKR 43.42 in the previous financial year. However, the Company's Net Assets Value per share increased to LKR 207 per share from LKR 198 per share in the previous year denoting a growth of 4.5% showcasing the Company's consistent efforts to increase shareholder value. Reaffirming our commitment to deliver a reasonable shareholder return, the Company also paid out LKR 8.00 per share as the final dividend for the year ended 31 March 2022 during the financial year 2022/23 despite the challenging economic conditions.

## EPS, DPS & NAV per share



## Financial Position

### Total Assets and Liabilities

The total assets base of the Company grew by 8.53% compared to the previous year surpassing total assets base by LKR 50 Bn. 75% of the total assets of the Company represents the lending portfolio financed by bank borrowings and the deposits liabilities from the customers.

Assets			Liabilities		
LKR 52.25 Bn			LKR 52.25 Bn		
Balance Sheet Items					
21.55 Bn (42%)	Lease Rentals Receivable & Stock out on hire	Assets	22.57 Bn (44%)	Due to Banks	Liabilities
17.45 Bn (33%)	Loans & Advances		20.48 Bn (39%)	Deposits from Customers	
4.91 Bn (9%)	Placements with banks & financial institutions		2.24 Bn (4%)	Other Liabilities	
3.13 Bn (6%)	Financial assets recognised through profit or loss		6.96 Bn (13%)	Equity	Equity
2.61 Bn (5%)	Other Assets				
2.60 Bn (5%)	Property, Plant & Equipment				

### Portfolio Growth and Assets Quality

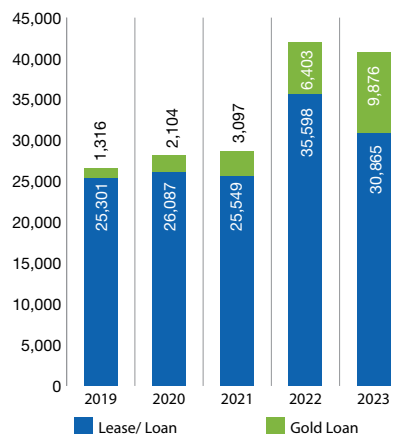
The total lending portfolio of the company decreased marginally by 3.22% compared to the last year. This reduction in the portfolio is far better than anticipated and in comparison, to the competitor performance due to the uncondusive business environment within which the Company had to operate.

Due to the low credit demand and selective credit approach followed by the Company, the lease portfolio witnessed a sharp decline of 15% although the loan book increased by 18%. The main contributory factor for the increase in the loan book was gold loan portfolio which

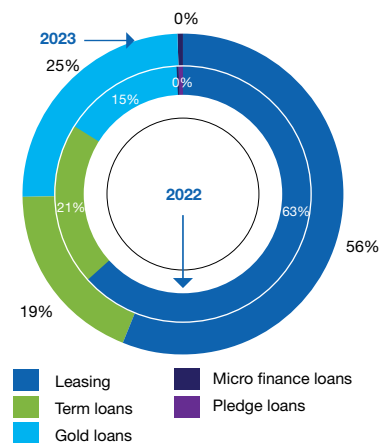
increased to LKR 9.8 Bn from LKR 6.4 Bn from the end of the last year denoting an increase of 54%. During the financial year two new gold loan centers were introduced by the Company. In line with the consolidation approach, the Company used its existing branch network to increase the customer reach while introducing a mobile gold loan unit which was a historic event in gold loan operations.

On the other hand, micro finance loans and pledge loan reflected a gradual decrease as a result of the Company's strategic decision to scale back on high-risk lending.

### Gross Portfolio (LKR Mn)



### Portfolio Composition (%)





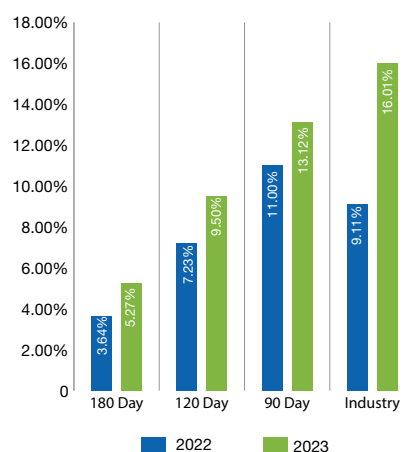
The Company reported a gross 90-day NPL of 13% and Net 90-day NPL of 8% as of the end of the financial year. Reported gross 120-day NPL and net 120-day NPL were 9.5% and 5.1% respectively.

Commencing 01 April 22, the Company moved to 90-day classification for non-performing advances as per the stage 3 classification under SLFRS 9 as opposed to the previous classification of 180-day adopted by the Company. Early adoption of 90-day classification helped the Company to better focus and be ready with the conservative provisioning approach guided by SLFRS 9.

Despite the unfavorable economic conditions leading to increases in non-performing advances, the Company's Stage 3 non-performing advances also increased due to the changes in this classification. As of the end of the financial year, Stage 3 (90 DPD) non-performing advances accounted for

13% of the total lending base with an impairment Coverage of 24% built on a prudential manner. Although there is an increase in non-performing advances, the Company could maintain its non-performing advances ratio well below the industry average with a strong recovery force and commitment.

#### Gross NPL (%)



#### As at 31 March 2023

LKR Mn	Portfolio Outstanding	Individual Impairment	Collective Impairment	Total Impairment	Provision Cover
Stage 1	22,205	-	146	146	0.7%
Stage 2	13,195	-	337	337	2.6%
Stage 3	5,175	821	438	1,259	24.3%
	<b>40,575</b>	<b>821</b>	<b>921</b>	<b>1,742</b>	<b>4.3%</b>

#### As at 31 March 2022

LKR Mn	Portfolio Outstanding	Individual Impairment	Collective Impairment	Total Impairment	Provision Cover
Stage 1	37,118	-	442	442	1.2%
Stage 2	2,804	-	133	133	4.7%
Stage 3	2,083	888	240	1,128	54.2%
	<b>42,005</b>	<b>888</b>	<b>815</b>	<b>1,703</b>	<b>4.1%</b>

# FINANCIAL CAPITAL

## Property, Plant and Equipment, Investment Property and Intangible Assets

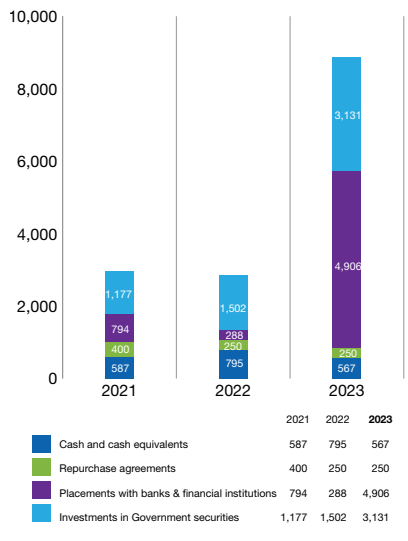
70.6% of Property, Plant and Equipment consists of freehold land and building. In 2021, Company signed up with LinearSix Pvt. Ltd and ZILLIONe Technologies to implement its core banking system. The Company considers this to be a significant milestone in its digitalization journey. It is expected to significantly bring down non value adding operating expenses while allowing AFC customers to experience unmatched customer service with a range of products with this move. Total project completion as of end of financial year is 30% and the total expenditure incurred during the financial year on this is LKR 68 Mn.

### Liquidity Position

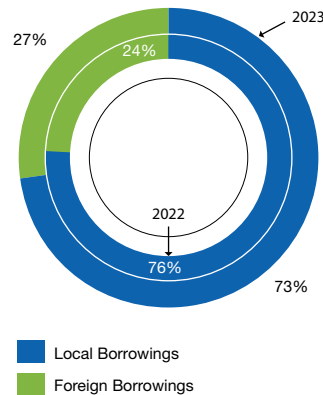
The Company considers liquidity to be far more important than profitability in an economic downturn. In this regard, the Company's liquidity position was managed strategically by the Company's treasury with frequent cash flow projections while securing available credit lines to preserve liquidity and to serve financial demands of the increased public deposits. As the access to bank funds was limited, the primary driver for raising funds was public deposits.

The Company's liquid assets including cash and bank balances, investments in government treasury bills and placements with banks increased by 212% in comparison to the previous year. The company did not have a negative margin on increased liquid assets due to the increase in market interest rates.

### Non-Interest Income



### Bank Borrowings Composition

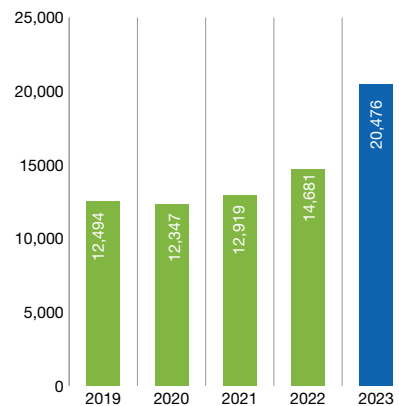


### Borrowings

Total borrowings excluding time deposits comprised of local and foreign borrowings. While local borrowings accounted for 73% of the total borrowing base of the Company, foreign borrowings out of total borrowings increased to 27% from 24% during the financial year due to the new foreign borrowings.

It is praiseworthy that the Company was able to serve its foreign lending parties on time despite the currency shortages the country had to experience. The Company mitigated the exchange risks by the timely execution of SWAP agreements ensuring no adverse hit to the bottom line due to currency devaluation.

### Time Deposits



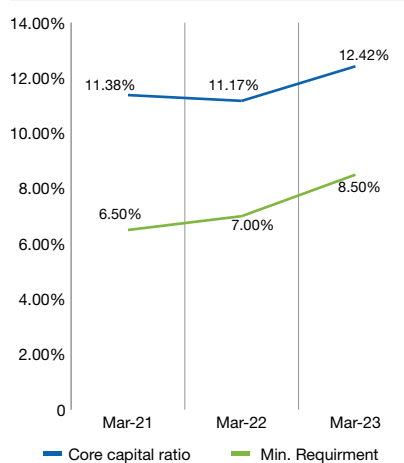
The Company achieved a noteworthy performance in deposits by recording an increase of 39% in the deposits base compared to the year before. The record performance in the deposits base was predominantly supported by the high interest rates that prevailed in the country. It was important to note that the Company was able to decentralize deposit operations to the branch network thereby reducing the deposit concentration in the Head office by providing necessary infrastructure to the existing branch network to accept public deposits. The strategic decision to move to outer Colombo also helped the Company to reinforce its high impact goal of promoting financial inclusion and increasing the investment habit among the customers who are in the bottom of the pyramid. Out of the total deposit growth of LKR 6 Bn during the year, outer Colombo contributed to 90%. New customers introduced by the branch network during the year was 5,718. Further the Company was able to maintain its average Deposit Renewal Ratio at 73% during the financial year despite the fierce competition witnessed over the period. The Company considers that the growth in public deposits serves as an endorsement of the trust and confidence the public has placed on the AFC franchise.

### Capital Adequacy

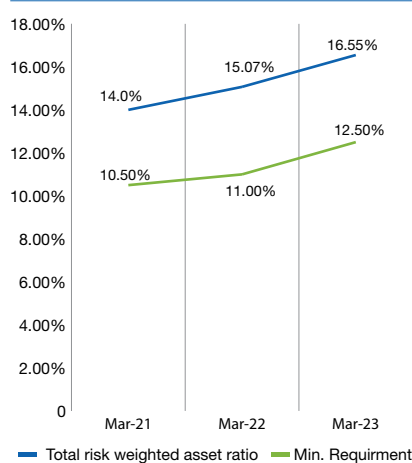
Capital adequacy is a measure of the financial strength of the Company expressed as a ratio of its capital to its risk weighted assets. This ratio indicates the Company's ability to maintain adequate capital in the form of equity and subordinated debts to meet any unexpected losses.

The Company remained capitalized with the core capital and overall risk weighted capital adequacy ratios well above the regulatory limits, at 12.4% and 16.5% respectively as of 31st March. The regulatory minimum capital ratio for the Core Capital Ratio and the Overall Risk Weighted Capital Adequacy Ratio is 8.5% and 12.5% respectively.

#### Tier 1 Capital Ratio (%)



#### Total Capital Ratio (%)





The Company's Manufactured Capital is represented by its physical infrastructure including its island-wide network of branches, CRMs, plant and equipment as well as its IT infrastructure including hardware, software applications, hosting networks and enterprise tools, which are utilized in the process of value creation.

**How manufactured capital supports our value creation**

Network that enhances our brand visibility

---

Facilitates financial inclusion among the country's vulnerable and under-served segments

---

Driving operational efficiencies

**Impact of our activities**

Supporting the growth of the deposit base and lending portfolio of the business.

- + Driving financial inclusion
- + Enhancing employee productivity and developing a multi-skilled digitally savvy workforce
- + Elimination of waste through greater digital adoption
- Increased exposure to IT and cyber-security risks

**SDG Focus**



### Our physical touchpoints

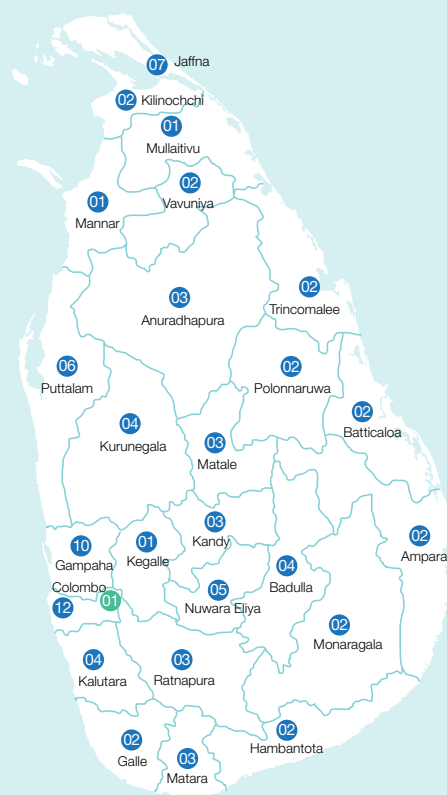
The Company's branch network remained fully operational in 2022/23, ensuring uninterrupted services to customers despite the challenging external conditions. We operated with an extensive network of 89 touchpoints and a marketing force of 576. The pace of our geographical expansion slowed down during 2022/23 due to the challenging economic conditions. However, in line with our ambition to enhance customer accessibility we added 2 new branches during the year in Jaffna city and Mulankavil. Further, 5 branches were relocated in Gampaha, Negombo, Ambalangoda, Chunnakam and Vavuniya.

Furthermore, we launched several initiatives to strengthen customer experience at our branches as outlined below.

- The CCTV system was repaired where necessary and enhanced
- Regular maintenance and repairs of the branch premises on request
- The regional network was expanded with a new Regional Head to increase the outreach and smooth operations
- Improved cross selling activities through fully fledged branches
- Revamped the dealer management process and operations
- Expanded the Auto Sure vehicle trading operations to branches

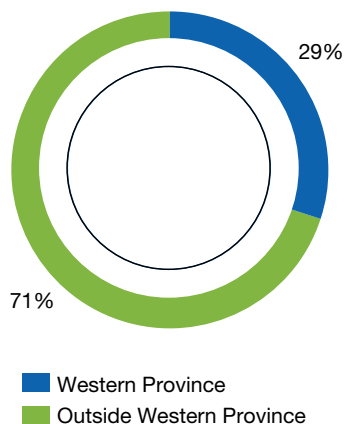
Our total manufactured capital amounted to LKR 2,595 Mn as at 31st March 2023.

District	Fully Fledged	Collection Centers
Ampara	2	
Anuradhapura	3	
Badulla	4	
Batticaloa	2	
Colombo	12	1
Galle	2	
Gampaha	10	
Hambantota	2	
Jaffna	7	
Kalutara	4	
Kandy	3	
Kegalle	1	
Kilinochchi	2	
Kurunegala	4	
Mannar	1	
Matale	3	
Matara	3	
Monaragala	2	
Mullaitivu	1	
Nuwara Eliya	5	
Polonnaruwa	2	
Puttalam	6	
Ratnapura	3	
Trincomalee	2	
Vavuniya	2	



● Fully Fledged ● Collection Centers

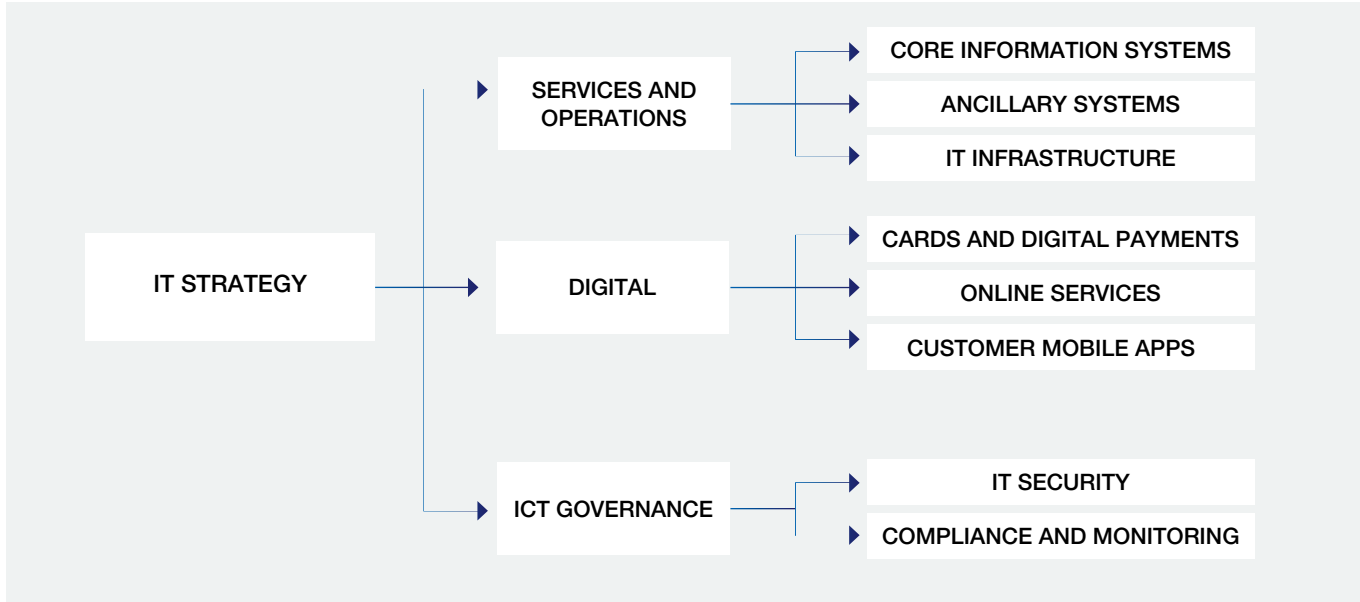
### AFC OUTREACH



### IT Infrastructure

AFC has embarked on a digital transformation journey over the past few years, aligned with the overall purpose of the Company. Our digital strategy is focused on elevating technology from an enabling role to a transformational one, thereby rewiring all aspects of operations to sharpen our competitive edge, improve profitability and create better stakeholder interaction.

# MANUFACTURED CAPITAL



## IT Governance

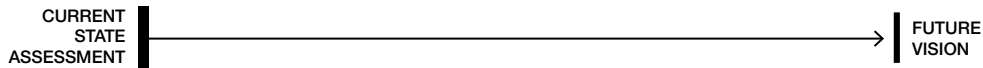
AFC has a comprehensive IT governance framework in place with clear policies and proper segregation of responsibilities. The role of the Chief Information Officer (CIO) was introduced in 2021 to oversee the execution of the overall IT strategy, with the primary focus on the implementation of the core banking system and other digital

infrastructure projects. We also have a skilled IT team that monitors and controls IT risks and supports the digital aspirations of the Company. The IT projects that have already been launched and those proposed are expected to facilitate up-to-date processing of reliable information, user friendliness, convenience, data accessibility & control, data protection & security and meet our

stakeholders' information and service expectations.

## Digital Transformation Roadmap

In its digital transformation, AFC commenced a number of pilot projects starting from 2021. Through these projects, the company is gradually shifting its business model, from one dominated by manual processes, to a more digitized one.



Short term projects	Medium term to long term projects
<ul style="list-style-type: none"> <li>◆ Core Banking System This is one of the biggest projects that AFC has undertaken and it encompasses all the business areas of the company including fixed deposits and savings, leasing and loans, general ledger, gold loans and collections. We are currently in the UAT second phase and have planned to complete the project towards the latter part of 2023. Once completed it is anticipated to generate considerable efficiencies across the company and support refined decision making and service delivery.</li> <li>◆ Branch network connectivity to be updated with latest technology- 80% completed by March 2023.</li> <li>◆ Migrating the AFC Data Center</li> <li>◆ Launch of a Customer Relationship Management System (CRM)</li> <li>◆ eTendering Platform for Procurements</li> <li>◆ Workflow Automations</li> <li>◆ Electronic Fund Transfers</li> </ul>	<ul style="list-style-type: none"> <li>◆ Data analytics solution for data warehousing incorporating predictive analysis, business intelligence and data visualization tools</li> <li>◆ Customer Credit Scoring (Automated Credit Scoring for Lending using AI / ML)</li> <li>◆ Digital Wallet</li> <li>◆ Digital Banking front-end</li> <li>◆ Peer to Peer Lending - Online Digital Lending Platform that matches lenders with borrowers</li> <li>◆ Electronic Statements for Savings and Fixed Deposits</li> <li>◆ Video KYC / eKYC</li> <li>◆ WhatsApp Banking / SMS Banking</li> <li>◆ ATM / DEBIT Cards</li> </ul>

### How these IT developments will transform the way we work

#### Internal customers

- ◆ Speedier system performance.
- ◆ Better data quality and governance.
- ◆ Higher level of automation which will reduce the manual workload and the use of paper.
- ◆ Facilitating branchless operations through mobile app based customer onboarding including eKYC, mobile app based collections, electronic purchase orders.
- ◆ Reduction in operational costs.

#### External customers

- ◆ Digital services for leases and loans.
- ◆ Greater accessibility and convenience through branchless operations.

### Security and Controls

Digital Transformation efforts in 2022 were accompanied by a continuous endeavor to strengthen the systems for information security. Comprehensive policy frameworks, governance structures, ongoing vulnerability assessments and penetration support the overall cyber-security risk management process. An information security quiz has also been developed to enhance the awareness among staff and create a data-aware culture. During the year, there were zero data breaches or substantiated complaints regarding breaches of customer privacy and losses of customer data.

### Looking beyond

As we look to life beyond the uncertainty and challenges that emerged last year, we will work to refine our core banking platform to ensure we remain adaptable, collaborative and agile. Accordingly, we remain focused on harnessing the power of technology and innovation to capture opportunities, develop new sustainable income streams and improve our value proposition.

#### Anticipated outcomes

- ◆ Increase outreach to rural and marginalized areas; one location per branch to increase finance access and inclusion.
- ◆ Introduce virtual branch concept to rural marginalized locations.
- ◆ Improve efficiency of branch operations.
- ◆ Improving the customers' digital experience via the branch network as well as through digital services.
- ◆ Leverage advanced and differentiated technology for sustainable products.
- ◆ Increase the outreach to 120 fully fledged branches by 2025/2026 FY.



GRI 2-7	GRI 2-20	GRI 2-23	GRI 201-3	GRI 202-1	GRI 202-2	GRI 205-2
GRI 401-1	GRI 401-2	GRI 401-3	GRI 402-1	GRI 403-1	GRI 403-2	GRI 403-3
GRI 403-4	GRI 403-5	GRI 403-6	GRI 403-7	GRI 403-8	GRI 404-1	GRI 404-2
GRI 404-3	GRI 405-2	GRI 409-1				

Our people are our biggest differentiator and the most valued asset of our business. Their knowledge, skills, attitudes, dedication and commitment have constantly helped us differentiate our business and ensure we remain sustainable in the long term.

**How human capital supports our value creation**

1,411 dedicated employees whose combined skills and expertise help drive our strategic ambitions.

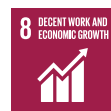
**Strategic priorities**

- ◆ Identification and retention of critical talent
- ◆ Growing our employee capabilities through training and development programs
- ◆ Health and well-being of staff
- ◆ Employee engagement and motivation

**Impact of our activities**

- + LKR **0.96 Mn** Value added per employee
- + LKR **3.8 Mn** Invested in training and development activities for **12,489 hours** total training hours
- + **168** Promotions
- + **5%** Staff provided parental leave
- + **28.55%** Attrition

**SDG Focus**





### Managing our human capital

The Human Resource (HR) Department manages and empowers the company’s human resources to propel them to move forward along with the changing business landscape and external conditions. The past year has been demanding on our business as well as our people and adjusting to these conditions required new ways of driving productivity while managing their well-being. The company’s comprehensive HR policy framework continued to provide guidance on all people related aspects and set the tone for professional and ethical conduct of all employees.

### Our team

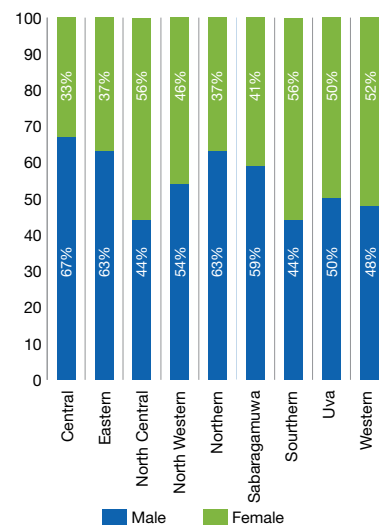
Grade	2022/23		
	Total Count	By Gender	
		Male	Female
Directors	4	4	-
CXO	6	6	-
Assistant General Manager	10	7	3
Senior Manager	15	14	1
Manager	87	77	10
Assistant Manager	99	81	18
Senior Executive	189	150	39
Executive	351	240	111
Junior Executive	638	362	276
Minor	12	12	-
<b>Total</b>	<b>1,411</b>	<b>953</b>	<b>458</b>

### Attracting and retaining the right talent

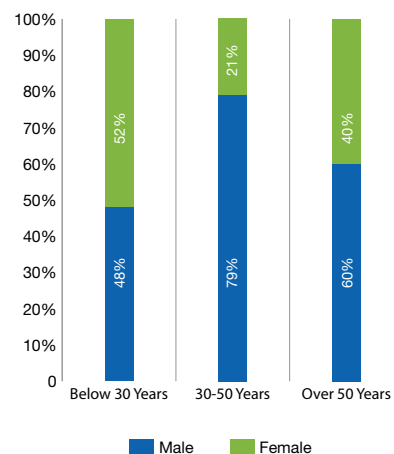
Attracting and retaining high-potential individuals who are able to support our evolving business needs is vital to our success. In 2022/23, the Company recruited 332 new employees owing to the Company’s increasing need for competent talent to accelerate the digital business transformation journey.

We encourage the recruitment of energetic and ambitious individuals who bring innovative ideas to the table and guide them with the required coaching and mentoring to develop their capabilities. We also offer opportunities for prospective employees to join the closest branches as this fosters good relationships with the communities we operate in and provides convenience to our employees by reducing their cost and time spent on travelling. Our branch network spans all districts and our workforce is dispersed across the country, supporting our vision of contributing to the nation’s economy by minimizing geographic disparity in income distribution.

### Recruitment Composition-Region and Gender (%)



### Turnover- Age group and gender (%)



### Training and development

We are committed to creating an environment in which our employees can grow and thrive. Thus, we align our employees’ skills and capabilities with our strategic goals to ensure we have the right skills, now and into the future, to achieve our value creation objectives. We actively support our employees’ growth, which we believe is a key driver of organizational success and employee fulfilment and arrange training programs

## HUMAN CAPITAL

based on identified specific requirements. Given the high level of uncertainty that prevailed we were unable to roll out a structured training plan during the year. However, we focused on the essential requirements for the development of our staff and adopted a combined approach of on-the-job training, digital learning, coaching and mentoring and workshops.

### Training details

	No of Training	No of Participants
Business continuity management training	20	48
Business operations related trainings	48	1291
Business strategy trainings	3	63
IT/Software training	6	153
Soft skills development training	3	16
Customer care training	3	188
Other	13	216
Sustainability	2	10
<b>Total</b>	<b>98</b>	<b>1,985</b>

### Distribution of learning hours based on employment type and gender

Average hours of training per employee by gender	Total Training Hours					
	2022/23			2021/22		
Employment Type	Male	Female	Total	Male	Female	Total
Director	5	4	9	2	-	2
CXO	41	-	41	6	-	6
Assistant General Manager	42	48	91	4	56	60
Senior Manager	249	-	249	117	-	117
Manager	988	104	1092	665	14	679
Assistant Manager	864	211	1074	419	87	505
Senior Executive	1153	601	1754	853	356	1209
Executive	1585	861	2446	1296	455	1680
Junior Executive	2391	3342	5733	1771	2079	3849
Minor	-	-	-	7	-	-
<b>Total</b>	<b>7,318.00</b>	<b>5,171.00</b>	<b>12,489.00</b>	<b>5,140.00</b>	<b>3,047.00</b>	<b>8,107.00</b>

### Performance management and career development

AFC evaluates the Key Performance Indicators (KPI) for employees on a bi-annual basis to ensure that all targets can be achieved. KPI components are reviewed periodically and if deemed necessary, adjusted to the changes in business conditions. Salary increments, bonuses and other rewards are based on the outcome of the performance evaluation.

Our employees are given the opportunity to have their potential reviewed and during the year, 79% of our employees were eligible for performance reviews. 168 employees were promoted during the year under review. With the Company's sharper focus on career development, the number of participants in talent and succession management programs increased during the year.

Critical and key positions of the company are identified and mapped for succession planning by determining their readiness based on their performance. Competency gaps are then identified and required trainings are carried out to address the identified gaps. The identified successors are provided with continuous mentoring, coaching and feedback while reviewing their progress.

	2022/23	2021/22
No of employees as at March	1,411	1,552
No Eligible for Annual Appraisal	1,113	1,040
% Eligible for Annual Appraisal	79%	67%

Gender wise eligible cadre	2022/23		2021/22	
	No	%	No	%
Male	778	55%	736	47%
Female	335	24%	304	20%
<b>Total</b>	<b>1,113</b>	<b>79%</b>	<b>1,040</b>	<b>67%</b>

Grade wise eligible cadre	2022/23		2021/22	
	No	%	No	%
Director	4	0.3%	4	0.3%
CXO	3	0.2%	3	0.2%
Assistant General Manager	11	0.8%	9	0.6%
Senior Manager	11	0.8%	12	0.8%
Manager	63	4.5%	67	4.3%
Assistant Manager	92	6.5%	84	5.4%
Senior Executive	149	10.6%	125	8.1%
Executive	307	21.8%	277	17.8%
Junior Executive	460	32.6%	445	28.7%
Minor	13	0.9%	14	0.9%
<b>Grand Total</b>	<b>1,113</b>	<b>79%</b>	<b>1,040</b>	<b>67%</b>

For the sustainable growth of the Company, it is essential to continuously develop management leaders who can flexibly and promptly respond to changes of the times and lead the organization. To this end, we introduced a program to carve a systematic career pathway specifically targeting our senior branch managers.

### Remuneration and benefits

AFC maintains its competitiveness and unique value proposition in the labor market and offers attractive remuneration packages to each employee. The Company's remuneration policy is continuously adjusted to its internal requirements, as well as developments in the industry and the employee remuneration structure is formulated based on the prevailing labor regulations. In addition to remuneration the company provides an array of other benefits to its employees as outline below.

- ◆ Private Provident Fund (contributes double the statutory requirement)
- ◆ Gratuity (contributes 4 times the statutory requirement)
- ◆ Profit sharing bonus scheme
- ◆ Recognition and rewarding of top performers
- ◆ Awards and appreciation events for business excellence
- ◆ Staff lease / loan policy for employees on providing leases and loans on concession rates

## HUMAN CAPITAL

- ◆ Staff professional development policy on providing financial assistance for educational purposes of staff members.
- ◆ Staff professional membership reimbursement
- ◆ Funeral assistance scheme

### Health and well-being

We are committed to fostering a safe and conducive work culture which places emphasis on employee health, safety and well-being and enables employees to perform in an optimal manner. Necessary precautions are established to prevent any accidents or hazards occurring at work. Required safety equipment has been installed and training on safety is carried out on a periodic basis. Furthermore, safety audits are conducted to ensure that all safety standards are being adhered to.

The increasing complexities which stemmed from the volatile operating environment significantly disrupted our employees' lives and led us to direct greater focus on employee well-being and advocate good and healthy lifestyles. To this end we began formalizing work-from-home policy which looks at a hybrid model of work, aiming to give relief to employees through greater flexibility. We hope to execute this in the upcoming financial year.

AFC maintains an open-door culture allowing employees to come forward with their grievances and concerns. Grievances are initially to be communicated to the immediate supervisor and subsequently to the HR division. Any issues which cannot be adequately addressed at this level will be escalated through the management levels as per the Grievance Handling Procedure of our company.

Our Board approved Whistle-blower Policy encourages employees to come forward and express any concerns or

share knowledge they may have about suspected misconduct by any person or persons in the Company without fear of reprisal or unfair treatment. It provides an avenue to monitor and prevent any violations of legal or regulatory requirements and misinterpretation of any financial statements and reports among others.

### Engagement activities

Employee engagement is fundamental to understanding and improving our relationship with our people and we aim to create a work environment in which our employees enjoy fulfilling roles and can be proud to work for AFC. Due to the prevailing conditions we had to restrict our usual group-wide engagement activities, but as an alternative focused on inter-departmental engagement events to maintain the camaraderie of our employees. We also held our townhall

Our workforce holds a healthy balance in terms of age, geographical distribution and ethnicity, portraying our culture of inclusivity and equal opportunity. As an equal opportunity employer, AFC adopts a gender inclusive recruitment policy and we do not engage in any form of gender-based discrimination when determining reward structures, providing opportunities for training or offering promotions. The ratio of basic salary between women and men was 1:1.

### Policies

- ◆ Diversity and inclusion policy
- ◆ Gender pay equity policy
- ◆ Specific policies on the prevention of sexual harassment at the workplace

meetings, with selected groups being given the opportunity to meet the senior management and voice their thoughts and suggestions on potential process and product improvements.

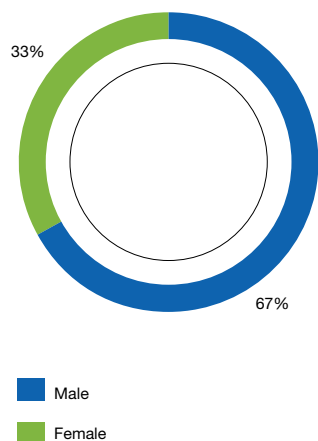
### Promoting diversity and inclusion

AFC aims to be a Company where diverse human resources can play an active role in a variety of workplaces and positions. To this end, we continued to promote diversity and create a workplace where all employees recognize and respect each other's diversity and continue to work with peace of mind. We do not tolerate any form of harassment, bullying, discrimination and harmful behaviour for any reason and strive to maintain a culture centered on respect and care, one that values diversity, is inclusive and upholds the fundamental human rights of all our people.

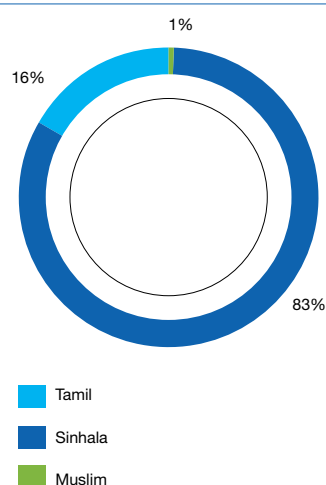
### Proportion of Males and Females in each pay quartile

Indicator	2022/23	2021/22
Employees entitled to maternity leave	458	460
Employees who went on maternity leave	23	17
Employees who returned to work after maternity leave	13	14
Employees still in employment twelve months after their return to work from maternity leave	8	7
Return to work rate	57%	82%
Retention rate	50%	89%

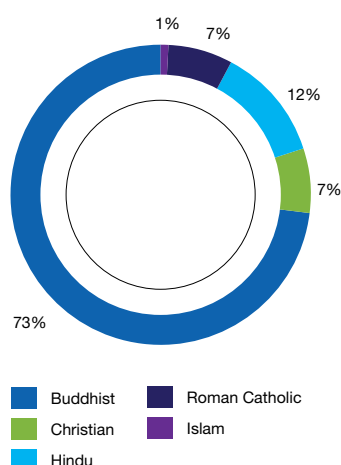
### Total workforce by gender (%)



### Employee Composition by Race (%)



### Employee Composition by Religion (%)



### Composition Of Male/Female under Major Geographical Locations

Province	2022/23	
	Male	Female
Central	123	40
Eastern	50	20
Sabaragamuwa	52	15
Southern	63	22
North Central	41	16
North Western	81	19
Northern	114	36
Uva	41	19
Western	388	271
<b>Total</b>	<b>953</b>	<b>458</b>

### Composition of Board of Directors

Grade	2022/23		
	Total Count	By Gender	
		Male	Female
Directors (Including Non Executive Directors)	8	6	2

### Composition of Senior Leadership

	Total Count
Male	116
Female	6

### Looking beyond

Our key focus for the upcoming year will be to improve the competencies of the identified top talent and right size the company, post implementation of the new core banking system. We will also commence the roll out of the senior branch managers career roadmaps to create a clear route for recognition and career progression. In line with the changing business trends, we will also seek to implement the proposed hybrid work model and provide greater flexibility to our staff who continue to be the driving force behind our growth year on year.

#### Anticipated outcomes

- ◆ A resilient workforce
- ◆ A culture of innovation and exploration
- ◆ Delivering diversity, equity and inclusion



GRI 2-6	GRI 2-8	GRI 2-28	GRI 203-1	GRI 203-2	GRI 204-1	GRI 413-1
GRI 416-1	GRI 417-1					

As a people-centric business we consider social and relationship capital to be the integral link between our corporate presence and the broader society. Social capital encompasses the relationships with our customers, business partners and suppliers, regulators and the wider community. Social capital shapes our strategic direction and therefore we constantly seek to build positive and meaningful relationships with all our key stakeholders.

**How social capital supports our value creation**

Long-term sustainability of our operations through mutually beneficial relationships

**Impact of our activities**

- + **73%** customer retention
- + **LKR 5.5 Mn** invested in community upliftment initiatives
- + Increased support towards the MSME business community
- + Empowering women **18%** growth in female customer base.

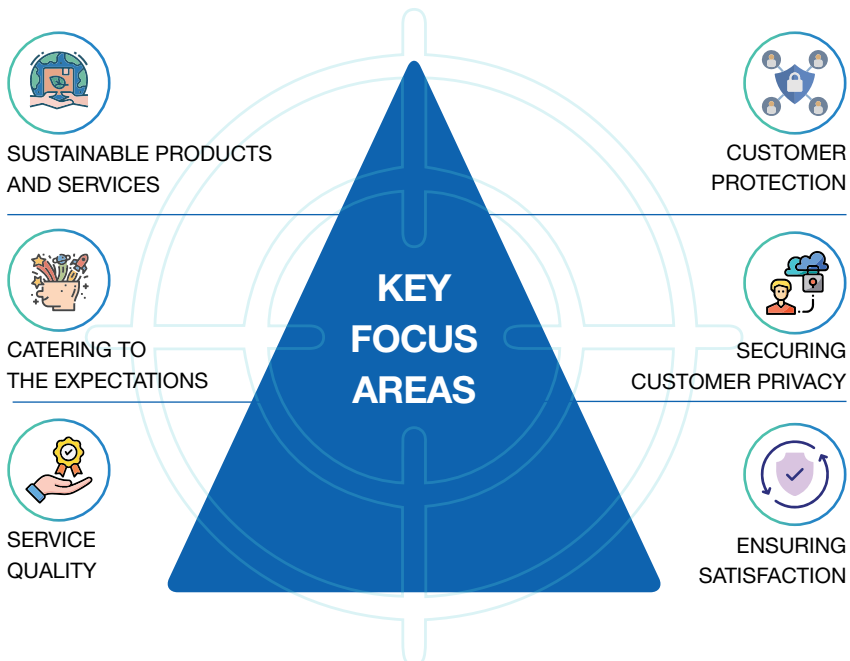
SDG Focus



### Creating value for our customers

#### Our approach

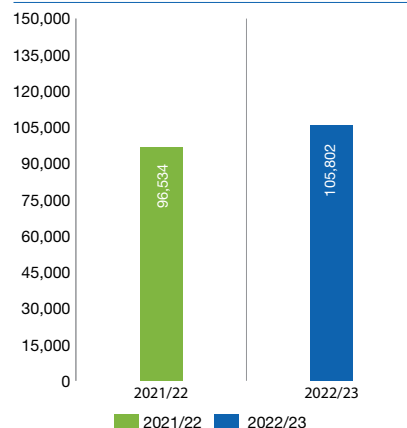
AFC strives to serve its customers in a meaningful and passionate manner, aiming to deepen relationships with them and cater to changing needs. We aim to accelerate financial inclusion and ensure that our customer needs are served promptly and efficiently as possible through our growing presence across the island.



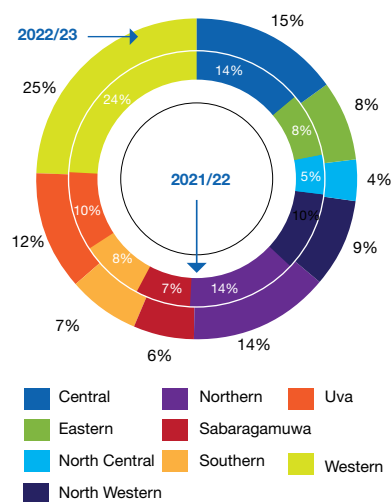
#### How we supported our customers through the year;

- ◆ Continued to engage closely with customers, attending to their financial needs.
- ◆ Operating 89 points of presence with 88 total fully-fledged branches island-wide to facilitate convenience and access to our full product range.
- ◆ Comprehensive communication process followed by the customer care unit to pass the essential information and facilitate engagement.
- ◆ Complaint resolution with the involvement of the Management.
- ◆ Flexibility and advisory services.
- ◆ Provided moratoria and other concessions where necessary.
- ◆ Continued to offer the friendship loan for the educational needs of the customers / their loved ones.
- ◆ Strengthened the marketing efforts to create better awareness and information availability to make informed decisions.

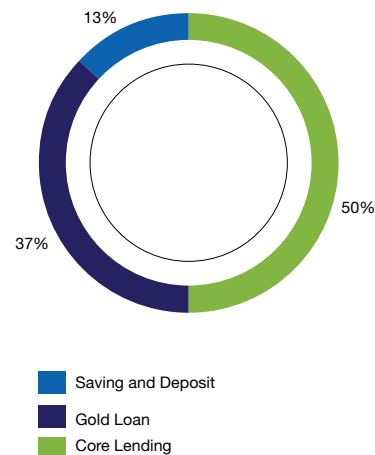
#### Number of Customers (%)



#### Customer by Region (%)

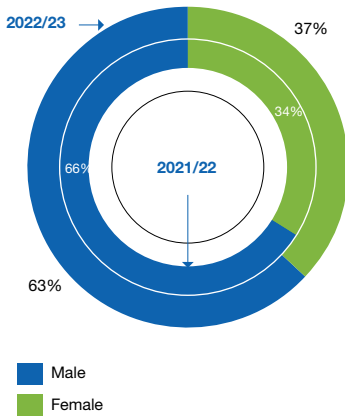


#### Product Wise Customer Base (%)



# SOCIAL AND RELATIONSHIP CAPITAL

Customer base gender wise (%)



## Our product offering

We offer a comprehensive range of investment and lending solutions across customer segments, as listed below.

	Retail	SME/MSME	Corporate
<b>Investment products</b>	Savings Fixed Deposits	Savings Fixed Deposits	Savings Fixed Deposits
<b>Leasing products</b>	Leasing	Leasing Equipment Leasing	Leasing
<b>Lending products</b>	Speed Cash Personal Loans Quick Cash Gold Loans Pledge Loans	Speed Cash Personal Loans Quick Cash Gold Loans	Speed Cash Personal Loans Quick Cash Pledge Loans
<b>Climate finance products</b>	Solar Loans Dairy Loans Cinnamon Growers Loans Tea Growers Loans Smart Irrigation Loans	Solar Loans Dairy Loans Cinnamon Growers Loans Tea Growers Loans Smart Irrigation Loans	Solar Loans
<b>Other</b>	Auto Sure Ezy Drive	Auto Sure Ezy Drive	Auto Sure Ezy Drive

Our promise to our customers is the assurance of responsible financial products and services combined with the best-in-class experience. Thus, we operate in adherence to all regulatory frameworks applicable to the NBFIs sector and ensure that our products conform to all applicable laws and regulations. Relevant information such as interest rates, maturity periods and other terms and conditions are clearly communicated to customers in a language of their preference. Further, all front office employees are required to explain our products clearly to customers. We also guarantee that our marketing communications are made in line with the required regulations and all business dealings are conducted in an ethical manner as per our Code of Ethics.

Our products are screened based on the IFC exclusion list to address and mitigate negative social and environmental impacts of our operations with customers.

Accordingly, AFC will not finance customers who are involved in activities which:

- ◆ Are regulated or prohibited under international agreements and by national laws.
- ◆ Have significant environmental or social problems.
- ◆ Lead to significantly adverse public reaction.
- ◆ Are mentioned on the Exclusion List of AFC's international lenders.

AFC also does not lend to customers who are involved in any of the following activities:

- ◆ Production or activities involving forced labor or child labor.

- ◆ Production of or trade in any product or activity deemed illegal under Sri Lankan legislation or regulations or international conventions and agreements.
- ◆ Trade in wildlife or wildlife products regulated under CITES.
- ◆ Production or use of or trade in hazardous materials such as radioactive materials, unbonded asbestos fibers, products containing polychlorinated biphenyl (PCBs) and chemicals subject to international phase-outs or bans.
- ◆ Commercial logging operations or the purchase of logging equipment for use in any primary forest or forest areas with a high biodiversity value, or any other activities that lead to substantial clear cutting of such forests.



- ◆ Production of or trade in pharmaceuticals subject to international phase-outs or bans.
- ◆ Production of or trade in pesticides/herbicides subject to international phase-outs or bans.
- ◆ Production of or trade in ozone depleting substances subject to international phase-out.
- ◆ Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

Under our Environmental and Social Management System (ESMS) implemented with the expertise of an independent consultancy firm named Steward Redqueen, a specialized agency in ESMS implementation from the Netherlands, we assess the E&S risks of the sectors we serve. This sustainability screening system uses 15 sector specific fact sheets developed based on the IFC exclusion list.

#### Assessed E&S risks

- ◆ Air pollution
- ◆ Deforestation
- ◆ Fish depletion
- ◆ Littering and disease and pest occurrence
- ◆ Soil depletion
- ◆ Water pollution
- ◆ Fire and explosion
- ◆ Infection of HIV/aids
- ◆ Intoxication
- ◆ Occurrence of diseases
- ◆ Occurrence of harmful bacteria and diseases
- ◆ Personal injury
- ◆ Bad working environment
- ◆ Harmful child labor
- ◆ Unfair labor conditions

During the year there were no incidents reported on non-compliance to regulations/ voluntary codes pertaining to product and service information and labelling and marketing communications.

#### Customer satisfaction

In order to determine how successful our efforts have been in terms of delivering on customer promises, the Customer Care Unit of AFC conducts periodic surveys which quantifiably measure customer loyalty and satisfaction. It is generally conducted for the overall customer base and at times for separate segments based on the product category on a need basis.

An ongoing customer satisfaction survey is conducted for newly activated products by the Marketing Call Center staff.

- ◆ Ongoing customer satisfaction survey: leasing and loans CSI  
**98.17%**

#### Resolving customer complaints

The branch manager at every branch is responsible for resolving any direct customer complaints raised by customers within the respective locality. Every complaint lodged by the customer is first recorded and then escalated to the relevant authorities for timely response and quick resolution. General complaints are directed through the intra-complaint management system which is under the purview of the Customer Care Unit at the Head Office where a Customer Care Agent (CAA) enters the complaint into the system. The system then generates a reference number which is communicated to the customer. An SMS, email or written acknowledgement including the name and contact number of the designated employee is also shared with the customer. The CAA also conducts a root cause analysis, identifies

service gaps if any and presents the required corrective and preventive action to the corporate management to prevent such occurrences in future. During the financial year we received 88 customer complaints. There were no major issues received and all issues brought to our attention have been satisfactorily resolved.

#### Customer privacy

AFC is fully committed to protect the privacy and integrity of customers' personal data and information and has thus, invested in up-to-date technology to ensure data security and privacy thereby protecting the confidentiality of customers. Customer information is stored securely at our data centers and is protected by the top of the range firewalls and 24/7 monitoring to detect and flag irregularities such as external breaches or internal data leakages. During the year there were no incidents of breaches in customer privacy or losses of customer data.

#### Strengthening relationships with suppliers and business partners

AFC has built a strong group of business partners, principals and suppliers. These partnerships are built on the trust and loyalty we exude and are the underlying means to achieving our operational goals. The strong relationships we have crafted over the years with like-minded suppliers and business partners have enabled us to maintain best-in-class products and services and uphold responsible practices.

We have integrated best-practice ESG criteria and requirements to our supplier selection, development and ordering processes. We strive to maintain a procurement approach that opts for vendors who go beyond the minimum standards by respecting and sharing our values and upholding these along the

# SOCIAL AND RELATIONSHIP CAPITAL

supply chain. We work closely with our suppliers and in doing so, encourage them to make positive changes to their operations and products for the benefit of the environment and wider society. Our suppliers are evaluated based on quality conforming to order standard, corrective actions taken, after-sales service, meeting delivery deadlines and responsiveness and information sharing. All registered suppliers are asked to sign a declaration stating that they are complying with the social and environmental standards required for AFC.

We ensure that all transactions and dealings with our suppliers and business partners are conducted in a fair manner and our payments and contractual obligations are addressed in a transparent, timely and disciplined manner, guided by principles of integrity and accountability. No significant changes to the organization took place across our business verticals and their supply chains during the period under review.

There are 115 number of workers who are not employees and whose work is controlled by the Company.

Total supplier base	2022/23	2021/22
	188	203

We further partner with reputed institutes to harness knowledge and drive collaboration to enhance our capabilities.

- ### Membership in Associations
- ◆ The Finance Houses Association of Sri Lanka
  - ◆ Leasing Association of Sri Lanka
  - ◆ Credit Information Bureau of Sri Lanka
  - ◆ Financial Ombudsman - Sri Lanka
  - ◆ Biodiversity Sri Lanka (Patron Member) {Business and Biodiversity platform}
  - ◆ CSR Sri Lanka
  - ◆ Association for Development Finance Institutions in Asia and the Pacific (ADFIAP)

### Focusing on community wellbeing

As a responsible corporate citizen, AFC aims to contribute towards social and economic development on a continuous basis. We greatly value the trust and respect of the wider community in which we operate and invest in initiatives that seek to serve and strengthen these communities. We also prioritize driving recruitment from within the local community which in turn reaps positive results for the company and helps build strong ties with the community.

We encourage employee volunteerism and strengthen engagement between employees and local communities. Our main channels of engaging with the community include CSR events / projects, social media, marketing campaigns, marketing materials, press releases and one-to-one discussions, sponsorships and ATL/BTL promotional campaigns.

- ### Strategic focus areas
- We focus on eight key areas in terms of driving our CSR initiatives.
- ◆ Social well-being
  - ◆ Health and safety
  - ◆ Catering to financial needs
  - ◆ Improve financial access
  - ◆ Livelihood support
  - ◆ Local infrastructure development
  - ◆ Social cohesion
  - ◆ Collective action

During the year, there were no significant negative impacts on local communities through our operations.

### CSR governance

A dedicated sustainability team is responsible for planning and executing the sustainability initiatives in line with our business purpose and sustainability ambitions. Guided by the senior management the team regularly monitors and reports on the progress of the initiatives carried out and ensures that all project targets are met.



**CSR projects**

Project Type	No. of Projects
Hospital needs	10
School / Montessori development	47
Community water project	10
Community well-being project	03
<b>Total Completed Projects</b>	<b>70</b>



School/Montessori development - Galgamuwa branch



Community water project - Ampara branch



School/Montessori development - Embilipitiya branch



Community water project - Hatton branch



School/Montessori development - Badulla branch



School/Montessori development - Matale branch



Hospital needs project - Horana branch



Community well-being project - Jaffana City branch

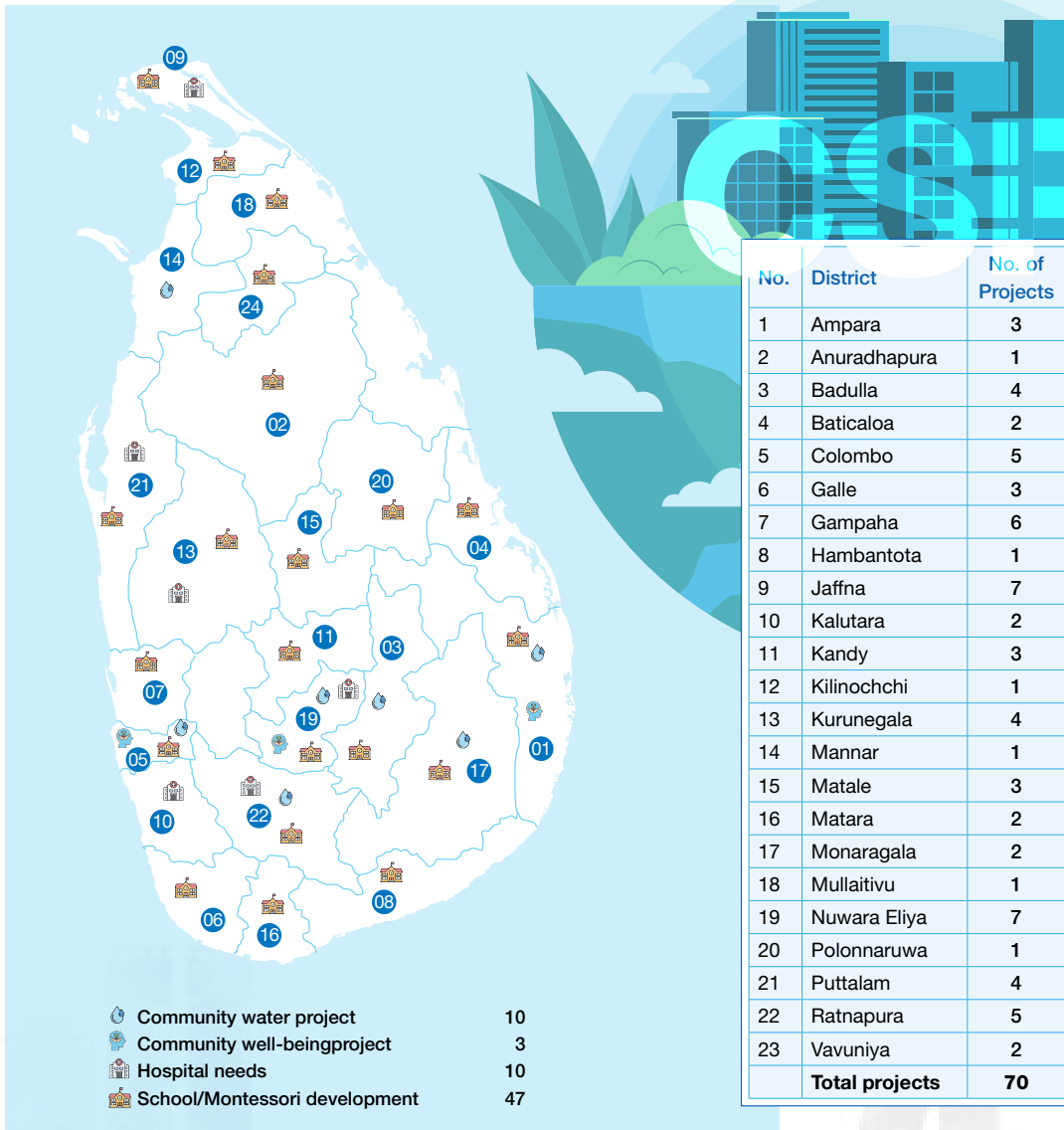


School/Montessori development - Welimada branch

**Investment in sustainability initiatives**

Sustainability Initiative	Amount (LKR)
Environmental sustainability initiatives	9,803,880
Social sustainability initiatives	5,482,016
Donations for charities	450,000
Donations for foundations and societies	868,655
Partnerships for sustainable development	6,731,979
<b>Total</b>	<b>23,336,530</b>

# SOCIAL AND RELATIONSHIP CAPITAL



## Looking beyond

We intend to continue to understand the changing needs of our stakeholders to effectively create sustained value while also focusing on enhancing our operational efficiency and productivity to build stronger relationships. We will progress towards our corporate sustainability ambitions to meaningfully transform our society for greater good.

### Anticipated outcomes

- ◆ Drive growth in our new climate financing product portfolio.
- ◆ Drive savings/deposit products in branch locations outside the Western Province.
- ◆ Continue the branch sustainability projects.
- ◆ Develop social entrepreneurs using AFC Island-wide branch network.
- ◆ Continuation of the 1.33 Mn Trees for Unity campaign.



GRI 2-23

Intellectual capital refers to the knowledge and capability that is intrinsic to our organization and the strength of our brand that sets us apart from the rest. Our intellectual capital ensures that our business remains relevant and remains a key driver of sustainable growth.

**How intellectual capital supports our value creation**  
Driving innovation and agility  
Brand strength that enhances customer loyalty  
Re-alignment of our strategy in line with the changing economic context

**Impact of our activities**  
+ Improved brand value  
+ Greater visibility on social media

SDG Focus



# INTELLECTUAL CAPITAL

## Our brand

The AFC brand is one of the most trusted brands in the country, evolving with the times to ensure that it remains relevant to a changing demands of stakeholders. As the country's oldest financial institution, we are proud of the legacy we have created over the past 67 years as a strong and responsible brand in the financial services industry in Sri Lanka.

Despite the unprecedented challenges of the year, AFC's ability to proactively respond to emerging dynamics enabled it to strengthen its brand position during the year.

Alliance Finance Company was recognized as one of the Top-100 Companies in Sri Lanka by Brand Finance in the year 2022 with a ranking

of 55 on the leader board. With a fusion of carefully curated traditional as well as digital marketing techniques we carried out several ATL and BTL campaigns to strengthen our brand proposition. Through these efforts AFC's ranking is expected to improve in the year 2023 and the results are yet to be released.

### Key brand building initiatives

#### Invested in customer care:

During the year we set up a Marketing Call Center (MCC) with the aim of providing exceptional customer service and building a strong brand. The company prioritized customer satisfaction as a key aspect to enhance the brand value of AFC. This will more likely earn repeat business and positive word-of-mouth referrals. With the MCC in operation, Alliance Finance Company PLC could provide excellent customer service, respond promptly to customer inquiries and address any complaints or issues in a timely manner.

#### Launch of the Customer Relationship Management (CRM) module:

With the investment and launch of the CRM module, the company will gain real-time access to customer information which will allow the Management to take prompt action towards amplifying business growth. The CRM will also be linked with the Marketing Call Center for smoother operations.

#### Building a strong online presence:

AFC invested in the development of a user-friendly and informative website during the final quarter of 2022. The website contains comprehensive information with regular updates of rate and policy changes. Along with this, the company created an in-house

digital marketing unit which collaborates with the marketing and IT departments to manage AFC's social media and related activity. These actions create direct engagement with customers through web and social media platforms.

	2022/23
Facebook followers	34,676
Instagram followers	700
LinkedIn followers	2,676

#### Investment in corporate brand building:

AFC recently invested heavily in a 360-degree marcom campaign in creative awareness on the corporate brand along with its key products in the portfolio. This campaign will kick-off during the month of June 2023 which will carry-on as a long-term proposition, enhancing and adding value to the already established brand in the marketplace. Major products such as leasing, fixed deposits, gold loans and children's savings will be reinforced using this brand exercise.

#### Launch of new products and services:

AFC plans to strengthen its portfolio with several innovative financial products and services. In a highly competitive industry, offering innovative and tailored financial products and services will help the Company to elevate itself from its competitors. The Company specifically targeted impact financing in the agriculture and agri-business areas as a focused product in the development of small and medium scale entrepreneurs in the country.

#### Emphasize sustainability efforts:

As a company that prioritizes its sustainability and corporate social responsibility (CSR) we continue to give back to the communities. Alliance Finance Company's tree planting campaigns and community projects would be continued adding more force, aligning itself to work towards the broader UN SDGs. These would include supporting and collaborating with local charities, participating in community service projects or implementing sustainable business practices to demonstrate their commitment to sustainability and CSR, positioning itself towards its purpose statement; To make the world a better place through sustainable finance.

#### Build strategic partnerships:

Building strategic partnerships with other businesses can help to expand a company's reach and enhance its brand value. Alliance Finance Company PLC partnered with an electric mobility company in the leasing of electric motorcycles. This also added value to the company's purpose. AFC plans to offer complementary products and services, expand its customer base and increase brand recognition using strategic partnerships like these and will keep innovating into the future.

### Tacit knowledge

Tacit knowledge is built and passed down through years of experience. For AFC with its 66+ year tradition of nurturing and mentoring people, tacit knowledge is a significant part of its intellectual capital that is immeasurable. We firmly believe that a skilful workforce that is experienced and well-trained is critical for sustainable value creation. Over the years, we have retained many of our employees who have warmly welcomed the new recruits, passing on the culture of AFC and its tacit knowledge. We encourage a culture of continuous learning and development and knowledge sharing to nurture the tacit knowledge of the Company and focus on continually upgrading the skills of our employees.

### Driving innovation and agility

Technology and innovation are major drivers of long-term value creation. Emerging technologies in the financial services industry like chatbots and automation enhance productivity, improve the quality of customer relationships and improve profitability and the efforts taken to digitize some of our processes have yielded these benefits.

We continued our initiatives to streamline our processes, thereby driving operational efficiency across all our functions. During 2022/23 we engaged in several workflow improvements which in turn supported enhanced service efficiency and productivity. We also invested in training sessions to improve the technical capabilities of our team thereby facilitating an improvement in cost efficiency and productivity.

### Corporate culture and governance

Our corporate culture is enriched by our core values of trust, teamwork, ethics, accountability, respect and innovation and advocates our purpose to “Make the world a better place through sustainable finance”. Our business model, ensures we create value to all our stakeholders in an ethical and inclusive manner.

Comprehensive governance structures and processes enable us to manage our functions effectively. While our responsive and agile strategy review process considers the risks and opportunities connected to our broader operating context our governance processes ensure that we deliver against this strategy to create value for our stakeholders. The company ensures that appropriate reporting lines and structures are duly established facilitating ethical conduct and transparency across the overall operation. We remain fully compliant with the rules and regulations stipulated by the regulatory authorities and governance bodies.

### Awards

The awards and recognition we have received over the years is a true testament to our commitment to uphold high standards of ethics and integrity and our pledge to sustainability. During the year, the Company received the following award.

Certificate of Compliance at the TAGS Awards 2022.

## INTELLECTUAL CAPITAL

### Certifications

We continue to fine-tune our systems and processes to be in line with global best practices.

Certifications	International best practices
<ul style="list-style-type: none"> <li>• ISO 22301-2012 (Quality Management Systems)</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability Standards and Certification Initiative (SSCI) guidelines on holistic sustainability</li> </ul>
<ul style="list-style-type: none"> <li>• ISO 9001-1994 (Quality Management Systems)</li> </ul>	<ul style="list-style-type: none"> <li>• Agenda 2030 and Paris Climate Agreement - Karlsruhe Resolution</li> </ul>
<ul style="list-style-type: none"> <li>• BCMS 9001-2015 Business Continuity Management System (BCMS)</li> </ul>	<ul style="list-style-type: none"> <li>• GRI Standard and Integrated Reporting framework</li> </ul>

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### Looking beyond

We intend to move ahead strengthened by the experiences of a rather challenging year and are more encouraged to achieve operational excellence in all aspects of what we do. We are planning to launch a 360-degree corporate campaign to elevate the AFC brand to a new level. While maintaining our strength and stability as the oldest financial institution in Sri Lanka we are determined to step up and prepare ourselves for the futuristic options of the financial industry.

#### Anticipated outcomes

- ◆ Deliver customer centric integrated solutions.
- ◆ A culture of innovation and exploration.





GRI 201-2	GRI 301-1	GRI 302-1	GRI 302-3	GRI 302- 4	GRI 303-3	GRI 303-5
GRI 304-1	GRI 304-2	GRI 304-3	GRI 304-4	GRI 304-5	GRI 305-4	GRI 305-5
GRI 306-1	GRI 306-2	GRI 306-3				

Our natural capital consists of the environmental resources we use in our business operations. As a financial services organization, we have taken measures to minimize our impact on the environment. While our overall environmental footprint is relatively small, we recognize that our most significant impact comes from carbon emissions. These emissions arise not only from the combustion engines of the vehicles we finance, but also from the electricity usage and fuel consumption of our employees who use various transportation methods to commute between home, office and other locations. We are actively working to address and reduce these emissions to ensure a more sustainable future. As climate change continues to significantly impact ecosystems and organisms, we continue to do our part in ensuring environmentally responsible and socially equitable consumption of natural resources across the entire value chain to conserve natural resources for ecological balance and save them for future generations.

**How natural capital supports our value creation**

Renewable and non-renewable environmental resources including energy, water and paper are critical components of our value creation process. Our comprehensive environmental management framework provides the required guidance on how to better manage and conserve these resources.

**Improved brand value**

- + **26%** reduction in electricity usage
- + **26%** reduction in water usage
- + **525,310** trees planted
- + **LKR 9.8 Mn** invested in environmental sustainability initiatives

**SDG Focus**



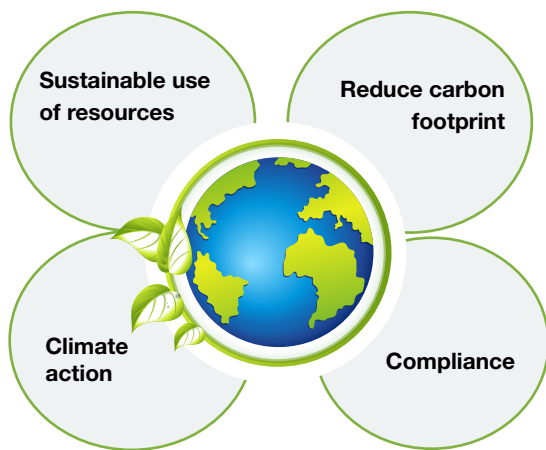
# NATURAL CAPITAL

## Our approach

We always strive to create a positive impact on our natural capital and to this end have established clear directions on how we identify, manage and measure our progress across our environmental focus areas. This is guided by our Environmental, Social and Governance (ESG) framework, with individual strategies, policies and accountability across each key environmental focus area. We measure our impact on the natural environment and take action in areas that require improvement. This enables us to be advocates for responsible environmental stewardship in the areas in which we excel.

We use internationally accepted measures and reporting frameworks to report progress on our environmental performance to our stakeholders including the Integrated Reporting Framework, Global Reporting Initiative (GRI), United Nations Sustainable Development Goals (SDGs), Sustainability Standards and Certification Initiative (SSCI).

## Our priorities



### Sustainable use of resources

#### Energy management

Grid electricity is our primary energy source and each year we continue to strengthen our energy management framework. Solar energy is currently being used at our super branch under the net metering scheme which has helped reduce consumption and the cost of energy from the national grid.

#### Our energy strategy includes;

- ◆ The use of energy efficient electrical appliances such as inverter air conditioners, energy efficient photocopiers, printers, laptops and computers, and LED lighting at our premises.
- ◆ Adoption of energy efficient measures at branches newly opened or relocated.

- ◆ Use of natural lighting at our workstations.
- ◆ Inculcating a culture of switching off unnecessary lights and other appliances when not in use.
- ◆ Display of energy saving tips.

#### Emissions management

Fuel consumed for business travel and backup electricity are the main forms of emissions at AFC. The fuel crisis which emerged during 2022 compelled the Company to take swift action to reduce the fuel consumption, including intermittent work from home arrangements, outstation visits to be made using public transport and continuation of online meetings and approvals. Employees were also requested to reduce their home consumption at least by 10% as a measure to help themselves as well as the Company.

## Water management

Water consumption is not materially significant considering the nature of our operations. Water for our daily consumption is primarily sourced by the National Water Supply and Drainage Board while drinking water is obtained from an outsourced company. The sustainability culture inculcated among our staff and environmental best practices encourage saving water across all our office premises. Additionally, the Company also takes prompt action in terms of repairs and maintenance, thereby minimizing wastage or leakage.

During the year, water consumption has drastically reduced mainly due to the more careful and conscious usage by our employees.

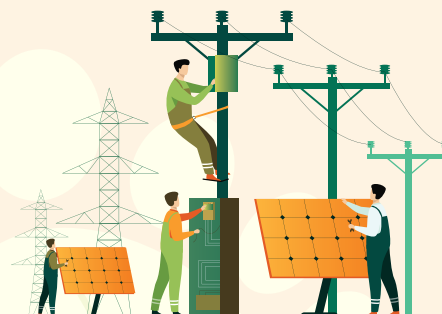
## Waste management

The strategic shift towards digitizing processes and automating operations have led to a sustained decline in paper consumption. We aim to minimize the use of paper and promote a 'paper-less environment' through various initiatives as outlined below.

- Increasing the usage of digital communication channels like e-mail, Google Suite, Clickup and Zoom.
- Whenever possible, using digital channels for client contacts and encouraging the usage of SMS services.
- Reducing the paper size of letters and other documents provided to clients and using single colour envelopes.
- Keeping scanned copies of customer documents instead of physical files.
- Use of printers that can print on both sides.
- Encourage staff to use e-docs instead of paper documents.
- Managing personnel records with HRIS.
- Investing in the new Core IT system.

# Electricity

	2022/23	2021/22	YoY change
Units (kWh)	229,534	288,333	-20%
No. of Employees (HO)	333	374	
Cost (LKR)	8,108,071	7,808,441	
Intensity (Unit/Employees)	689	771	-11%
Intensity (Cost/ Employees)	24,349	20,878	17%



# Fuel

	2022/23	2021/22	YoY change
Units (kWh)	15,605	26,132	-40%
No. of Employees (HO)	333	374	
Cost (LKR)	6,595,851	4,085,473	
Intensity (Unit/Employees)	47	70	-33%
Intensity (Cost/ Employees)	19,807	10,924	81%

# Water

	2022/23	2021/22	YoY change
Units (kWh)	8,283	10,411	20%
No. of Employees (HO)	333	374	
Cost (LKR)	986,461	935,640	
Intensity (Unit/Employees)	25	28	-11%
Intensity (Cost/ Employees)	2,962	2,502	18%



# Paper

	2022/23	2021/22	YoY change
Units (kWh)	12.3	16.9	-28%
No. of Employees (HO)	333	374	
Cost (LKR)	6,909,634	4,158,691	
Intensity (Unit/Employees)	0.04	0.05	-19%
Intensity (Cost/ Employees)	20,750	11,120	87%



# NATURAL CAPITAL

## Climate action

We acknowledge that our business operations contribute towards climate change and thus aim to integrate a robust climate resilience strategy.



### Our climate resilience strategy



## HIGH IMPACT GOAL 1

Reduce the national carbon footprint of Sri Lanka by 120,000 CO<sub>2</sub>Mt by 2030

### Objectives

- ◆ Plant 1.33 Mn trees by 2029/30 FY (30% increase from the previous goal)
- ◆ Strengthen the biodiversity conservation and ecosystem restoration efforts
- ◆ Promote alternative energy products and services
- ◆ Continue to engage in biodiversity conservation and ecosystem restoration initiatives, with the partnership of WWCT.

## Climate conscious lending

As a leading financial institution, we continue to promote social entrepreneurship that will generate positive impacts on the environment and the society. Our Impact Finance Unit, established in 2021 to design, develop and implement impact finance products that support both environmental and social well-being introduced six new climate finance products to the market during the year under review which comprised Tea Growers Loans, Solar Loans, Climate Smart Irrigation, Dairy Development Loans, Cinnamon Cultivators Loans and Poly tunnel Farming loan.

During the year we signed an MOU with the USAID climate adaptation project. This reflects the mutual intention to cooperate and coordinate the mobilization and strengthening of resources to support the adoption and scaling of climate resilient and adaptation interventions. On the basis

of the assistance provided, AFC will endeavor to integrate climate adaptation practices and interventions in its agriculture-focused lending operation. AFC is adapting climate-proofing recommendations for a few of our designated climate finance products mentioned above. The project investment for the next 3 years is LKR 500 Mn.

We also offer concessionary terms for the lease of hybrid vehicles and electric vehicles, which are deemed to have a significantly lower carbon footprint compared to traditional diesel or petrol vehicles.

The green lending initiative of the Company aims to decrease emissions and the carbon footprint associated with lending facilities. To achieve this goal, AFC offers leasing facilities for electric and hybrid vehicles. This portfolio currently constitutes more than 3% of the total lending portfolio.

◆ Hybrid vehicle portfolio  
**LKR 1,243 Mn**

◆ Electric vehicle portfolio  
**LKR 95 Mn**

Greater emphasis was also placed on raising awareness and building internal capabilities to integrate social and environmental considerations into our decision-making. Furthermore, we also continued to educate our customers on the importance of environmental and social sustainability and support them in their journey towards a more environmentally friendly operation.



**Carbon footprint for FY 2022/23**  
**2,900tCO<sub>2</sub>e**

## Conservation efforts

Project details	Progress and outcome																												
Thuru Mithuru tree planting drive	<table border="1"> <thead> <tr> <th>Project/Partner name</th> <th>No. of plants</th> </tr> </thead> <tbody> <tr> <td>5km tree planting program in Puttlam District- Karavitagara Sri Sarananda Maha Piriwena - Chilaw</td> <td>1,000</td> </tr> <tr> <td>Environmental Day celebration tree planting project with Head Office staff</td> <td>150</td> </tr> <tr> <td>Road Development Authority- Under Maga Depasa Thuru Sevana' 2 Mn trees program</td> <td>43,400</td> </tr> <tr> <td>Balapitiya Divisional Secretarial office tree planting project in commemoration of the 75th Independence Day of Sri Lanka</td> <td>2,838</td> </tr> <tr> <td>Beruwala Divisional Secretarial office - tree planting project</td> <td>600</td> </tr> <tr> <td>Benthota Divisional Secretarial office - tree planting project</td> <td>1,230</td> </tr> <tr> <td>Kalutara Divisional Secretarial office - tree planting project</td> <td>1,500</td> </tr> <tr> <td>Mihijaya Environmental Foundation Chilaw- tree planting project</td> <td>24,000</td> </tr> <tr> <td>Peak Ridge Forest Corridor Conservation program</td> <td>470</td> </tr> <tr> <td>Branch level tree planting project launched with the first project carried out at the Ragama Basilica church.</td> <td>82,868</td> </tr> <tr> <td>Tree planting project with Narahenpita police station</td> <td>1,000</td> </tr> <tr> <td><b>Total trees planted during 2022/23</b></td> <td><b>159,056</b></td> </tr> <tr> <td><b>Total trees planted as of 31st March 2023</b></td> <td><b>525,310</b></td> </tr> </tbody> </table>	Project/Partner name	No. of plants	5km tree planting program in Puttlam District- Karavitagara Sri Sarananda Maha Piriwena - Chilaw	1,000	Environmental Day celebration tree planting project with Head Office staff	150	Road Development Authority- Under Maga Depasa Thuru Sevana' 2 Mn trees program	43,400	Balapitiya Divisional Secretarial office tree planting project in commemoration of the 75th Independence Day of Sri Lanka	2,838	Beruwala Divisional Secretarial office - tree planting project	600	Benthota Divisional Secretarial office - tree planting project	1,230	Kalutara Divisional Secretarial office - tree planting project	1,500	Mihijaya Environmental Foundation Chilaw- tree planting project	24,000	Peak Ridge Forest Corridor Conservation program	470	Branch level tree planting project launched with the first project carried out at the Ragama Basilica church.	82,868	Tree planting project with Narahenpita police station	1,000	<b>Total trees planted during 2022/23</b>	<b>159,056</b>	<b>Total trees planted as of 31st March 2023</b>	<b>525,310</b>
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Hill Country Leopard Conservation Project	<p>AFC partnered with the Wilderness and Wildlife Conservation Trust (WWCT) in 2018 with the intention of protecting the endemic Leopard species - <i>Panthera Pardus Kotiya</i> of the central highlands of Sri Lanka and to protect the flora and fauna and other living species in the 18- acre Peak Ridge Forest Corridor (PRFC) which has been distinguished as a World Heritage Site since 2010.</p> <p>The leopard found in the hill country is a sub-species endemic to Sri Lanka, whose existence is threatened mainly due to habitat loss and human-leopard encounters and has been listed as endangered on the IUCN Red List. As a result of this valuable initiative, during the period AFC has engaged with WWCT, 157 leopards were identified for protection along with 35 other mammal species in the peak wilderness area.</p> <p>Under the Peak Ridge Forest Corridor conservation program AFC planted 470 plants to replenish the forest cover which allows the growth of endemic species of plants while leading to ecological restoration and increased biodiversity of the protected area.</p>																												
AFC Hapannu	<p>This is an initiative we embarked on during the year in collaboration with the Forest Department, through which we intend to develop forest cover across 25 hectares along the Kandy-Randenigala route. The initial clearing work has been completed and we hope to commence the tree planting in May 2023.</p>																												
Dalu by AFC	<p>Dalu by AFC is the social media drive of the Company's "AFC Dalu" sustainability program, through which we educate the general public on environmental sustainability and increase climate literacy. This campaign is ongoing via Facebook, Instagram and the www. afcdalu.com web portal. The web portal launched in 2020 featuring the sustainability initiatives of the Company encourages the participation and contributions of interested parties towards the 'One Million Trees for Unity' program.</p> <p>Through our initiatives we are also contributing towards Sri Lanka's Bonn Challenge which aims to reach the goal of 32% forest cover by 2030. With the one million tree planting project AFC will contribute 8.97% to this national goal.</p>																												

# NATURAL CAPITAL



Tree planting project - Ampara branch



Tree planting project - Deniyaya branch



Tree planting project - Homagama branch



Tree planting project - Kirindiwela branch



Tree planting project - Nawalapitiya



Tree planting project - Mulankavil branch



Tree planting project - Kurunegala branch



Tree planting project - Nuwaraeliya branch



Tree planting project - Ragama Basilica Church



Tree planting project - Ragama Basilica Church




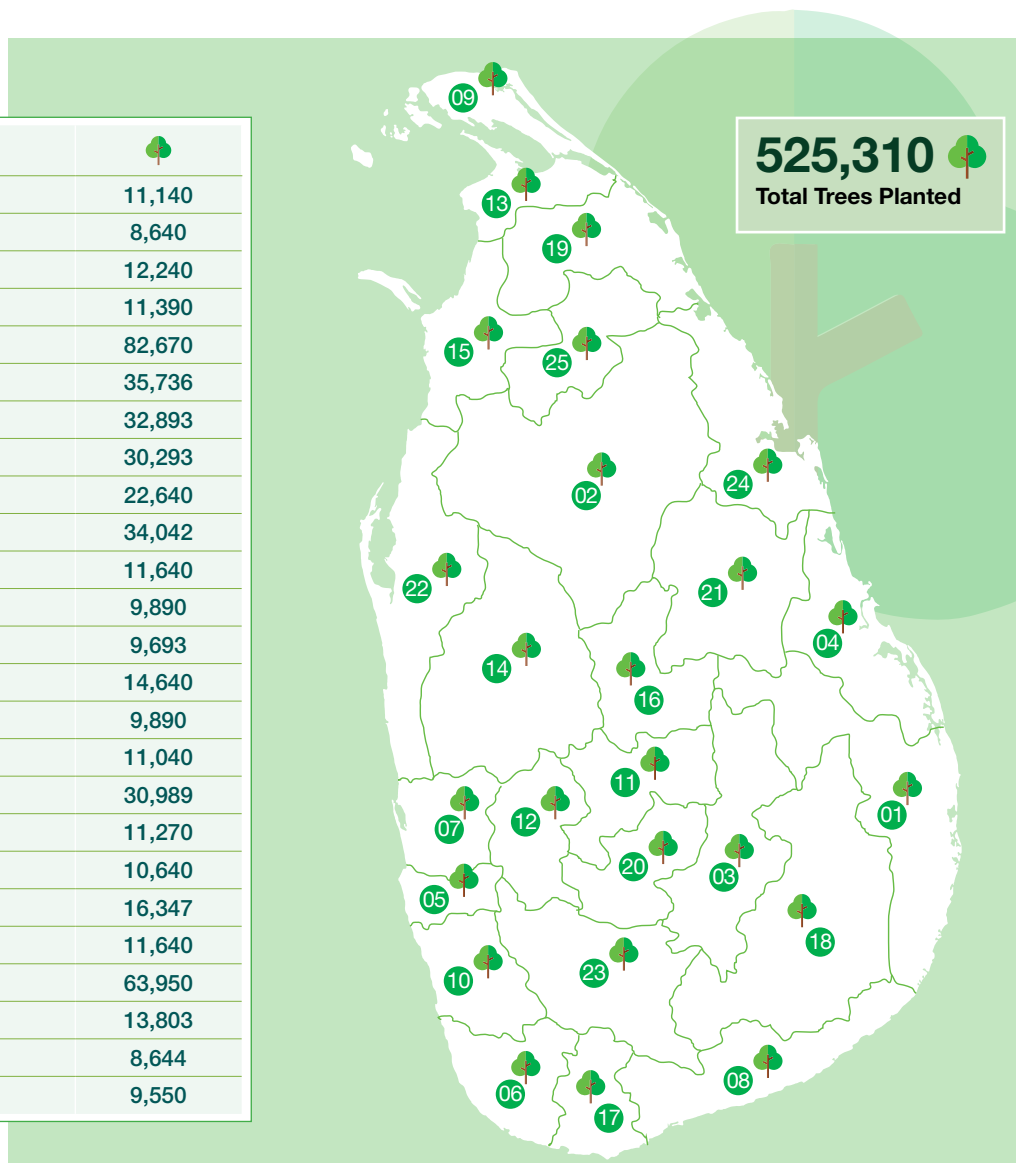
Tree planting project - Gampola branch



Tree planting - Kalutara branch

Tree Planting

No.	District	
1	Ampara	11,140
2	Anuradhapura	8,640
3	Badulla	12,240
4	Batticaloa	11,390
5	Colombo	82,670
6	Galle	35,736
7	Gampaha	32,893
8	Hambantota	30,293
9	Jaffna	22,640
10	Kalutara	34,042
11	Kandy	11,640
12	Kegalle	9,890
13	Kilinochchi	9,693
14	Kurunegala	14,640
15	Mannar	9,890
16	Matale	11,040
17	Matara	30,989
18	Monaragala	11,270
19	Mullaitivu	10,640
20	Nuwara Eliya	16,347
21	Polonnaruwa	11,640
22	Puttalam	63,950
23	Ratnapura	13,803
24	Trincomalee	8,644
25	Vauniya	9,550



Looking beyond

We intend to strengthen our commitment towards protecting the environment and embedding ESG into all our actions. We will continue to work with like-minded partners such as the RDA, Lions Club and other interested environmental groups in the country. We will also drive our green initiatives to support biodiversity conservation and emission reduction.

Anticipated outcomes

- ◆ Obtain the SSCI Version 2.0 certification.
- ◆ Plant 1.33 Mn trees by 2030 (High Impact Goal).
- ◆ 250,000 tree target per year.
- ◆ To ensure plant growth, geotag the plant by its location and track its progress using the "Maga Depasa Thuru Sewana" mobile application.
- ◆ Planning to plant 100,000 plants for 1 Million tree planting project on June 5th World Environmental Day in collaboration with FHA

# CORPORATE GOVERNANCE

GRI 2-2	GRI 2-3	GRI 2-4	GRI 2-9	GRI 2-10	GRI 2-11	GRI 2-12	GRI 2-13	GRI 2-14	GRI 2-15
GRI 2-16	GRI 2-17	GRI 2-18	GRI 2-23	GRI 2-26	GRI 205-1	GRI 405-1			

## Highlights of the year

- ◆ The Corporate Governance code along with the Terms of Reference of the Board were reviewed and revamped.
- ◆ Formulation of the Corporate Governance Charter.
- ◆ Developing and Implementing a Conflict of Interest Policy.
- ◆ Reviewing and strengthening the Code of Conduct of Directors.
- ◆ Reviewing and revitalizing the Communication Policy of the Company to be in keeping with the changing dynamics.
- ◆ Reviewing the Related Party Transaction Review Policy and the Terms of Reference to improve its effectiveness.
- ◆ Reviewing the Risk Management Policy and Terms of Reference of the BIRMC.

## Corporate Governance Framework

AFC's Corporate Governance Framework provides the basis to support the Company's growth strategy by influencing how the objectives are determined and achieved, how risk is monitored and assessed, as well as how performance is optimized. The main purpose of AFC's Corporate Governance Framework is therefore to facilitate the creation or enhancement of stakeholder value based on the good governance principles of fairness, accountability, responsibility and transparency. The Framework reflects the Company's commitment to comply with all regulatory requirements and the corporate best practices which are embodied in the governance structure of AFC to ensure the effective practice of good governance.

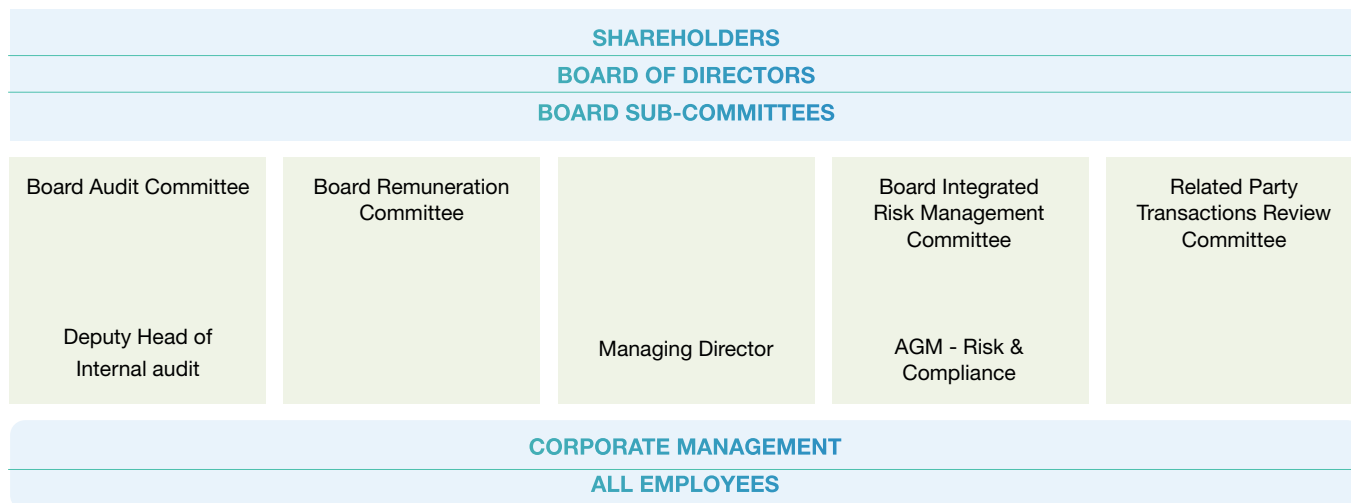
## The Compliance list

Internal	External (Statutory)	External (Voluntary)
<ul style="list-style-type: none"> <li>◆ Purpose Statement</li> <li>◆ Articles of Association</li> <li>◆ Risk Management Framework, Operational Risk Management Policy</li> <li>◆ Compliance policy</li> <li>◆ Corporate Governance Charter</li> <li>◆ Internal Control Framework</li> <li>◆ Information Technology Security Policy</li> <li>◆ Code of Conduct issued by the Finance Houses Association</li> <li>◆ Code of Conduct for Directors</li> <li>◆ Whistleblower Policy</li> <li>◆ Related Party Transactions Review Policy</li> <li>◆ Financial Reporting Framework</li> <li>◆ Ethics and Integrity policy</li> <li>◆ All approved Policies and Procedures.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Finance Leasing Act No.56 of 2000</li> <li>◆ AML and CFT legislations and relevant rules and regulations issued by the FIU</li> <li>◆ Finance Companies Direction on Corporate Governance and amendments thereto</li> <li>◆ Listing Rules of the Colombo Stock Exchange</li> <li>◆ Inland Revenue Act No. 24 of 2017 and amendments thereto</li> <li>◆ Shop &amp; Office Employees Act No. 19 of 1954 and amendments thereto</li> <li>◆ Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS)</li> <li>◆ Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued thereunder</li> </ul>	<ul style="list-style-type: none"> <li>◆ Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)</li> <li>◆ GRI Standards for Sustainability reporting issued by the Global Reporting Initiative</li> <li>◆ The United Nations Sustainable Development Goals (SDG's)</li> <li>◆ Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)</li> </ul>



### Corporate Governance Structure

Under the leadership of the Board, AFC has in place a comprehensive management structure which includes clearly defined policies, procedures and delegated authority lines.

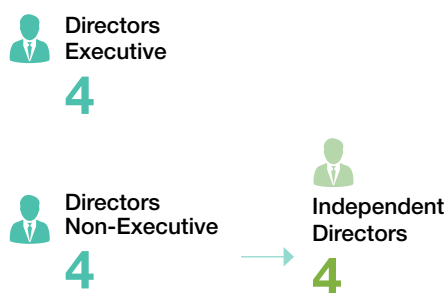


### Roles and Responsibilities

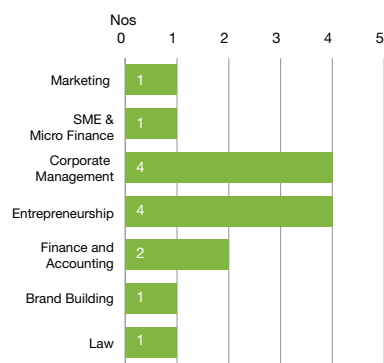
#### The Board

AFC’s Board maintains the required balance with individuals whose qualifications, experience and capabilities are appropriate for the scale, complexity and strategic positioning of the business. The Board composition of Executive and Non-Executive Directors collectively brings about a strong and in-depth mix of business skills, expertise, experience and considerable knowledge which underpins the decision making of the Board of Directors. Details on the Board Profiles are available on pages 24 to 26.

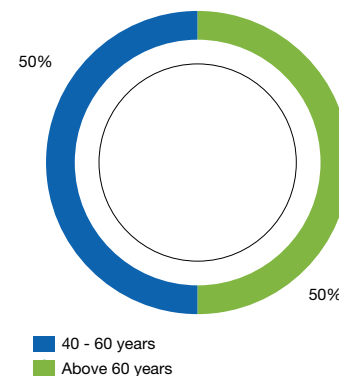
#### Board Composition as at 31st March 2023



#### DIVERSITY AND SKILLS



#### AGE REPRESENTATION



#### Board Meetings

The Board of Directors hold Meetings every month with additional meetings held if and when required. The Board met 17 times during the year, with all Board Meetings characterized by high attendance, active participation, constructive and open discussions.

# CORPORATE GOVERNANCE

## Attendance at Board and Board Committee Meetings

Directors' attendance at Board and Board Committee meetings are given below;

Director	Capacity Ex, NEx, NEI	Board Meeting	Board Audit Committee	Board Integrated Risk Management Committee	Related Party Transactions Review Committee	Remuneration Committee
Mrs. G. S. T. Dharmakirti-Herath Chairperson	NEI	17/17	12/12	6/6	4/4	3/3
Mr. R. K. E. P. de Silva	Ex	17/17	-	6/6	-	-
Mr. W. P. K. Jayawardana	Ex	17/17	-	6/6	-	-
Mr. J. M Gunasekera	Ex	17/17	-	6/6	-	-
Mr. R. E Rambukwelle	Ex	17/17	-	6/6	-	-
Mrs. P. de Silva	NEI	17/17	12/12	6/6	-	-
Mr. L. J. H. De Silva	NEI	17/17	12/12	-	4/4	3/3
Mr. D. L. I. Hettiarachchi	NEI	17/17	-	-	4/4	3/3

**Ex** - Executive Director, **NEI** - Non Executive Independent Director

All the Directors are required to attend each Board meeting and have attended all Board Meetings.

Only the members of the Board are entitled to attend the Board meetings, with the Company Secretary attending to formally record the proceedings at each meeting. However, other members of the Senior Management team may, by invitation, attend meetings to address specific agenda items. In addition, members of the Corporate Management team and/or external experts are allowed to make presentations to the Board and Board Committees as and when required on matters pertaining to the Company's business and market outlook/ performance/ strategy and on good governance.

A calendar for all meetings is drawn up at the commencement of a calendar year to facilitate attendance at Board meetings and Board Committee Meetings. In addition sufficient notice is provided to Directors when the Notice convening a meeting is despatched.

Prior to each Board or Board Committee Meeting, the Company Secretary ensures that the relevant material including a specific Agenda with guidelines on content and a summary of management presentations are made available to the Directors seven days prior to the date of the holding of the meeting. The Directors who are unable to attend a meeting are updated through the documented Minutes, which are tabled and adopted at the succeeding Meeting. Follow-up from matters arising from the Minutes are also considered at the meetings.

Financials for the preceding month are prepared and circulated amongst the Directors in advance before the Board Meeting in the following month along with the key financial performance indicators of each division. Moreover, the board should find whether the information provided are insufficient or require more clarity, they are entitled to call for further information or clarification, through the established channels.

Every Director is furnished with the material that is disseminated irrespective of whether the Director is able to attend a Board/ Board Committee Meeting or not.

### Role of the Board

The Board provides leadership, strategic direction and overview of the Company's affairs. The Board is collectively responsible and accountable to AFC's shareholders for the long-term success of the Company and to ensure that the appropriate management and operational framework is in place, in pursuit of its objectives. The Board is responsible for setting strategy, objectives, goals, values and standards and ensure that the necessary controls and resources are in place to achieve these within the required timelines.

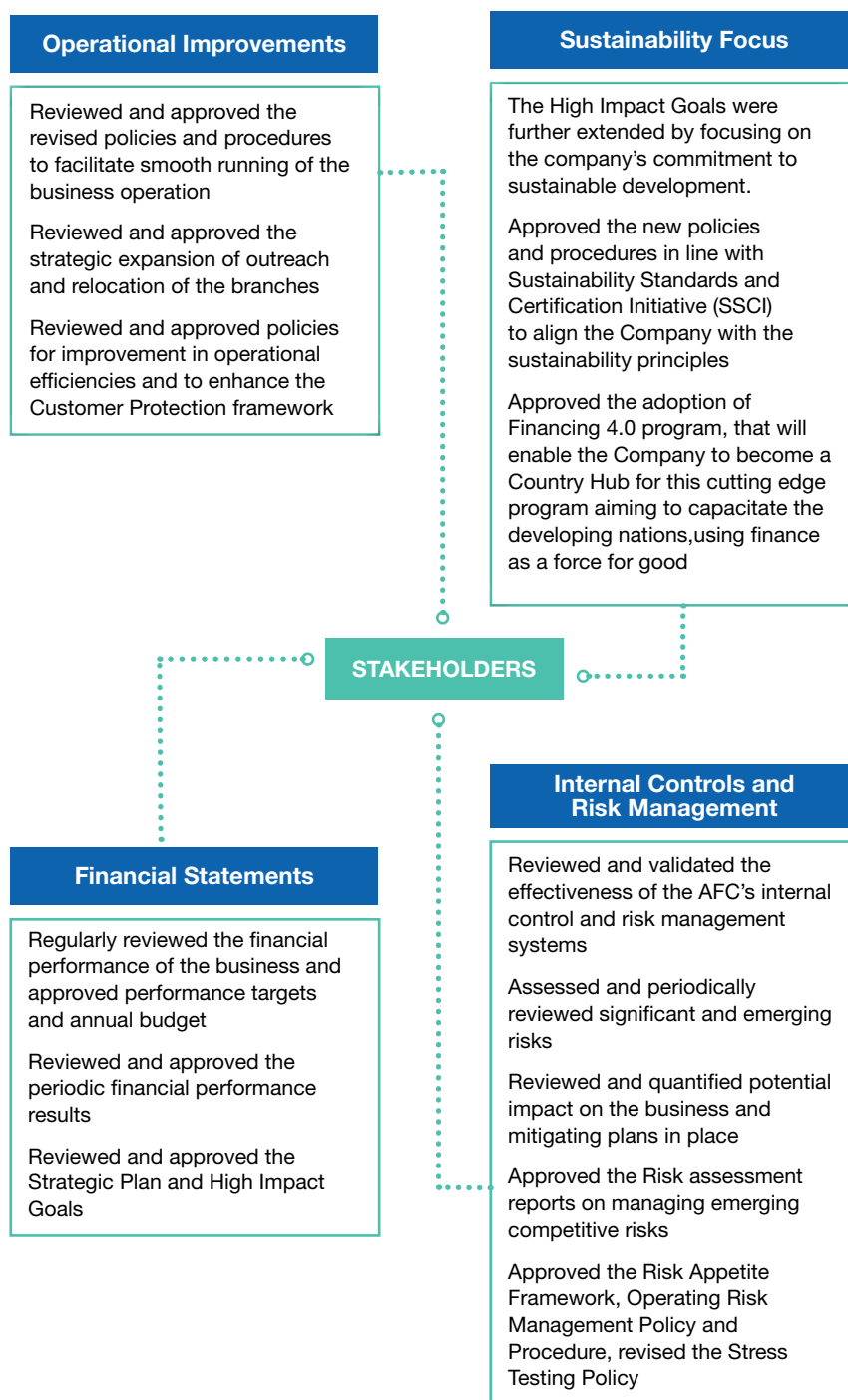
The Board discharges its responsibilities for the leadership and control of the Company by:

- Formulating the strategic plan, Key Performance Indicators, High Impact Goals enumerating the goals, objectives and anticipated outcome and facilitate the provision of the infrastructure and resources for the fruition of such a plan.
- Functioning as the ultimate authority in the approval process and for matters reserved for the Board of Directors.
- Providing leadership on governance and sustainability mandate related matters and establishing the required framework.
- Giving direction for formulation of frameworks and overall Management structures for the achievement of the objectives and goals.
- Setting parameters for the performance and assessment of objectives and goals.
- Participating in deliberations and decision making at Board/Board Committee levels.
- Evaluating the performance against set objectives, KPI's and goals both financial and non financial and seizing opportunities that provides itself by making business specific decisions that add value to the Company and/or which is in line with its sustainability mandate.
- Ensuring that the right framework is in place and assessing it periodically to ensure that the deliverables could be optimized within the set regulatory and risk based parameters.
- Establishing corporate culture and values.
- Establish the framework for Risk Management and Compliance.

- Evaluate and Improve the Corporate Governance Framework.

To help discharge its responsibilities, the Board has a formal schedule of matters specifically reserved for discussion and debate. This forms the core of the Board's agenda. The Chairperson and

the Company Secretary is responsible for ensuring that the Directors receive accurate, timely and clear information on all relevant matters so that they are adequately briefed in advance and that the information is of sufficient quality to assist Directors in making informed contributions and decisions.



# CORPORATE GOVERNANCE

## Quality and Competencies of the Board

The AFC Board is well balanced and comprises of members with sufficient financial acumen and knowledge with exposure to diverse sections.

There are two Chartered Management Accountants who hold qualifications on financial management as well to provide guidance on non financial matters. In addition, other Directors of the Board have a wealth of experience that provides them with sufficient financial acumen.

In order to maintain a healthy balance, the Directors have qualifications, expertise and experience in other areas such as legal, business management, marketing etc. which are also essential for the fruitful decision making and in setting the strategic direction.

Board of Directors comprise of four Non- Executive Directors, in an independent capacity. The number of Independent Directors is above the minimum stipulated requirement under the Code of Best Practice for Corporate Governance jointly issued by the SEC and the Institute of Chartered Accountants of Sri Lanka and the Corporate Governance Direction issued by the Central Bank of Sri Lanka.

## Non-Executive Directors Period of Office

Name of Director	Date of appointment on the Board	Period of Office as at 31st of March 2023
Mrs. G. S. T. Dharmakirti - Herath	22.10.2020	2 year and 5 months
Mrs. P. de Silva	09.08.2018	4 years and 7 months
Mr. L. J. H. de Silva	16.10.2019	3 years and 5 months
Mr. D. L. I. Hettiarachchi	22.10.2020	2 years and 5 months

## Chairperson's Role

The Chairperson is responsible for chairing and managing the business of the Board whilst ensuring that the Managing Director and the management effectively implement the strategies and policies formulated by the Board. The Chairperson also provides stewardship for the adoption of good governance practices and provides oversight to ensure effective communication with shareholders and other stakeholders.

The Chairperson is responsible to not only providing leadership but also for overseeing the functioning of the Board to safeguard the best interest of the Company and its shareholders. Accordingly, the Chairperson is responsible for;

- ◆ Ensuring there is an effective contribution from the Non-Executive Directors and a constructive relationship between Executive and Non-Executive Directors
- ◆ Ensuring Board meetings are planned and conducted effectively
- ◆ Setting the agenda for each Board meeting, taking cognizance of the matters proposed by other Directors, members of various Board committees or the Board Secretary
- ◆ Ensuring the Board members receive accurate, timely and clear information

- ◆ Ensuring Minutes of Board Meetings are accurately recorded and circulated amongst the Directors.

- ◆ Providing leadership and guidance to the Board in order to create the conditions to improve the Board's and individual Director's effectiveness, and ensures that all key and appropriate matters are discussed by the Board in a timely manner

- ◆ Promoting a culture of openness and encouraging constructive deliberations, between Executive, Non-Executive Directors regarding Board matters so as to fully contribute to the effective functioning of the Board.

- ◆ Ensuring that the Board as a whole plays a full and constructive part in the development and determination of AFC's strategies and policies, and that Board decisions made are in the Company's best interests and fairly reflect Board's consensus.

- ◆ Providing leadership to the process for self-assessment to generate meaningful feedback to further improve the effectiveness of the Board.

- ◆ Ensuring effective communication is maintained with the shareholders.

## Managing Director's Role

The roles of the Chairperson and the Managing Director are held separately and the division of responsibilities between these roles are clearly established. The Chairperson is responsible for leading the Board and ensuring its effectiveness, while the MD is responsible for the day to day running of the business and implementation of the strategy and policies adopted by the Board.

The Managing Director is also responsible for the development and implementation of strategy, day-to-day management of the Company and managing the Senior and Executive management team in successfully fostering a relationship with key stakeholders.

Managing Director would establish structures and advocate an ethical culture and also establish the risk and compliance framework. Instrumental to deliver the performance of the company for the achievement of the objectives both financial and nonfinancial. Achieve operational and service excellence by having management structure and offices at various levels who will have clearly defined deliverables and facilitate growth in the business with customer centric focus .

The Managing Director is assisted by the Deputy Managing Director to operationalize the strategies and financial goals of the Company.

### Company Secretary

All Directors have access to the Company Secretary. The Company Secretary is responsible to the Board for ensuring that the agreed procedures and applicable rules and regulations are observed. In addition, the Company Secretary also serves as the Secretary to all Board Committees and maintains Minutes of all Board meetings and Board Committee meetings.

Other responsibilities of the Board Secretary include;

- ◆ Co-ordinating matters pertaining to the conduct of Board Meetings and Board Committee meetings.
- ◆ Acting as the communication liaison between Non-Executive Directors and Management.

- ◆ Facilitating adoption of best practices on Corporate Governance including assisting Directors in respect to their duties and responsibilities, in compliance with relevant legislation and best practices.
- ◆ Maintaining Minutes at Board Meetings and Board Committee Meetings.
- ◆ Ensure appropriate disclosures on related parties and related party transactions are in line with regulatory requirements.

The Articles of Association of the Company specify that the appointment and removal of the Company Secretary shall be determined by the Board of Directors.

### Training for the Directors

All Directors are entitled to receive relevant training opportunities for continuous development, to ensure that their contribution to the Board Committees remains relevant. Ongoing training and updates are provided for Directors to regularly refresh their knowledge, skills and keep abreast of the latest trends and regulatory developments that can impact the business.

### Evaluation

Annually the performance of the Board as a whole is carried out and also that of the Board Committees to establish effectiveness. There are measurable parameters and also the overall responsibilities as mentioned for improvement.

Every Board Member have a process of self- evaluation and the Executive and Non Executive positions in the Board are evaluated by the Chairperson. The Executive members of the Board also evaluated for performance against the objectives and goals.

The Board has adopted a Code of Conduct for Directors.

### Employee Code of Conduct

AFC's Employee Code of Conduct has been established to ensure that employees adhere to the highest standards of professional conduct. The Code clarifies AFC's expectations for all its employees by establishing clear and reasonable standards of conduct required and provides guidance in the actual determination of appropriate conduct in the workplace. Each employee has the obligation to ensure compliance with the Code as a condition of their employment contract with the Company. All employees are expected to display a behaviour that is above reproach, and that which can withstand public scrutiny. In this context, the Code is intended to prevent employees from placing the Company at risk.

### Whistleblower Policy

The Company's Whistleblower Policy has been formulated to enable all employees to raise concerns against any malpractice such as immoral or unethical conduct, fraud, corruption, potential infractions of the ethics, Company's policies, procedures or any other attribute.

This policy also outlines the reporting procedure and investigation mechanism to be followed in case an employee blows the whistle for any wrong doing in the Company.

Employees are given protection in two important areas, confidentiality and against retaliation, ensuring that employees can raise concerns regarding any violation or potential violation easily and free of any fear of retaliation, provided they have raised the concern in good faith.

## CORPORATE GOVERNANCE

### Accountability and Ethics Internal Control

The Board of Directors has the responsibility for establishing a comprehensive internal control system to exercise necessary control over all operational activities, with particular attention to areas considered potentially at risk.

The system is designed to give assurance, inter alia, safeguarding of assets, the maintenance of proper accounting records and the reliability of the financial information generated.

However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board reviews the reports arising from the internal and external audits and monitors the progress of the Company.

### Risk Management Framework

AFC's policy is to achieve best practices in the management of all risks that threaten to adversely impact the Company, its operations, customers, physical and digital assets, functions, the community or the environment. Accordingly Risk Management forms part of strategic, operational and line management responsibilities and as such it is integrated into the strategic and business planning processes. The Board and the Board Integrated Risk Management Committee are the apex bodies in charge of risk stewardship. Their duties include overview of the risk management framework, direct and monitor its implementation throughout the Company. Every AFC employee is deemed to have a role in implementing the Company's Risk Management policy and engaging in proactive risk vigilance to ensure timely identification of potential threats.

### Accountability and Responsible Reporting

The Board remains committed to present a balanced and comprehensive assessment of the Company's financial position, performance and prospects. Accordingly the Board considers it a key priority to ensure the timely publication of annual and quarterly financial results with comprehensive details enabling the stakeholders to make informed decisions. All publications comply with the statutory requirements, procedures laid down by the Central Bank of Sri Lanka Colombo Stock Exchange and the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka.

For the disclosure of sustainability information in the annual report, the Company has adopted the integrated reporting approach promulgated by the International Integrated Reporting Council (IIRC) and where possible, the GRI Standards last updated in 2021.

To further demonstrate the commitment to sustainability, AFC also reports on its contribution to the UN Sustainability Development Goals (SDG's)

### Managing Conflicts of Interest

The Board of Directors have formulated a Conflict of Interest policy to manage the conflicts of interest which could occur in the ordinary course of business. The Board recognises that conflicts of interest may occur from time to time. Accordingly each member of the Board and Corporate Management employees are required to provide full disclosure of all actual and potential matters of conflicts of interest. They shall disclose any and all facts that may be construed as a conflict of interest, both through an annual disclosure process and whenever such actual or potential conflict occurs.

### Related Party Transactions

In line with the principles of fairness and transparency, AFC requires all transactions or dealings with the related parties be conducted in a manner that would not be detrimental to the Company. Identifying and reviewing related party transactions comes under the purview of the Company's Related Party Transactions Review Committee, which reports directly to the Board. The RPTRC is guided by the Related Party Transaction Review Policy.

Further the Company requires Non-Executive Directors and all Independent Non-Executive Directors to submit a signed declaration disclosing any related party involvements that could materially interfere with the exercise of their unfettered and independent judgement.

### Shareholder Rights

Interim Financial Statements and the Annual Report are the main mediums of communication with the shareholders. The reports are available on the CSE website and the Company's website.

Once the Financial Reports are released, the shareholders who have concerns could contact the Chairperson, the Managing Director, or the Company Secretary.

All price sensitive information is disseminated to the public as per requirements of the corporate disclosures of the Listing Rules.

The Annual General Meeting serves as a key platform to facilitate one to one contact with the shareholders.

### Stakeholder Feedback

Stakeholder feedback is a key driver of AFC's continuous improvement agenda. Accordingly AFC welcomes feedback from all stakeholders and has provided several platforms for stakeholders to reach out to the Company. These include;

- One to One discussions
- Social Media
- Formal Meetings
- Telephone calls
- E-mail
- Letters
- Feedback Reports

This is covered by the Communication Policy.

**Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka with Transitional Provisions.**

The Central Bank of Sri Lanka has issued the Direction on Corporate Governance in order to improve and sustain the

Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka. This Direction is identified as the Finance Companies Corporate Governance Direction No. 05 of 2021.

The above Direction comprises of the fundamental principles namely,

1. The responsibilities of the Board
2. Governance framework
3. Composition of the Board
4. Criteria to assess the fitness and propriety of Directors & appointment & resignations of Directors and KRP's
5. The Chairman and the Chief Executive Officer

6. Meetings of the Board
7. Company Secretary
8. Delegation of authority
9. Board-appointed Committees
10. Internal Control
11. Related party transactions
12. Group Governance
13. Corporate Culture
14. Conflicts of Interest
15. Disclosures

The Company's level of compliance with the Corporate Governance Directions is tabulated below.

**The Finance Business Act Directions No.05 of 2021 on Corporate Governance issued by the Central Bank of Sri Lanka for Licensed Finance Companies.**

Section	Corporate Governance Principle	Compliance
<b>1.</b>	<b>Board's overall responsibilities</b>	
1.1	The Board shall have overall responsibility and accountability for the Finance Company (FC), including approving and overseeing management's implementation of the FC's corporate strategy, setting up the governance framework, establishing a corporate culture, and ensuring compliance with regulatory requirements.	The Board has the overall responsibility and accountability over the entity.
<b>1.2</b>	<b>Business Strategy and Governance Framework</b>	
1.2.a	Approving and overseeing the implementation of strategic objectives, including, the overall business strategy with measurable goals for at least the next three years, and updating annually in light of the current developments.	The Board approves and oversees the formulation of the Strategic Plan and the Strategic Objectives for the Company. Strategic Plan would encompass the High Impact Goals which is woven into the business fabric and is determined for a period of three years with milestones for every year both for financial and non financial objectives. This plan is reviewed annually and revised if required.
1.2.b	Approving and implementing the Company's governance framework in light of the Company's size, complexity, business strategy, and regulatory requirements.	The Board has approved and implemented a robust Governance framework considering its size, complexity, structure, strategies and regulatory requirements.
1.2.c	Assessing the effectiveness of its governance framework periodically.	An approved procedure is in place to assess the effectiveness of the governance framework at regular intervals.

## CORPORATE GOVERNANCE

Section	Corporate Governance Principle	Compliance
1.2.d	Appoint the Chairman and the Chief Executive Officer and define the roles and responsibilities.	The Board has appointed a Chairperson who is an Independent Non Executive Director whose role is specific in keeping with the Non Executive role. Our Company has appointed a Managing Director for the Company and he is the virtual CEO. The roles and responsibilities of the Chairperson and Managing Director are clearly defined.
<b>1.3</b>	<b>Corporate Culture and Values</b>	
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent, and professional behavior.	Being a Company that has practiced governance principles from its inception, it has a strong corporate culture with time tested principles which has been handed down over generations and is inculcated amongst the employees.
1.3.b	Playing a lead role in establishing the Company's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	The Board has functioned as a role model embodying the corporate culture it wishes the employees to emulate. There are Codes of Conduct for the Directors and employees. Conflict of Interest Policy is in place to manage conflicts of interests that could occur.
1.3.c	Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	Our Company is the only company in Sri Lanka to be certified for Sustainability by Sustainability Standards Certification Institute, Karlsruhe Germany. The standard promotes a holistic approach as the Standard embodies both social and environmental aspects.
1.3.d	Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers, and other creditors, in the view of projecting a balanced view of the Company's performance, position and prospects with the public and regulators.	The Board has formulated a Communication Policy considering all the stakeholders and a equitable treatment for all.
<b>1.4</b>	<b>Risk Appetite, Risk Management, and Internal Controls</b>	
1.4.a	Establishing and reviewing the Risk Appetite Statement (RAS) in line with Company's business strategy and governance framework.	The Risk Appetite Statement was designed to be in line with the overall Strategic direction and objectives and the governance framework. RAS is reviewed by the BIRMC on a regular basis.
1.4.b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	The Board has approved a Risk Management framework which is outlined in the Risk Management Policy which serves as a guideline for the identification of risks of all types and to manage and mitigate such risks.
1.4.c	Adopting and reviewing the adequacy and the effectiveness of the Company's internal control systems and management information systems periodically.	The Board has established a healthy internal control and management systems which is well supported by an organization and management structures with a view to having an overall effective control mechanism for a sustainable enterprise. The Internal Control System is evaluated annually and the External Auditors furnish an independent certification on this.
1.4.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.	Our Company has a certification for Business Continuity Management Systems and Quality Management Systems and is audited by Det Norske Veritas on an annual basis.



Section	Corporate Governance Principle	Compliance
<b>1.5</b>	<b>Board Commitment and Competency</b>	
1.5.a	All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the Company.	Every member of the Board has devoted adequate time to attend to the matters relating to the Company on a timely basis.
1.5.b	All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.	The Board of Directors comprise of members who are professionals in divergent disciplines and have vast experience in different spheres including those with long years of experience in the industry.
1.5.c	The Board shall regularly review and agree on the training and development needs of all the members.	The Board endorses continuous improvement by identifying specific training and development programs that match the needs of directors and are attended by them.
1.5.d	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Boards as a whole and that of its committees and maintain records of such assessments.	On an annual basis the Directors have adopted a self assessment scheme and it is tabulated and records are maintained.
1.5.e	The Board shall resolve to obtain external, independent, professional advice to the Board to discharge duties to the FC.	A procedure is in place for the Directors to obtain external professional advice.
<b>1.6</b>	<b>Oversight of Senior Management</b>	
1.6.a	Identifying and designating senior management, who are in a position to significantly influence policy, direct activities, and exercise control over business operations and risk management.	The Board of Directors has a policy and procedure in place to identify and designate persons as Key Responsible Officers who will form the Senior Management of the Company.
1.6.b	Defining the areas of authority and key responsibilities for the senior management.	Each member of the Senior Management have their designated roles and responsibilities which are documented.
1.6.c	Ensuring the senior management possesses the necessary qualifications, skills, experience, and knowledge to achieve the FC's strategic objectives.	Senior Management team has diverse functions which is essential for the smooth operations of the Company. The team has the required qualification, skills, experience and knowledge akin to their specific area of expertise and are able to contribute towards the overall achievement of the objectives of the Company.
1.6.d	Ensuring there is appropriate oversight of the affairs of the Company by senior management.	The management of the Company is structured in a manner that the key functions are identified with an appropriate oversight by the members of the Senior Management. There are Systems, Controls and mechanisms in place for effective management.
1.6.e	Ensuring the FC has an appropriate succession plan for senior management.	Key and critical areas have been identified by the Board, and a formal Board approved Succession Plan is in place for all persons who are responsible for such areas including those who are in the senior management.

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Section	Corporate Governance Principle	Compliance
1.6.f	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.	The Board has created forums where the senior management would meet with the Directors to manage the various functions of the entity and there are established Lines of Communication.
<b>1.7</b>	<b>Adherence to the Existing Legal Framework</b>	
1.7.a	Ensuring that the FC does not act in a manner that is detrimental or prejudicial to the interests of, and obligations to, depositors, shareholders and other stakeholders.	There is a Code of Conduct for the Board and another for the employees which enumerates on the expected conduct of each person, and the business ethics to be sustained in the best interest of all the stakeholders.
1.7.b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	The Board ensures that the Directors and employees keep abreast of all laws, regulations, directions and adherence to the same.
1.7.c	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.	Good governance is practiced as a way of life, as such the business activities of the Company is carried out with prudence, integrity and ethics.
<b>2.</b>	<b>Governance Framework</b>	
2.1	Board shall develop and implement a governance framework in line with the Finance Business Act Directions No.05 of 2021.	The Board has formulated and implemented a Corporate Governance framework in keeping with the provisions of the Finance Business Act Direction No.5 of 2021.
<b>3.</b>	<b>Composition of the Board</b>	
3.1	The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the Company.	Considering the complexities of the operations of the Company, a procedure has been formulated to determine the right balance, skills, professionalism, qualifications, expertise and experience required for the members of the Board. Selection is made based on the laid down guidelines.
3.2	The number of directors on the Board shall not be less than 7 and not more than 13.	At the end of the financial year, the Board had eight Directors. Half of them were Executive, and half were Non-Executive. The required balance was maintained throughout the year.
3.3	The total period of service of a director other than a director who holds the position of Chief Executive Officer/ Executive Director shall not exceed nine years, subject to direction 3.4.	None of the Non Executive Directors have served the Board for over nine years.
3.4	Non-executive directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director,	There are no Non Executive Directors representing shareholders of the Company.

Section	Corporate Governance Principle	Compliance
	Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. Provided, however, the number of non-executive directors eligible to exceed 9 years is limited to one-fourth (¼) of the total number of directors on the Board.	
<b>3.5</b>	<b>Executive Directors</b>	
3.5.a	Only an employee of a Company shall be nominated, elected, and appointed, as an Executive Director of the Company, provided that the number of Executive Directors shall not exceed one-third (1/3) of the total number of directors of the Board.	As at the close of the Financial Year there were four Executive Directors i.e. Managing Director, Deputy Managing Director and two Executive Directors and the composition is in compliance with the transitional provisions.
3.5.b	A shareholder, who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an executive director or as senior management. Provided however, existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/ senior management until the retirement age of the FC and may be reappointed as a non-executive director subject to provisions contained in directions 4.2 and 4.3. Existing executive directors without a contract of employment and functional reporting line need to step down from the position of executive director from the effective date of this direction and may be reappointed as non-executive directors subject to provisions contained in directions 4.2 and 4.3.	The Managing Director of the company is also a shareholder and a director. His term of office is following established contractual obligations.
3.5.c	In the event of the presence of the Executive Directors, CEO shall be one of the Executive Directors and may be designated as the Managing Director of the Company.	The Managing Director of the Company is the virtual CEO.
3.5.d	All Executive Directors shall have a functional reporting line in the organization structure of the Company.	All Executive Directors have functional reporting lines and specific defined and documented areas of responsibility and oversight.

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Section	Corporate Governance Principle	Compliance
3.5.e	The Executive Directors are required to report to the Board through the CEO.	The Deputy Managing Director and the Executive Directors report to the Board through the Managing Director.
3.5.f	Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.	The Directors having executive functions in the Company are not Executive Directors of any other company.
<b>3.6</b>	<b>Non-Executive Directors</b>	
3.6.a	Non-Executive directors (NED) shall possess credible track records and have the necessary skills, competency, and experience to bring independent judgment on the issues of strategy, performance, resources, and standards of business conduct.	There are four Non Executive Directors on the Board and they have the knowledge, skills, experience and expertise which enable them to contribute to the deliberations and decisions made by the Board.
3.6.b	A Non-Executive Director cannot be appointed or function as the CEO/ Executive Director of the Company.	The Managing Director of the Company is an Executive Director.
<b>3.7</b>	<b>Independent Directors</b>	
3.7.a	The number of Independent Directors of the Board shall be at least three or one-third of the total number of directors, whichever is higher.	There are four Independent Non Executive Directors on the Board as at the closure of the financial year and is compliant with the requirement.
3.7.b	Independent Directors appointed shall be of the highest caliber, with professional qualifications, proven track records, and sufficient experience.	Independent Directors have been appointed considering their qualifications, experience and expertise.
3.7.c	Independence Criteria of the Non - Executive Director who would be considered independent.	The four Non Executive Directors are independent and their independence is evaluated on an annual basis.
3.7.d.	The nomination committee and Board should determine whether there is any circumstance or relationship, which is not listed in direction 3.7, which might impact a director's independence or the perception of the independence.	Nomination Committee is not in place which is within the transitional provisions. However, there was no circumstance that prejudiced the independence of the Independent Directors during the year under review.
3.7.e.	An Independent Director shall immediately disclose to the Board any change in circumstances that may affect the status as an Independent Director. In such a case, the Board shall review such director's designation as an Independent Director and notify the Director/DSNBFI in writing of its decision to affirm or change the designation.	A process is in place which enables the Independent Director to intimate the change in circumstance which would render him/her to continue to function as an independent Director. There was no such occurrence in the year under review.

Section	Corporate Governance Principle	Compliance
3.8	Alternate Directors	There are no Alternate Directors on the Board.
3.9	Cooling off Periods	There are no members of the Board who are subjected to cooling off periods.
<b>3.10</b>	<b>Common Directorships</b>	
3.10	Director or senior management of a Company shall not be nominated, elected, or appointed as a director of another Company except where such Company is a parent Company, subsidiary Company, or an associate Company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f).	The Executive Directors and Senior Management of the Company do not hold executive positions in other companies including the subsidiary and associates.
3.11	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a Finance Company shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	The members of the Board do not hold Directorships or equivalent positions exceeding twenty.
<b>4.</b>	<b>Assessment of Fit and Proper Criteria</b>	
4.1	No person shall be nominated, elected, or appointed as a director of the Company or continue as a director of such Company unless that person is a fit and proper person to hold office as a director of such Company in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	Fitness and Propriety of the Directors are assessed on an annual basis.
4.2	A person over the age of 70 years shall not serve as a director of an FC.	There are no Directors on the Board who is over 70 years as at the close of the financial year. On attaining the age of 70 post balance sheet date, they have retired.
4.3	Notwithstanding provisions contained in 4.2 above, a director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to a maximum of 75 years of age subject to the criteria mentioned in 4.3 (a) , 4.3 (b), 4.3 ( c) and 4.3 ( d ).	There are no Directors who are members of the Board who exceed 70 years.

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Section	Corporate Governance Principle	Compliance
<b>5.</b>	<b>Appointment and resignation of directors and senior management</b>	
5.1	The appointments, resignations, or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	All appointments and resignations and retirements were carried out in accordance with the provisions of the Governance direction.
<b>6.</b>	<b>The Chair and The Chief Executive Officer</b>	
6.1	There shall be a clear division of responsibilities between the Chairperson and CEO and the responsibilities of each person shall be set out in writing.	The functions of the Chairperson and Managing Director is distinctly different and the Managing Director is the virtual CEO of the Company and their roles are clearly distinct and defined . Current Chairperson is an Independent Non-Executive Director and is not involved in executive or supervisory functions.
6.2	The Chairperson shall be an Independent Director, subject to 6.3 below.	Current Chairperson is an Independent Non-Executive Director and is not involved in executive or supervisory functions.
6.3	In the 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. The Senior Director will serve as the intermediary for other directors and shareholders. Non-Executive Directors including Senior Directors shall assess the Chairperson's performance at least annually.	This is not applicable
<b>6.4</b>	<b>Responsibilities of the Chairperson</b>	
6.4.a	Provide leadership to the Board;	The Chairperson of the Company has many years of experience in the industry and has expertise and experience in the affairs of a Licensed Finance Company. Having such wealth of experience and expertise, she is able to provide leadership to the Board which encourages active participation of both the Executive and Non Executive Directors in the deliberations and decision making processes.
6.4.b	Maintain and ensure a balance of power between the Executive and Non-Executive Directors;	In order to optimize the decision-making process, the Board is constituted of an adequate number of Non-Executive Directors who impact the decision-making by their objective independent outlook. As constituents of the Board sub-committees, they play a crucial role in providing a sound advice for the Company's critical functions.

Section	Corporate Governance Principle	Compliance
6.4.c	Secure effective participation of both Executive and Non-Executive Directors.	The Chairperson facilitates and encourages active contribution by all Directors during deliberations at Board level and the decision making process to ensure that the outcome is in the best interest of the Company. Directors with expertise in specified areas are provided with opportunities to offer advice and guidance, which has proven beneficial to the company in reaching final outcomes or making ultimate decisions.
6.4.d	Ensure the Board works effectively and discharges its responsibilities.	In the role to facilitate the effective and timely decision making process, the Chairperson ensures the flow of information is adequate to make informed decisions and also provides guidance at meetings. By the formal delegation of the key functions, the responsibilities of the Directors carrying out executive functions are well documented and are measurable. Thus the Board as a whole is able to discharge its responsibilities effectively, efficiently and in a timely manner.
6.4.e	Ensure all key issues are discussed by the Board in a timely manner.	All key areas are identified and have been documented. Thereby the key issues are deliberated on a timely and effective manner.
6.4.f	Implement decisions/directions of the regulator.	A process is in place and is strictly adhered to implement the decisions, recommendations and directions of the regulator.
6.4.g	Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the Company Secretary.	The Chairperson has delegated the responsibility of preparation of the agenda to the Company Secretaries. Thereby the Company Secretaries prepare the Agenda in consultation with the Chairperson.
6.4.h	Not engage in activities involving direct supervision of senior management or any other day-to-day operational activities.	The Chairperson does not have executive functions nor does she carry out supervisory functions.
6.4.i	Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Effective communication is maintained with the shareholders during the entire year. Shareholders have accessed the Directors and the Company Secretary as and when required and it has been effective. The Annual General Meeting of the Company is the main forum at which forum the Board is able to maintain effective communication with the shareholders and they are given the opportunity to raise matters for which clarifications are needed and also express their views. The Chairperson Chairs the Annual General Meeting as well and facilitates and promotes a healthy atmosphere for shareholders to raise relevant matters. Further, the Board approved Communication Policy evidences the Company's process in this regard.
6.4.j	Annual assessment of the performance and the contribution during the past 12 months of the Board and the CEO.	The Chairperson evaluates the performance and contribution of the Managing Director on an annual basis.

## CORPORATE GOVERNANCE

Section	Corporate Governance Principle	Compliance
<b>6.5</b>	<b>Responsibilities of the CEO</b>	
	The CEO shall function as the apex executive in charge of the day-to-day management of the FC's operations and business. The responsibilities of the CEO shall at least include the criteria mentioned in 6.5 (a) to 6.5 (g) in the direction.	<p>The Managing Director of the Company is the virtual CEO of the Company and is the apex Executive of the Company. The overall management of the Company rests with the Managing Director who is responsible for the initiation of the strategic direction and setting of goals for the Company which then is deliberated and decided upon collectively by the Board.</p> <p>In his capacity the Managing Director is responsible for the smooth, effective and efficient functioning of the Company. He is assisted by the Deputy Managing Director and Executive Directors and the Key Management Personnel who hold delegated authority.</p>
<b>7.</b>	<b>Meetings of the Board</b>	
7.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals.	The Board meets on a monthly basis and additional meetings were held when required.
	Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.	Consent through Circular Resolutions were obtained when required.
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the board are to be represented in the agenda for scheduled Board Meetings.	A procedure is in place and has been functional for Directors to include items into the Agenda for the Board Meetings.
7.3	A notice of at least 3 days shall be given for a scheduled Board Meeting. For all other Board meetings, reasonable notice shall be given.	Minimum of seven days Notice had been given for all monthly Board Meetings and a calendar was drawn up at the commencement of the calendar year. Special meetings were convened with shorter notice.
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	The Directors have prepared to discuss matters pertaining to the Company and have made valuable contributions.
7.5	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present unless at least one-fourth of the number of directors that constitute the quorum at such meeting are independent directors.	All Independent Non Executive Directors have been present at all meetings.
7.6	The Chairperson shall hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary, and at least twice a year.	The Chairperson held two meetings with the Non Executive Directors without the Executive Directors being present at the meeting.



Section	Corporate Governance Principle	Compliance
7.7	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has a substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item in the Board meeting.	The Directors' have abstained from voting nor have they been considered for the quorum when matters of interest were discussed. The interested party was not part of the decision making process.
7.8	A director, who has not attended at least two-thirds of the meetings in the period of 12 months, immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance.	All Directors have attended all meetings. Hence this is not applicable.
<b>7.9</b>	<b>Scheduled Board Meetings and Ad Hoc Board Meetings</b>	
	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where the director cannot attend on short notice, participation through electronic means is acceptable.	This is being encouraged. However, due to practical reasons the meetings were held online.
<b>8.</b>	<b>Company Secretary</b>	
8.1.a.	The Board shall appoint a Company Secretary considered to be senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Alliance Management Services (Pvt) Ltd., a company registered with the Registrar of Companies acts as the Company Secretaries, handles the secretarial services to the Board. They also function as Secretaries to the Board Committees. In their role they attend the shareholder meetings and carry out other functions specified in relation to applicable laws and regulations. This is in accordance with the transitional provisions.
8.1.b.	The Board shall appoint its Company Secretary, subject to the transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a Company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the Company Secretary, such person shall become an employee of the Company and shall not become an employee of any other institution.	Alliance Management Services (Pvt) Ltd., a company registered with the Registrar of Companies acts as the Company Secretaries, handles the secretarial services to the Board. They also function as Secretaries to the Board Committees. In their role they attend the shareholder meetings and carry out other functions specified in relation to applicable laws and regulations. This is in accordance with the transitional provisions.
8.2	All directors shall have access to the advise and services of the Company Secretary with a view to ensuring the Board procedures laws, directions, rules, and regulations are followed.	All Directors have access to the Company Secretary to enable Directors to follow all Board procedures, laws, directions, rules and regulations.

## CORPORATE GOVERNANCE

Section	Corporate Governance Principle	Compliance
8.3	The Company Secretary shall be responsible for preparing the agenda in the event the Chairperson has delegated carrying out such function.	The Chairperson has delegated the function of preparing the Agenda to the Company Secretary. The Agenda is prepared in consultation with the Chairperson.
8.4	The Company Secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	The Minutes of Board Meetings and the submissions to the Board are retained by the Secretaries.
8.5	The Company Secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.	The Minutes of the Meetings are prepared in an orderly manner and follows the laid down requirements.
8.6	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly include the information mentioned in 8.6 (a) to 8.6(f).	The Minutes of the Board Meetings are prepared in detailed form with due care and prudence and it includes a summary of data and information used for deliberations, matters considered by the Board, compliance details, details pertaining to risk and Board resolutions.
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	The Minutes are open for inspection by the Directors with reasonable notice being given.
<b>9.</b>	<b>Delegation of Functions by the Board</b>	
9.1	The Board shall approve a DA and give clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC.	The Board approved Delegated Authority has been documented with clear directions and the parameters on which the Board and senior management would operate on behalf of the FC.
9.2	In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	The Board has not appointed a Nomination Committee in keeping with the transitional provisions as such these functions are carried out by the Board.
9.3	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.	The Board has established Senior Management level Sub Committees namely ALCO, Credit Committee, ITSC, ERM and other Management Committees.
9.4	The Board shall not delegate any matters to a Board Sub-committee, Executive Directors, or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board has not delegated any function or responsibility to an extent that it is unable to discharge its functions.

Section	Corporate Governance Principle	Compliance
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Company.	The delegation process is reviewed at regular intervals to ensure that it is current and relevant.
<b>10.</b>	<b>Board Sub-Committees</b>	
	<b>A transitional period until 01.07.2024 will be granted. However, during the transitional period provisions contained in “Section 8: Board Appointed Committees” of the Finance Companies (Corporate Governance) Direction No.03 of 2008 will be applicable.</b>	
	<b>FCs with asset base of more than Rs. 20 Bn</b>	
10.1.a	Shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee.  Meetings - Meetings shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually.	Board Audit Committee  Board Integrated Risk Management Committee  Remuneration Committee  Related Party Transactions Review Committee has been established  Meetings have been held once in two months and BAC has held meetings in excess of this requirement.
10.1.b	Each Board sub-committee shall have a written term of reference specifying clearly its authority and duties.	All Board Committees have Terms of Reference that has been approved by the Board.
10.1.c	The Board shall present a report on the performance of duties and functions of each Board Sub-Committee, at the Annual General Meeting of the Company.	The reports of the Board Committees have been compiled and published in this Annual Report. Board Audit Committee - Pg 155 Board Integrated Risk Management Committee - Pg 159 Related Party Transactions Review Committee - Pg 157 Remuneration Committee - Pg 154
10.1.d	Each sub-committee shall appoint a Secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records, and carry out such other secretarial functions under the supervision of the Chairperson of the committee.	The Company Secretaries to the Board functions as the Secretary to the Board Committees and maintains records of meetings and Minutes.
10.1.e	Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge, and experience relevant to the responsibilities of the committees.	All Board Committees have three Board Members who have the required knowledge, skills and experience to carry out the functions.

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Section	Corporate Governance Principle	Compliance
10.1.f	The Board may consider the occasional rotation of members and of the Chairperson of Board sub-committees to avoid undue concentration of power and promote new perspectives.	This will be considered as and when it is deemed necessary.
<b>10.2</b>	<b>Board Audit Committee (BAC)</b>	
	The following shall apply in relation to the Board Audit Committee.	
10.2.a	The Chairperson of the committee shall be an independent director who possesses qualifications and experience in accountancy and/or audit.	The Chairperson of the BAC is an Independent Non Executive Director who possesses the required qualifications and has experience in finance and audit.
10.2.b	The Board members appointed to the BAC shall be Non-Executive Directors and the majority shall be Independent Directors with the necessary qualifications and experience relevant to the scope of the BAC.	There are two members in the BAC and both are independent and have the required expertise and experience to be members of the BAC.
10.2.c	The secretary to the Board Audit Committee shall preferably be the Chief Internal Auditor (CIA).	The Secretary to the BAC is the Secretary to the Board.
<b>10.2.d</b>	<b>External Audit Function</b>	
	i. The BAC shall make recommendations on matters in connection with the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the auditor.	BAC had made recommendation in connection with the appointment of the External Auditors and has taken into consideration the rotation of the partner who handles the audit, audit fee, and the service period.
	ii. Engagement of an audit partner shall not exceed five years, and the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.	The engagement of the audit partner had not exceeded five years. External Audit firm is being changed as they have been External Auditors for over ten years.
	iii. The audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.	The Audit Partner who engaged in the audit is not a shareholder, director or a member of the senior management nor an employee of the FC.

Section	Corporate Governance Principle	Compliance
	<p>iv. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>BAC reviewed the independence of the External Auditors and established their independence and objectivity.</p>
	<p>v. Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.</p>	<p>The Audit firm had not engaged in non audit services during the year under review. There is a policy in place to review and approve such engagements if it occurs.</p>
	<p>vi. The BAC shall, before the Audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including (i) an assessment of the Company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.</p>	<p>The External Auditors submit a written proposal outlining the nature and scope of the audit and other material facts pertaining to the annual audit. This is also presented at the meeting reviewed and approved with or without amendments.</p> <p>The preparation of the financials is in accordance with the relevant accounting principles and reporting obligations.</p> <p>The audit of the Holding Company and Subsidiary is handled by one Auditor.</p>
	<p>vii. The BAC shall review the financial information of the Company's, in order to monitor the integrity of the Financial Statements of the Company in its Annual Report, Accounts and Periodical Reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Company's</p>	<p>The BAC has reviewed the financial information of the Company through established processes to ensure that the reporting, disclosures, judgments, changes to accounting policies and practices are prepared in compliance with relevant accounting standards and legal requirements.</p>

## CORPORATE GOVERNANCE

Section	Corporate Governance Principle	Compliance
	Annual Report and Accounts and Periodical Reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	
	viii. The BAC shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of senior management, if necessary.	There have been no problems or issues that has been brought to the attention of the BAC with regard to the Interim or Final audits.
	ix. The BAC shall review the External Auditor's Management Letter and the Management's response thereto within 3 months of submission of such, and report to the Board.	BAC has reviewed the External Auditors' Management Letter and the responses thereto and has reported to the Board accordingly.
10.2.e	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	On an annual basis the BAC conducts a review of the effectiveness of the system of internal controls. Assurance Certification has been obtained from the External Auditors as well on this aspect.
10.2.f	The BAC shall ensure that the Senior Management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to the Internal Audit function of the Company.	BAC has a laid down process to ensure that the corrective actions and recommendations for improvement are implemented in a timely manner and the Internal Auditors will verify this during their subsequent audits.
<b>10.2.g</b>	<b>Internal Audit function:</b>	
	i. The Committee shall establish an Independent Internal Audit function, either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the Company's internal control, risk management, governance systems and processes.	BAC has established an independent Internal Audit function in house and there is an approved structure in place to ensure that the Internal Audit function is carried out on a timely and accurate manner.

Section	Corporate Governance Principle	Compliance
	ii. The Internal Audit Function shall have a clear mandate, be accountable to the BAC, and be independent of the audited activities. It shall have sufficient expertise and authority within the Company to carry out their assignments effectively and objectively.	The Internal Audit Department is governed by the Internal Audit Manual and the reporting is to the Chairperson of the BAC. Qualified and experienced persons competent to carry out the functions objectively are appointed to the Internal Audit Department.
	iii. The BAC shall take the following steps with regard to the Internal Audit Function of the Company:	<p>BAC has taken the required steps to ensure that the Internal Audit function is compliant to the requirements.</p> <ul style="list-style-type: none"> <li>(i) The scope of the internal audit function is reviewed and approved by the BAC ensuring that there are officers to carry out the functions efficiently and effectively.</li> <li>(ii) Review and approve the internal audit program and the processes involved and the risk can be measured through such audits.</li> <li>(iii) Assess the performance of the Head of Internal Audit and the senior staff members.</li> <li>(iv) Adequate measures have been taken to ensure that the internal audit function is independent and the functions are carried out with impartiality and with sound judgment.</li> <li>(v) The Compliance and Risk Departments' operations are reviewed by the BAC.</li> <li>(vi) Ensure that the findings and the responses are received in a timely manner and relevant actions are taken.</li> </ul>
10.2.h	Committee shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly.	The statutory onsite examination report of the Central Bank of Sri Lanka was reviewed by the BAC and the implementation is being monitored for timely action.
<b>10.2.</b>	<b>Meetings of the Committee</b>	
	i. The committee shall meet as specified in direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	The Calendar of Meetings is shared with the members of the BAC at the commencement of a calendar year and the Committee has met in excess of the requirement. Minutes are maintained with adequate detail and the discharging of duties and responsibilities are ensured.
	ii. Other Board members, senior management, or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview.	Invitations are extended to the Directors of the Board and Senior Management when matters to their areas of responsibility are discussed.

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Section	Corporate Governance Principle	Compliance
	iii. BAC shall meet at least twice a year with the external auditors without any other directors / senior management / employees being present.	Three meetings were held with the External Auditors. Two of them were held without the presence of the Executive Directors and the Senior Management.
<b>10.3</b>	<b>Board Integrated Risk Management Committee (BIRMC)</b>	
	The following shall apply in relation to the BIRMC:	
10.3.a.	The Committee shall be chaired by an Independent Director. The Board members appointed to BIRMC shall be Non-Executive Directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with Senior Management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	The Committee is chaired by an Independent Non Executive Director and one member is Non Executive and rest are Executive. Transitional provisions are applicable. AGM Risk and Compliance attends the meetings. Decisions and recommendations are made within the approved Risk Framework.
10.3.b	The secretary to the committee may preferably be the CRO.	The Secretary to the Committee is the Secretary to the Board.
10.3.c	The committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, compliance and technology to the Company. At least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board;	BIRMC reviews all risks that are pertinent and the recommendations of the ERM also taken into consideration. Quarterly Risk Report is sent to all the Directors. Recommendations are made to the Board based on the risk appetite and indicators.
10.3.d	Developing the Company's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and	Risk Appetite Statement was formulated taking into consideration the risk parameters and other aspects. The RAS was reviewed by the BIRMC.



Section	Corporate Governance Principle	Compliance
	communicate the risk appetite linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns throughout the FC.	
10.3.e.	The BIRMC shall review the Company's risk policies including RAS, at least annually.	The BIRMC reviewed the Risk Management Policy and it was amended during the year under review.  Risk Appetite Statement was reviewed.
10.3.f	The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	BIRMC reviewed the functioning of the Senior Management Committees ALCO, Credit Committee and ERMIC.
10.3.g	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Business Continuity Processes are reviewed through the report submitted by the External Auditors Det Norske Veritas.
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO.	Annual assessment of the persons handling Risk and Compliance functions is carried out by the BIRMC.
<b>10.3.i</b>	<b>Compliance function</b>	
10.3.i.i	BIRMC shall establish an independent compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business' operations.	Independent Compliance function has been established with a competent and experienced and qualified person handling the work to ensure that the Company is compliant with all the legal, statutory and other requirements. Compliance Report is circulated on a monthly basis to the Directors.
10.3.i.ii	For a Company with an asset base of more than Rs. 20 bn, a dedicated Compliance Officer considered to be Senior Management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.	A dedicated Compliance Officer has been appointed post Balance Sheet date to attend to this function.

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Section	Corporate Governance Principle	Compliance
10.3.i.iii	For FCs with an asset base of less than Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	Being a FC with an asset base of over Rs.20Bn, a dedicated Compliance Officer has been appointed post Balance Sheet date to attend to this function.
10.3.i.iv	The responsibilities of a compliance officer would broadly encompass the following:	The Compliance Officer has a detailed Job Description which encompasses the detailed requirements as set out in the Direction and other areas.
<b>10.3.j</b>	<b>Risk management function</b>	
10.3.j.i	BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.	An independent Risk Management function had been established to manage and mitigate risks in a timely manner.
10.3.j.ii	For FCs with an asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO, considered to be senior management, shall carry out the risk management function and report to the BIRMC periodically.	A dedicated Risk Management Department is in place headed by AGM Risk and Compliance to carry out the risk related functions.
10.3.j.iii	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	The Risk Management Policy was reviewed and revamped to cover the changes that were effected to improve on the processes and procedures, and also to accommodate the new product line. The functions are carried out in a manner that it considers the requirements of the various stakeholders.
10.3.j.iv	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: <ul style="list-style-type: none"> <li>a) various potential risks and frauds</li> <li>b) possible sources of such risks and frauds;</li> </ul>	There is a Board approved Risk Management framework in place encompassing potential risks, mechanism to identify, monitor and mitigate risks and frauds, recommend control measures, and ensure that the responsibility is assigned for implementation for the recommended action.

Section	Corporate Governance Principle	Compliance
	<p>c) mechanism of identifying, assessing, monitoring and reporting of such risks and frauds; includes quantitative and qualitative analysis covering stress testing.</p> <p>d) effective measures to control and mitigate risks at prudent levels; and</p> <p>e) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.</p>	
10.3.j.v	The chief risk officer shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc, and make recommendations on risk management.	AGM Risk and Compliance participated in all Management level meetings and key decision making forums.
10.3.j.vi	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	The updated risk register is maintained and is presented to the BIRMC on a quarterly basis.
10.3.j.vii	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	The Risk Assessment report is circulated to the Board on a monthly basis.
<b>10.4</b>	<b>Nomination Committee</b>	
	When establishing the Nomination Committee, the criteria mentioned in the direction 10.4.(a) - 10.4.(k) should be applicable.	Nomination Committee has not been established and transitional provisions are applicable.
<b>10.5</b>	<b>Human Resources and Remuneration Committee</b>	Remuneration Committee has been established and transitional provisions are applicable.
	The following shall apply in relation to the Human Resources and Remuneration Committee:	
10.5.a	The committee shall be chaired by a Non-Executive Director and the majority of the members shall consist of Non-Executive Directors.	The Committee is chaired by an Independent Non Executive Director and all members are Independent Non Executive Directors.
10.5.b	The secretary to the Human Resource and Remuneration Committee may preferably be the Company Secretary.	The Secretary to the Committee is the Board Secretary.

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Section	Corporate Governance Principle	Compliance
10.5.c	The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and senior management of the FC and fees and allowances structure for Non-Executive Directors.	The Committee has established a Board approved Remuneration Policy. The remuneration relating to the Executive Directors is determined by the Committee.
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	The policy has been established and was formulated in a transparent manner.
10.5.e	The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances, and other financial incentives for all employees of the FC. The policy shall be subject to periodic review by the Board, including when material changes are made.	The Remuneration Policy was approved by the Board and was reviewed in the year under consideration.
10.5.f	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests, and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take an excessive risk or to act in self-interest.	The Remuneration Policy has been formulated to compensate those carrying out executive functions based on performance and the overall outcome for a specific financial year.
10.5.g	The committee shall review the performance of the senior management (excluding Chief Internal Auditor, Compliance Officer, Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits, and other payments of performance-based incentives.	Transitional provision is applicable
10.5.h	The committee shall ensure that the senior management shall abstain from attending committee meetings when matters relating to them are being discussed.	Transitional provision is applicable  The Senior Management is not a party to the meetings held to take decisions relating to their own remuneration.
<b>11</b>	<b>Internal Controls</b>	
11.1	FCs shall adopt well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines, and adequate operating procedures in order to mitigate operational risks.	The Company has established an Internal Control system taking into consideration all aspects pertaining to maintaining a robust internal control system.

Section	Corporate Governance Principle	Compliance
11.2	<p>A proper internal control system shall:</p> <ul style="list-style-type: none"> <li>a) promote effective and efficient operations;</li> <li>b) provide reliable financial information;</li> <li>c) safeguard assets;</li> <li>d) minimize the operating risk of losses from irregularities, fraud, and errors;</li> <li>e) ensure effective risk management systems; and</li> <li>f) ensure compliance with relevant laws, regulations, directions, and internal policies.</li> </ul>	<p>The robust internal control system promotes effective and efficient operations, establishes that the financial information provided is reliable, safeguards are set for the protection of the assets, minimize the losses that could arise from irregularities, frauds and errors, ensure that the risk management system is effective and compliance function is comprehensive and conclusive.</p>
11.3	<p>All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.</p>	<p>All employees have been adequately advised on accountability in terms of internal control whilst achieving the objectives.</p>
<b>12.</b>	<b>Related Party Transactions</b>	
12.1	<p>Board shall establish a policy and procedures for related party transactions, which covers the following.</p>	<p>The Board has formulated a Related Party Transactions Review policy.</p>
12.1.a	<p>All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the Chairperson shall be an Independent Director and the members shall consist of Non-Executive Directors.</p>	<p>The Chairperson of the RPTRC is an Independent Non Executive Director and all the members are independent and Non-executive directors.</p>
12.1.b	<p>All related party transactions shall be prior reviewed and recommended by the RPTRC.</p>	<p>All related party transactions are reviewed and recommended by the RPTRC.</p>

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Section	Corporate Governance Principle	Compliance
12.1.c	<p>The business transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>i. Granting accommodation;</li> <li>ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable;</li> <li>iii. Providing financial or non-financial services to the FC or obtaining those services from the FC.</li> <li>iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to sharing proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.</li> </ul>	<p>All business transactions between related parties as defined by the Direction has been reviewed by the RPTRC inclusive of accommodations, deposits, provision or obtaining of services, creating reporting lines and information flow.</p>
12.2	<p>The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction.</p>	<p>The Conflict of Interest Policy has been approved and implemented by the Board. Thereby there is an identified list of related parties (natural persons and entities) and this list is reviewed and updated on an annual basis.</p>
12.3	<p>The Committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, “more favorable treatment” shall mean:</p>	<p>The Board approved Related Party Transactions Review Policy and the Conflict of Interest Policy defines the manner in which transactions should be carried out. In the year under review no transaction was carried out with more favourable treatment and all transactions were carried out in an arms' length basis.</p>
<b>13.</b>	<b>Group Governance</b>	
13.1	<p>Responsibilities of the FC as a Holding Company.</p>	<p>The Company as the Holding Company has embedded its governance structure for the Group.</p>
<b>13.2</b>	<b>Responsibilities as a Subsidiary</b>	
	<p>If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.</p>	<p>This is not applicable.</p>

Section	Corporate Governance Principle	Compliance
<b>14.</b>	<b>Corporate culture</b>	
14.1	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, the integrity of reporting, protection and proper use of Company assets and fair treatment of customers.	The Board of Directors has adopted a Code of Conduct for Directors and also the Conflict of Interest Policy.
14.2	The FC shall maintain records of breaches of the code of conduct and address such breaches in a manner that upholds high standards of integrity.	There have been no reported breaches to the Code of Conduct
14.3	A FC shall establish a Whistle Blowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confident manner and without the risk of reprisal. The BAC shall review the policy periodically.	A Whistle Blowing Policy has been established with the approval of the Board. The policy defines the manner in which whistle blowing could be carried out and the safeguards in place. It is easily accessible to all employees.
<b>15.</b>	<b>Conflicts of interest</b>	
15.1.a	Relationships between the directors shall not exercise undue influence or coercion. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has a substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	Directors do not participate nor vote on transactions that are with related parties and they abstain from such decisions. All transactions are carried out in an arms' length basis with no preferential terms.
15.1.b	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties.	The Board has an approved Conflict of Interest policy in place.
<b>16.</b>	<b>Disclosures</b>	
16.1	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English.  The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.	The Interim and Annual Audited Financial Statements have been prepared and presented with the applicable Standards Rules Regulations and Acts.  The Audited Financials have been published in English, Sinhala and Tamil in the newspapers.

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Section	Corporate Governance Principle	Compliance																																										
	i. Financial Statements	Interim and Annual Financial Statements are prepared, approved and disseminated in a manner that is in keeping with the specified requirements.																																										
	ii. Chairperson, CEO and Board Related Disclosures	Details of the Board of Directors appears on pages 24 to 26.																																										
	iii. Appraisal of Board Performance	The performance appraisal of the individual Directors, CEO and the Board as a whole and the Board Committees have been carried out in conformity with the requirements.																																										
	i. Remuneration	<p><b>Director's Remuneration Paid-</b></p> <table border="1"> <thead> <tr> <th></th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Short term - Employment benefits</td> <td>103,119,863</td> <td>79,160,550</td> </tr> <tr> <td>Long term - Employment benefits</td> <td>27,523,194</td> <td>13,572,413</td> </tr> </tbody> </table> <p><b>Key Management Personnel's Remuneration Paid-</b></p> <table border="1"> <thead> <tr> <th></th> <th>2023</th> <th>2022</th> </tr> </thead> <tbody> <tr> <td>Short term - Employment benefits</td> <td>157,677,998</td> <td>135,232,958</td> </tr> <tr> <td>Long term - Employment benefits</td> <td>32,041,331</td> <td>24,738,216</td> </tr> </tbody> </table> <p>The aggregate value of remuneration paid by the Company to its Directors and Senior Management is LKR 320,362,386 in 2022/23 (in 2021/22 LKR 252,704,137). The details are disclosed under the note 53.2 to the Financial Statements on page 246.</p>		2023	2022	Short term - Employment benefits	103,119,863	79,160,550	Long term - Employment benefits	27,523,194	13,572,413		2023	2022	Short term - Employment benefits	157,677,998	135,232,958	Long term - Employment benefits	32,041,331	24,738,216																								
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Interest Expenses	3,329,637	146,903																																										
	vi. Board Appointed Committees	The Board appointed Committee composition activities and reports are included in the Annual Report.																																										



Section	Corporate Governance Principle	Compliance
	vii. Group Structure	Appears on Page 7
	viii. Director's Report	Annual Report of the Directors appears on Pages 147 - 159
	ix. Statement on Internal Control	Appears on Page 161
	x. Corporate Governance Report	Appears on Pages 102 - 146
	xi. Code of Conduct	Covered in the Corporate Governance Report
	xii. Management Report	Appears on Pages 66 - 101
	xiii. Communication with Shareholders	Covered in the Corporate Governance Report

### Compliance with the Code of Best Practice on Corporate Governance Issued by the Institute of Chartered Accountants of Sri Lanka

Code Reference	Compliance and Implementation	Status of compliance	Complied
<b>A</b>	<b>DIRECTORS</b>		
A.1	The Board	<p>From the beginning of the financial year the Board comprised of eight Directors of which four are Executive and four Non Executive and Independent. The status quo remained unchanged during the financial year.</p> <p>The Non-Executive Directors, have the required professional competence, skills and experience amongst others in the fields of finance, business, law, brand building and marketing. The Board is overall responsible for the direction and the strategy of the Company whilst the Managing Director, Deputy Managing Director and the Executive Directors are responsible for the day to day management of the Company and delivering on the Strategic High Performance Goals and Corporate Plan, both on the financial and the qualitative objects set by the Board.</p>	✓
A.1.1	Regular meetings	Board Meetings are held on a monthly basis on the pre-agreed dates which are changed if required to facilitate maximum attendance. In the financial year 2022/23 the Board met on 17 occasions. Attendance at meetings appears on page 104.	✓
A.1.2	Role and responsibilities of the Board	The Board has matters reserved for its purview and has fulfilled its role in approving, monitoring, reviewing plans, financials and non financials as mandate and has established a mechanism to ensure that the overall responsibility over functions of the Board has been complied with.	✓
A.1.3	Act in accordance with laws	The Board has set out a framework to ensure that the Board and the Directors in their individual capacity along with the Company complies with the laws of the land and the regulatory obligations. The Board is apprised by the AGM Risk and Compliance in regard to the applicable laws and regulations and standards on a monthly basis and compliance thereto.	✓
A.1.4	Access to advice and services of Company Secretary	The Directors have access to the Company Secretaries, a duly registered company functions as the qualified Secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations.	✓
A.1.5	Independent judgment	The Board Independent Non-Executive Directors whose independent judgment is assured at all times on matters discussed.	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	The Board Meetings are structured in a manner which enables Directors to dedicate such time as required to ensure an outcome that is best suited and beneficial to the Company with items of importance being prioritized. This is also aided by supporting documents and material being circulated to the Directors well in advance so that they could appraise themselves of the matters under consideration. Meetings of the Board Committees too are structured in a manner to achieve the objectives set out in the policy framework for such Committees and for the effective discharge of its responsibilities and functions. The Chair of the Board and the Board Committees leads the deliberations and encourages participation of all Directors.	✓
A.1.7	If necessary in the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board	No such resolutions were presented to the Board.	✓
A.1.8	Board induction and training	No changes were made to the Board of Directors during the financial year 2022/23, as such no induction programs were conducted. The entire Board has attended forums which have direct relevance to their sphere of work and also others which would have a general bearing to their role. Programs relating to changes in the applicable laws and regulatory framework are attended by the Directors. In addition, in-house programs are conducted on matters that Directors are required to exercise independence and that which affects the overall strategic direction of the Company. The Directors are apprised of the changes in the Directions issued by the Central Bank of Sri Lanka.	✓
A.2	Separating the business of the Board from the executive responsibilities for management of the Company	The Chairperson is Non-Executive and does not engage in any executive or supervisory functions and the Managing Director who is the virtual apex Executive is responsible for the overall management of the Company of its day to day affairs. There is a distinct difference in the roles of both Executive Management and that of the Board and the authority they exercise.	✓
A.3	Chairman's role in preserving good corporate governance	The Chairperson provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner and in keeping with good governance practices.	✓
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance	The Chairperson of the Audit Committee is a Fellow of Certified Practising Accountants (FCPA) Australia and a Fellow of the Chartered Institute of Management Accountants (FCMA) UK. The Deputy Managing Director is an Associate Member of the Chartered Institute of Management Accountants (ACMA), UK and a Chartered Global Management Accountant (CGMA) 2012 and also a qualified Accountant of the Association of Chartered Certified Accountants, UK (ACCA). Remaining members of the Board also possess experience in finance business and business in general and other disciplines which has an interface with finance thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance. The profiles of the Board of Directors are given on pages 24 to 26.	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
A5	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	There were no instances where the Directors could not unanimously resolve matters and accordingly no such matters were recorded in the Minutes.	✓
A.6	Provision of appropriate and timely information	The Board has a mechanism in place for the flow of accurate information within specified time frames and in a form and manner that facilitates the Board to make informed decisions.  Board papers, Agenda and Minutes are circulated to the Directors along with the other documents within the agreed time frame prior to the Board meeting.	✓
A.7	Appointments to the Board and re-election Nomination Committee  Disclosure requirements when appointing new Directors to the Board	The Board has an approved transparent nomination process which is stringently followed with regard to the appointments to the Board of Directors.  The Board follows the nomination process and the new appointments and re-elections adopting the specified process. The Articles of Association specifies the criteria for re-election of the Directors  Announcements were made when appropriate through the Colombo Stock Exchange on the appointment of new Directors and also the composition of the Board Committees. Details of the Board of Directors are given in the Annual Report with resumes for each Director. During the current financial year there was no announcement as there was no change in the Board of Directors.	✓
A.8	All Directors should submit themselves for re-election at regular intervals	Re-election of Directors is carried out as stipulated in the Articles of Association of the Company for Non Executive Directors who are continuing on the Board. Newly appointed Directors are required to retire at the first Annual General Meeting following their appointment as per the Articles of Association. One Director retires by rotation as per the Articles of Association of the Company.	✓
A.9	Appraisal of Board and committee performance  Annual self-evaluation by the Board of its sub-committees  Disclosure in the Annual Report about the Board's performance evaluation methodology.	Annually the Directors submit individual appraisal forms to the Company Secretaries on the overall performance of the Board and the Board Committees. Which is then collated and discussed at the Board Meeting. Decisions made by the Board arising from the appraisal forms which require action are then implemented as appropriate.  The appraisal of the performance of Board Committees is carried out. Disclosures have been made in this Report.  This is covered in the Report of the Board of Directors.	✓
A.10	Annual Report to disclose specified information regarding Directors	The Shareholders are advised on the changes to the Board of Directors by announcements made vide the Colombo Stock Exchange and also through the Company website.  Annual Report carries the required disclosures in respect of Directors.  Profiles of the Board of Directors are given on pages 24 to 26 including other directorships held by the Directors and memberships of Board Committees. Directors attendance is disclosed on page 104.	✓



## CORPORATE GOVERNANCE

Code Reference	Compliance and Implementation	Status of compliance	Complied
A.11	Appraisal of the CEO	<p>The Board should annually assess the performance of the CEO.</p> <p>The Managing Director functions as the virtual CEO of the Company and the performance is reviewed by the Board through the annual appraisal process. The appraisal process requires for Directors to assess the performance based on the annual budgets and qualitative measures that the Board set out to achieve at the commencement of the financial year.</p> <p>At the end of each financial year the Board evaluates its performance against the set targets and the actual and other performance parameters.</p>	✓
<b>B</b>	<b>DIRECTOR'S REMUNERATION</b>		
B.1	Directors' and executive remuneration	<p>The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director was involved in deciding his/her own remuneration.</p> <p><b>Setting up of Remuneration Committee.</b> The Company has a Board Remuneration Committee in place and the Terms of Reference is contained in the Remuneration Policy.</p> <p>The functions of the Committee include determination of compensation and benefits of the Managing Director, Deputy Managing Director and Executive Directors. The compensation of the key responsible personnel are determined by the Committee where appropriate.</p> <p><b>Composition of Remuneration Committee</b> Composition of the Board Remuneration Committee is in line with the Listing Rules. All members are Non-Executive Directors as per the Code and the Listing Rules of the CSE.</p> <p><b>Disclosure in the Annual Report about the Remuneration Committee members</b> Remuneration Committee Members are specified in the Report submitted by the Committee.</p> <p><b>Remuneration of Non-Executive Directors.</b> The Non-Executive Directors receive Directors' Fees.</p>	✓
B.2	Level and make-up of remuneration	<p>Level of remuneration of both the Executive and the Non-Executive Directors should be sufficient to attract and retain the Directors required to manage the affairs of the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance</p> <p><b>Remuneration of Executive Directors.</b> Remuneration of Executive Directors consists of fixed remuneration and performance based payment in order to attract, retain and motivate suitable persons.</p>	✓




Code Reference	Compliance and Implementation	Status of compliance	Complied
	Level and make-up of remuneration	<p><b>Remuneration packages in line with industry practices.</b> The Remuneration Committee reviews the information relating to industry in which the competitors of the Company, operates. Due care is taken to ensure that remuneration is on par with industry standards.</p> <p><b>Remuneration packages in line with other companies in the Group.</b> This is not applicable to the Company</p> <p><b>Performance-related payments to Executive Directors.</b> In addition to the fixed remuneration, there are performance-related elements of remuneration for the Managing Director, Deputy Managing Director and Executive Directors which is directly related to performance or achievement of the financial and non financial objectives.</p> <p><b>Executive Share Option.</b> There are no Share Option schemes offered by the Company to its employees.</p> <p><b>Designing schemes of performance related remuneration.</b> The Remuneration Policy depicts the provisions in the determination of the performance related remuneration for the Managing Director, Deputy Managing Director, Executive Directors and Senior Management, the Company takes note of the appropriate provisions</p> <p><b>Early termination of service of Directors.</b> This situation has not arisen during the year under review.</p> <p><b>Remuneration of Non-Executive Directors.</b> Non-Executive Directors are entitled to fixed fees which is termed as Directors Fees.</p> <p>The Company has not offered any Share Option plans to either Executive Directors or Non-Executive Directors.</p>	<p>✓</p>
B.3	Disclosures related to remuneration in Annual Report	<p>Annual Report of the Company should contain a statement on Remuneration Policy and details of remuneration of the Board as a whole.</p> <p>Disclosure in the Annual Report about the Remuneration Committee members, statement on Remuneration Policy and aggregate remuneration paid.</p> <p>Remuneration Committee report is given on page 154 which sets out the details on the composition of the Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 53.2 to the Financial Statements page No.246.</p>	<p>✓</p>

## CORPORATE GOVERNANCE

Code Reference	Compliance and Implementation	Status of compliance	Complied
C .	<b>RELATIONS WITH SHAREHOLDERS</b>		
C.1	Constructive use of the AGM and conduct of other general meetings	<p><b>The Board use the AGM to communicate with shareholders and encourage their participation.</b> To facilitate active participation the Notice convening the Meeting and the Annual Report is circulated to the Shareholders within the stipulated time frame. The Annual General Meeting is considered as the forum which the shareholders are encouraged to participate and to engage with the Board of Directors and to be apprised of the performance and also the future outlook amongst other matters.</p> <p><b>Use of proxy votes.</b> The votes of the proxies are considered when passing resolutions at the Annual General Meeting. Shareholders of the Company send in the Proxies and it is considered when passing resolutions.</p> <p><b>Separate resolutions for separate issues.</b> Individual resolutions are set out in the Notice convening the Annual General Meeting and the Form of Proxy. Shareholders who are unable to attend the meeting could then complete and send the Form of Proxy indicating their voting preference. At the Annual General Meeting shareholders express their preference on the specific resolution and the outcome is recorded.</p> <p><b>Arrangement made by the Chairperson of the Board that all Chairmen/ Chairpersons of Sub Committees make themselves available at the AGM.</b> Chairpersons / Chairmen of the Board and Board Committees are present at the Annual General Meeting of the Company and are available to respond to any matters that would be raised by the shareholders.</p> <p><b>Adequate notice for the AGM to the shareholders.</b> The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act.</p> <p><b>Procedures of voting at general meetings.</b> Shareholders right to appoint a proxy for voting at the Annual General Meeting is specified in the Notice of convening the Meeting and on the Form of Proxy has separate resolutions for the items to be voted on. Voting procedures at the Annual General Meeting and the due completion and submission of the Form of Proxy within the stipulated time frame appear on the Form of Proxy.</p>	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
C.2	Communication with shareholders	<p><b>Channel to reach all shareholders to disseminate timely information.</b> Such disclosures and announcements are available on the CSE website. Interim financials are also uploaded in the CSE website and is made available to the shareholders within 45 days from the end of the first three quarters of any financial year and within 60 days from the closure of a financial year. Bi annually, the financials are published in the newspapers as required by the Central Bank of Sri Lanka. The Annual Audited Financials are made available to the shareholders within five months of the closure of the financial year and the Annual Report is also available in the CSE website. If the shareholders so require printed copies are made available on request.</p> <p><b>Policy and methodology of communicating.</b> The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.</p> <p><b>Implementation of the communication policy and methodology.</b> Shareholders receive the Annual Report from the Company by a modem as stipulated by the CSE and if they make a request a hardcopy of the Annual Report is furnished softcopy will be emailed. In keeping with the applicable CSE Rules.</p> <p><b>Contact person.</b> Shareholders may, at any time, direct questions and request for publicly available information from the Directors or Management of the Company. Company Secretary could be contacted for any queries of shareholders.</p> <p><b>Awareness of Directors on major issues and concerns of shareholders.</b> The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Board attention to the Board or individual Director/s as applicable.</p>	
C.3	Disclosure of major and material transactions	<p><b>Major transactions.</b> Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company.</p> <p>During the year, the Company did not engage in or commit to any major transactions which materially affected the Company's net asset base.</p>	
<b>D.</b>	<b>ACCOUNTABILITY AND AUDIT</b>		
D.1	Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects	<p>The Board should present a balanced and an understandable assessment of the Company's financial position and prospects. Board should present interim and other price sensitive information to the public and reports to regulators. The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2023 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.</p>	

## CORPORATE GOVERNANCE

Code Reference	Compliance and Implementation	Status of compliance	Complied
D.1 (Contd.)		<p><b>Directors' Report in the Annual Report</b> Annual Report of the Board of Directors on the affairs of the Company is given on pages 147 to 153 covering all areas of this section.</p> <p><b>Annual Report disclosure stating Board's and Auditors' responsibility</b> Statement of Directors' Responsibility for Financial Reporting is given on page 162 and Auditors' certification on the Internal Control is given on page 161 respectively.</p> <p><b>Management discussion and analysis</b> Management discussion and analysis is given on pages 66 to 101.</p> <p><b>Disclosure of Related Party Transactions.</b> A Board-approved Related Party Transaction Review Policy is available in the Company for monitoring and reporting of Related Party Transactions. The Company Secretary will make necessary disclosures of any Related Party Transactions which require disclosure as per the rules vide the CSE. All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 53 to the Financial Statements on page 246.</p> <p><b>Directors' assumption on the going concern of the business.</b> This is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 147.</p>	
D.2	<p>Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets</p>	<p>The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Company.</p> <p>The BIRMC assists the Board in the discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal control.</p> <p>The Risk Management Report and the report by the Board Integrated Risk Management Committee outlines the responsibilities of the Committee and its activities during the year. The risk framework had been formulated to meet the business specific needs and codes on best practices. The risk related report appears on the pages 163 to 170 the BIRMC report appears on page 159 and the Internal Control Statement appears on Page 161 of the Annual Report.</p>	
D.3	<p>Audit Committee</p>	<p>The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.</p> <p>The Board Audit Committee oversees that the formal process implemented and assists the Board in ensuring that the requirements of sound financial reporting and adequate controls are maintained. The Audit process is routed through the BAC to ensure independence.</p>	



Code Reference	Compliance and Implementation	Status of compliance	Complied
		<p><b>Composition of the Audit Committee.</b></p> <p>The Audit Committee comprises the following Directors:  Mrs. Priyanthi de Silva - Chairperson Independent Non Executive  Mrs. Tamara Dharmakirti-Herath – Member Independent Non Executive  Mr. Hiran de Silva – Member Independent Non Executive</p> <p>Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors.</p> <p>The Board Audit Committee reviews the audit plan of the External Auditors, the scope and come out of the audit and its effectiveness. Further independence and the objectivity of the Auditors are also reviewed annually. The Committee would consider whether the External Auditors’ independence would be impaired when engaging the External Auditors in the provision of non-audit engagements.</p> <p>It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors</p> <p>The Board Audit Committee has made the recommendation with regard to the appointment of a firm as a new auditor to the Board.</p> <p>Disclosures made in the Annual Report about Audit Committee. Audit Committee report is given on pages 155 to 156 of the Annual Report.</p>	✓
D.4	Code of Ethics	<p>Company must adopt a Code of Business Conduct and Ethics for Directors, and members of the Senior Management Team. Any non-compliance with the said Code should be promptly disclosed.</p> <p>Code of Business Conduct and Ethics is in place. There were no violations on the Code of Business Conduct and Ethics.</p>	✓
D.5	Corporate governance disclosures	<p>The Board should include this in the Annual Report setting out the manner and extent for it to be complied.</p> <p>Disclosure of Corporate Governance Compliance  The requirement is met with the presentation of this Corporate Governance Report from pages 104 to 146 of the Annual Report.</p>	✓
E & F		<p>The Company has 1988 ordinary voting shareholders of which 18.79% are institutional shareholders.</p> <p>All shareholders are encouraged to participate at AGM and cast their votes. The AGM provides a forum for the Board to inform the shareholders on the affairs of the Company in terms of the performance in a given financial year, its future plans and strategic direction and any other matter that is relevant to the shareholders. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly.</p>	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and Implementation	Status of compliance	Complied
7.6 (iv)	The public holding percentage	Please refer page 272	✓
7.6 (v)	Director's and Chief Executive Officer's holding in shares at the Item 5.4 of the "Investor Relations" beginning and at the end of the financial year	Please refer page 149	✓
7.6 (vi)	Information pertaining to material foreseeable risk factors	Please refer the pages 163 to 170	✓
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Please refer pages 78 to 83	✓
7.6 (viii)	Extents, locations, and valuations of land holdings and Investment properties as at the end of the year	Please refer Notes 32 and 33 Information on the freehold land and buildings of the Company in the Notes to the Financial Statements on pages 226 to 231	✓
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Please refer Note 45 Stated Capital in the Notes to the Financial Statements on page 238	✓
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year	Please refer 'Shareholder Information' on pages 272 to 273	✓
7.6 (xi)	Ratios and market price information:  Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share  Any changes in credit rating	Please refer 'Ten year summary' on pages 270 and 271  Please refer 'Corporate information' on page Inner Back Cover	✓
7.6 (xii)	Significant changes in the Company or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year	Please refer Note 33 - Property, Plant & Equipment in the Financial Statements on page 228	✓
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	There were no share issues, Rights Issues or private placement during the year	✓
7.6 (xiv)	Information in respect of Employee Share Option Schemes: Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) Highest, lowest, and closing price of the share recorded during the financial year	The Company does not have any Employee Share Ownership or Stock Option Scheme at present	✓
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules	Please refer the sections below	✓
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	The Company did not have any Related Party Transactions exceeding these thresholds during the year	✓

Code Reference	Compliance and Implementation	Status of compliance	Complied
<b>07.10.1</b>	<b>NON-EXECUTIVE DIRECTORS</b>		
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	As at 31st March 2023 The Board comprised of four Non-Executive Directors out of a total eight members which is 50% which is over and above the threshold. All Non Executive Directors are Independent	✓
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised of eight Directors as at the conclusion of the immediately preceding AGM and as such the numbers of Non executive Directors is in excess of the requirement	✓
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change	The cessation and the appointment of the Directors as disclosed is in the ratio on the proportion of composition was complied with during the year	✓
<b>07.10.2</b>	<b>INDEPENDENT DIRECTORS</b>		
7.10.2 (a)	Two or one-third of Non-Executive Directors whichever is higher, should be independent.	All Directors out of the four Non- Executive Directors are Independent	✓
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/ non-independence in the prescribed format	All Non-Executive Directors have submitted annual declarations in respect of the year under review	✓
<b>07.10.3</b>	<b>DISCLOSURES RELATING TO DIRECTORS</b>		
7.10.3 (a)	The Board shall make determination of Independence/Non- Independence annually and Names of Independent Directors should be disclosed in the Annual Report	The Board has determined the independence of the Non Executive directors. Refer pages 24 to 26 and 152 of the Annual Report	✓
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	Not applicable	✓
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise	Please refer pages 24-26 in the Annual Report	✓
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be pro-vided to the Exchange for Dissemination to the public	No new Directors were appointed during the financial year 2022/23	✓
<b>07.10.4</b>	<b>CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS</b>		
7.10.4 (a-h)	Requirements for meeting criteria to be independent	All Independent Directors of the Company met the criteria for independence specified in this Rule.	✓
<b>07.10.5</b>	<b>REMUNERATION COMMITTEE</b>		
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher	Board appointed Remuneration Committee is in place. Please refer page 154 of the Annual Report. The Three Directors in the Remuneration Committee are Non Executive Directors and all are Independent.	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and Implementation	Status of compliance	Complied
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors. Majority of whom shall be independent, whichever shall be higher.	Please refer the Report of the Remuneration Committee on page 154 to the Annual Report.	✓
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer the page 154 of Remuneration Committee Report and note number 53.2 on page as 246 regards the aggregate remuneration paid.	✓
<b>07.10.6</b>	<b>AUDIT COMMITTEE</b>		
7.10.6 (a)	<p>The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher</p> <p>An Independent Non-Executive Director functions as the Chairperson</p> <p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings</p> <p>The Chairman or one member of the Committee should be a member of a recognised professional accounting body</p>	<p>All the members of the Board Audit Committee are Non Executive Independent Directors.</p> <p>An Independent Non-Executive Director, Mrs. Priyanthi de Silva functions as the Chairperson.</p> <p>The Managing Director, the Deputy Managing Director, AGM Risk &amp; Compliance and AGM Finance attend the Meetings by invitation.</p> <p>The Chairperson of the Board Audit Committee is a Fellow of Certified Practicing Accountants (FCPA) Australia, Fellow of the Chartered Institute of Management Accountants (FCMA) UK.</p>	✓
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Please refer Board Audit Committee report on page 155 of the Annual Report	✓
7.10.6 (c)	<p>Annual Report shall set out;</p> <p>(i) The names of the Directors who comprise the Audit Committee</p> <p>(ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination</p> <p>(iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules</p>	Please refer the Audit Committee Report' on pages 155-156 for the required disclosure	✓

Our External Auditors certify that the disclosures and related content in the Corporate Governance report is consistent with Corporate Governance Direction No. 5 of 2021 and the transitional provisions.

(Sgd.)

**Alliance Management Services (Pvt) Ltd.**

Secretaries  
27th June 2023

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

GRI 2-27

GRI 207-2

## General

The Directors of Alliance Finance Company PLC (AFC) have pleasure in presenting this report to the shareholders together with the audited Financial Statements for the year ended 31st March 2023 and the independent Auditor's Report. The information is provided in conformity with the requirements of the Companies Act No.07 of 2007, Finance Companies Corporate Governance Direction No.05 of 2021 with transitional provisions, Listing Rules of the Colombo Stock Exchange and Code of Ethics for Corporate Governance.

## Company Overview

AFC was incorporated as a public company on 18th July 1956 under the provisions of the Companies Ordinance No.51 of 1938 and re-registered under the Companies Act No.07 of 2007 and bears Registration Number PQ 93, AFC's Ordinary Shares were listed on the Main Board of the Colombo Stock Exchange (CSE) in 1959 (then Colombo Stock Brokers Association).

In the NBFIs sector AFC is the oldest Finance Company, counting over 65 years in successful business operations.

The Registered Office of the Company and the principal place of business is situated at "Alliance House", 84, Ward Place, Colombo 7.

Lanka Rating Agency Ltd., has assigned an initial entity rating of BBB- with a stable outlook rating to the Company.

## Business Outlook

The Board of Directors is pleased to inform that the Company had performed well amidst all the negative factors prevalent during the year under review. The Net Profit after Tax reached to LKR 505 Mn with a portfolio depletion of 3% and NPL ratio increased to 13.12%.

## Purpose Statement and High Impact Goals

In its over 65 year history AFC continues to thrive on its core time tested intrinsic values that have been handed down for three generations.

AFC is guided by its Purpose Statement and a set of High Impact Goals reflecting the Company's business philosophy which is underpinned by the triple-bottom-line approach. These are detailed on pages 4 to 49 of this Annual Report. The Company setting out to achieving its goals and objectives has conducted its activities to the highest level of ethical standards and integrity as set out in the Code of Conduct.

AFC is the first in Asia in the finance and Banking sector to be registered SSCI 1.0 Sustainability Standard of European Organization for Sustainable Development.

## Principal Business Activities

The Principal business activities of the Company include providing finance leases, term loans, gold loans, pledge loans, mortgage loans, Ran Ayojana, Climate Finance and acceptance of public deposits and savings. Other Lines of Business include hire purchase, group-loans, trading, investment in shares and real estate. The Company also provides end-to-end vehicle management solutions which include operating leases and hiring of vehicles.

The principal activity of the subsidiary Alfinco Insurance Brokers (Pvt) Ltd, is brokering of insurance business.

## Branch Network

The Company closely reviewed its branch network to improve its market potential and reach with an objective of making the branches more accessible which would facilitate financial inclusion. In order to achieve this, branches were consolidated or relocated whilst retaining its customer centric business model. As

at 31st March 2023 there were 89 points of presence across the country. More details regarding this is available on page 75 in this Annual Report.

## Review of operations and Future Developments

An overview of the Company's financial position and performance during the year, review of financial results, achievements and future outlook is summarized in the Chairperson's Message on pages 16 to 19. The Deputy Chairman/ Managing Director's Message on pages 20 to 23 covering the highlights for the year along with the salient features with regard to performance and the future outlook of the Company. Comprehensive details are provided in the Business Report on pages 58 to 65 and the Capital Management Report on pages 66 to 101 of the Annual Report. The independent Auditors' Report along with the Audited Financial Statements reflect the state of affairs of the Company for the year ended 31st March 2023.

## Financial Statements of the Group and the Company

The Financial Statement of the Company and Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No.07 of 2007 and where applicable to the Directions issued by the Central Bank of Sri Lanka.

The Financial Statements of the Company were duly certified by the Company's Auditors Bakertilly Edirisinghe & Company and approved by the Board of Directors and signed by the Deputy Chairman/Managing Director and Deputy Managing Director. Report on the operations of AFC appears on pages 58 to 65 of this Annual Report.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Group Financial Statements as at 31st March 2023 were reviewed and recommended by the Board Audit Committee. The Balance Sheet and Income Statement and Notes to the Financial Statements appear on pages 172 to 265 of the Annual Report.

## Independent Auditor's Report

The Company's Auditors, Bakertilly Edirisinghe & Company performed the audit of the consolidated Financial Statements for the year ended 31st March 2023 and the Auditors' Report issued thereon appears on Page 172 of the Annual Report.

## Accounting Policies and Changes during the Year

Significant accounting policies adopted in preparation of the Financial Statements of the Company are given on Pages 184 to 207 and there have been no material changes. These Financial Statements comply with the requirements of Sri Lanka Accounting Standards on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1)(d) of the Companies Act No. 07 of 2007.

## Accounting Period

The Financial accounting period reflects the information from 01st April 2022 to 31st March 2023.

## Financial Results and Appropriations

### Interest Income

The total interest income of the Company for the year ended 31st March 2023 was LKR 11,947 Mn (LKR 7,852 Mn in 2021/22). A more descriptive analysis of the interest income is given in Note 7 to the financial statement on page 208.

### Financial Results

The Company recorded a Profit Before Tax of LKR 951 Mn and Profit After Tax of LKR 505 Mn for the financial year ended 31st March 2023. The Company's performance and details of appropriations of profit relating to the Company are tabulated as follows:-

	Year ended 31.03.2023	Year ended 31.03.2022
	LKR Mn	LKR Mn
Interest Income	11,947	7,852
<b>Retained earnings brought forward from previous year</b>	<b>3,500</b>	2,296
Add: Profit after Taxation	505	1,463
Earnings available for appropriation	4,005	3,759
<b>Appropriations:</b>		
Add: Net actuarial gain/(loss) on defined benefit plan	49	(87)
Add: Transfer of realized profit on investment property disposal to retained earnings	3	333
Less: Net Asset adjustment - Associate Company	-	(4)
Less: Dividend paid for previous/current year	(270)	(404)
Less: Transfer to reserves	(25)	(96)
<b>Total appropriation</b>	<b>(243)</b>	(258)
<b>Retained earnings carried forward</b>	<b>3,762</b>	3,500

## Taxation

The income tax rate applicable on the profits earned was 30%, rate of VAT on financial services during the year was 18% and Social Security Levy was 2.5%. Accordingly, the current year income tax provision of the Company was LKR 446 Mn compared to LKR 901 Mn for the year 2021/22. A more descriptive note on income tax and deferred tax of the Company is disclosed in Note 16 to the Financial Statements.

## Dividend

The Board of Directors recommend a First and Final Dividend of LKR 5.00 per share amounting to LKR 168,480,000 for the year 2022/23 and approval of it rests with the shareholders.

The Board of Directors remain satisfied that the Company would meet the requirements of the solvency test in terms of Section 56 (3) of the Companies Act No.07 of 2007 immediately after the payment of the First and Final Dividend. Accordingly, the Board of Directors has obtained a Certificate of Solvency from the Auditors in respect of the dividend payment conforming to the above statutory provision.

The approval of the Central Bank of Sri Lanka was sought and obtained for the recommendation of the First and Final Dividend.

## Property, Plant and Equipment

The total capital expenditure incurred on property, plant and equipment (including capital work in progress) and intangible assets of the Company in the year ended 31st March 2023 amounted to LKR 250 Mn and LKR 24 Mn respectively (LKR 238 Mn and LKR 12 Mn in 2021/22). The details of property, plant and equipment are presented in Note 33 (Page 228 to 232) to the Financial Statements.

Extents, locations, valuations and the number of buildings of the Entity's land building and investment properties are detailed on pages 226 to 232 of this Annual Report.

The Company has invested in a state of the art core banking system, which would support AFC's future digital journey in the years to come and the implementation is in progress.

The Director's individual shareholdings in the Company as at 31st March 2023 and 31st March 2022 are given below:

Name of Director	Shareholding as at 31/03/2023	Shareholding as at 31/03/2022
Mrs. G.S.T. Dharmakirti-Herath	100	100
Mr. R.K.E.P.de Silva*	11,635,291	11,335,291
Mr. J.M. Gunasekara	1,500	1,500
Mr. W.P.K.Jayawardana	42,750	42,750
Mr. R.E. Rambukwelle	10,000	10,000
Mrs. P.de Silva	100	100
Mr. L.J.H.de Silva	3,052	3,052
Mr. D.L.I.Hettiarachchi	100	100

\* Post Balance Sheet date the shareholding increased to 11,732,331 as the shares were purchased on 31st March 2023.

### Managing Director's Interest in Shares

The Managing Director, Mr. R.K.E.P.de Silva's individual shareholding in the Company and also that of the Deputy Managing Director Mr.W.P.K. Jayawardana as at 31st March 2023 and 31st March 2022 are given above.

### Directors' Meetings

The details of Directors' meetings and attendance at the Meetings by the Directors are presented in the Corporate Governance report on page 104 of this Annual Report.

### Corporate Governance

The Board of Directors is committed to adhering to the Corporate Governance Charter which includes the procedures and processes governing the different stakeholders in the organization – such

### Directors' Interests in Shares

In compliance with section 200 of the Companies Act No 07 of 2007, the Directors have disclosed to the Board their shareholding in the Company. There were acquisitions made by a Director during the year 2022/23 but there were no disposals of shares by the Directors. The changes in the shareholdings are depicted in the details given below.

as the Board, Executive Management Staff, Middle Management and other staff, Shareholders and others to ensure that the highest principles of Corporate Governance principles are maintained across all constituents.

In adopting the aforesaid Corporate Governance Charter, the Board has ensured that the Company is compliant with the Listing Rules of Colombo Stock Exchange (CSE) and the Finance Companies Corporate Governance Direction No. 5 of 2021 and the transitional provisions. Recommendations and proposals of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka has been complied with as far as it is applicable.

The measures taken in this regard are set out in the Corporate Governance Report on Pages 102 to 146 of this Annual Report.

### Code of Conduct

The Board of Directors and employees follow Codes of Conduct and ethics and have adhered to the principles therein.

### Group Structure

The Group Structure is depicted in the Corporate Governance Report and the Governance framework of the Company takes into consideration the governance framework of the Group.

### Board Committees

Board appointed Committees are functioning and is comprised of Independent Non Executive Directors, excluding the Board Integrated Risk Management Committee where the members comprise of Executive Directors as well. The Committees in operation are Board Audit Committee, Board Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee. Composition of the said Committees is set out on the inner back cover of this Annual Report. All Committees are governed by the Terms of Reference which are approved by the Board of Directors.

### Board Audit Committee

All three members of the Board Audit Committee are independent Non-Executive Directors. The Chairperson holds the required accounting qualifications to function as the Chair. Executive Directors, Members of the Senior Management, Internal and External Auditors attended the meetings by invitation. The Board Audit Committee's Report is given on Pages 155 to 156 of this Annual Report.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## Board Integrated Risk Management Committee

The Board of Directors has established a comprehensive risk management system, policy and procedure in the Company to identify, evaluate and manage the risks associated with the operations and overall performance of the Company. The risk framework is reviewed on a regular basis by the Board Integrated Risk Management Committee to mitigate the risks due to constant changes in the business environment and other factors that would impact it. A detailed overview of the process is set out in the Board Integrated Risk Management Committee Report on pages 159 to 160 of this Annual Report.

Board Integrated Risk Management Committee comprises of two Independent Non Executive Directors and four Executive Directors and the Chairperson of the Committee is an Independent Non Executive Director.

## Remuneration Committee

The Remuneration Committee has three Independent Non Executive Directors of which one functions as the Chair. Remuneration Committee report is given on Page 154 of this Annual Report.

## Related Party Transactions Review Committee

The Committee carried out the functions mandated in the Terms of reference of the Committee and amongst other matters reviewed the related party transactions during the year 2022/23. There are three Independent Non Executive Directors in the Committee and it is Chaired by an Independent Non Executive Director. The Report of the Related Party Transactions Review Committee is given on pages 157 to 158 of the Annual Report.

## Related Party Transactions

There were no related party transactions that exceeded 10% of the Equity or 5% of the total assets whichever is lower, being the thresholds set by the Colombo Stock Exchange,

for transactions which would require shareholder's approval. Confirmation that the Company has complied with the requirements of the Code of Best Practice on Related Party Transactions in respect of requisite disclosures is dealt with in a separate report. The Directors had disclosed all transactions that could be classified as related party transactions. The details are depicted in the Note No. 53 on pages 246 to 248 of this Annual Report.

All transactions with the related parties were conducted in an arms' length basis and no favourable terms were granted to them.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2023.

## Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company and Group which reflects a true and fair view of the state of its affairs.

The Directors are of the view that the Statement of Financial Position, the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes to the Financial Statements for the year ended 31st March 2023 therefore have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No.07 of 2007 and the Regulations made under Finance Business Act No.42 of 2011.

The "Statement of Directors' Responsibility for Financial Reporting" is provided on page 162 and forms an integral part of the report.

## Donations, CSR and Sustainability Expenses

The Company expended LKR 13.5 Mn for donations, Corporate Social Responsibility activities and sustainability initiatives during the year 2022/23 (LKR 7.4 Mn in 2021/22).

## System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial and compliance controls required to carry out its operation in an orderly manner, safeguard its assets and secure as far as possible, the accuracy and reliability of the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

The Directors have assigned to the Company's Internal Auditors, to review and report on the effectiveness of financial, operations and compliance controls. The External Auditors too independently verify this and their certification appears on Page 172.

## Investments

Details of investments held by the Company are disclosed in Notes 30 and 31 on Pages 225 to 226 to the Financial Statements.

## Stated Capital and Shareholders' Funds

In compliance with the Companies Act No 07 of 2007, the Financial Statements reflect the Stated Capital of the Company. The Stated Capital is the total of all amounts received by the Company in respect of the issued Share Capital. The Stated Capital is represented by 33,696,000 Ordinary Shares.



The Stated Capital and reserves stood at LKR 614 Mn and LKR 6,344 Mn respectively as at 31st March 2023 (LKR 614 Mn and LKR 6,067 Mn as at 31st March 2022). During the financial year LKR 25 Mn was transferred from Retained Earnings to the Reserves.

Details of movement of reserves and Stated Capital are provided in the Statement of Changes in Equity on Page 180 of the Financial statements.

No funds were raised through a public issue or private placement of shares during the year under review.

#### Issue of Debentures

There were no new issue of debentures during the financial year 2022/23. Thereby the market price and movement is not recorded.

#### Minimum Capital Requirement

The Board of Directors is cognizant that it is required to maintain the statutory requirement on minimum capital adequacy ratios to mitigate the liquidity risk and safeguard the depositors' funds, and the risk weighted capital ratio thus ensuring the sustainability of the Company and the industry as a whole. The Company is compliant with the capital requirements and has mentioned the capital was at the required levels and the information on minimum Capital Requirement is given on Page 265 of the Annual Report.

The Company has a status of well capitalized entity as per the guideline of the Central Bank of Sri Lanka in terms of the Total Capital.

#### Share Information

The ten-year summary appears on Pages 270 to 271 and shareholder information and information on trading are provided under the "Shareholder Information" and are on Pages 272 to 273 of the Annual Report and is presented with the purpose of providing more price sensitive information to the shareholders which includes,

- Number of shares representing the entity's stated capital.
- A distribution schedule of the number of holders in equity securities, and the percentage of their total holding.
- The ratio of Dividend per share, Dividend payout and net assets per share.
- Market Value per share including highest and lowest value recorded during the year and value as at end of the financial year.
- Float adjusted market capitalization, Public holding percentage, number of public shareholders and the Minimum Public Holding Requirement.

#### Substantial Shareholding

The list of the Company's top 20 shareholders, number of shares held by them and percentage of their respective holding and Public Holding percentage are given under the title Shareholder information on pages 272 to 273.

#### Information to Shareholders

The Board strives to be transparent and provide accurate information in a timely manner to shareholders in all published material.

#### Communication with Shareholders

A communication policy is in place to cater to the requirements of all stakeholders. Different methods are used to communicate with the shareholders. The Company Secretary serves as the communication link.

AFC has taken all measures which are reasonably possible to ensure fair treatment of all its stakeholders specially the Depositors of the Company.

#### Board of Directors

##### Composition

Our Board of Directors has the qualifications, experience and expertise in finance, marketing, law, accounting

and management. As at 31st March 2023, there were eight Directors on the Board of Alliance Finance Co. PLC of which four are Executive and four Independent Non Executive. The required balance in terms of the Corporate Governance is maintained. Chairperson of our Company is an Independent Non Executive Director, thereby no Independent Non Executive Director was appointed as the Senior Director.

The qualifications and experience of the Directors is provided on Pages 24 to 26 of this Annual Report. The following Directors held office as at the end of the financial year.

**Mrs. G.S.T. Dharmakirti-Herath**  
Chairperson  
(Independent Non Executive)

**Mr. R.K.E.P. de Silva**  
Deputy Chairman & Managing Director  
(Executive)

**Mr. W.P.K. Jayawardana**  
Deputy Managing Director (Executive)

**Mr. J.M. Gunasekara**  
Executive Director Sustainability  
(Executive)

(Retired on 15th July 2023)

**Mr. R.E. Rambukwelle**  
Executive Director Credit Marketing and Operations (Executive)  
(Retired on 06th April 2023)

**Mrs. P. de Silva**  
Non Executive Director (Independent Non Executive)

**Mr. L.J.H. de Silva**  
Non Executive Director (Independent Non Executive)

**Mr. D.L.I. Hettiarachchi**  
Non Executive Director (Independent Non Executive)

There were no changes effected to the Board of Directors during the Financial Year 2022/23.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## Resignations and cessations

There were no resignations or cessations from the Board during the year 2022/23.

## Retirement by Rotation

Mrs. G.S.T. Dharmakirti-Herath retires under Articles numbered 130 to 131 and being eligible offer herself for re-election with the unanimous support of the Board of Directors.

Retirement (Post 31st March 2023)

Mr. R.E. Rambukwelle and Mr. J.M. Gunasekara retired on 6th April 2023 and 15th July 2023 respectively having reached 70 years.

We wish to place on record the valuable contributions made by the Executive Directors. Their contributions in the areas of expertise has been significant in the performance and achievements of the Company especially the performance for the year ended 31st March 2023.

## Directors' Interest Register

In compliance with the Companies Act No.07 of 2007, the Company maintains an Interests Register which is available for inspection.

## Directors' Interests in Transactions/ Related Party Transactions

The Directors of the Company have made general declarations as provided in the section 192 (2) of the Companies Act No. 07 of 2007 of their interests in the transactions of the Company. Details of the transactions disclosed therein are given on Pages 246 to 248 under related party transactions.

## Directors' Declarations in terms of Section 16.1 of the Finance Business Act Directions No. 05 of 2021, Corporate Governance

The Chairperson and the Directors of the Company have made declarations as per the requirements in Section 7(3) of the Finance Companies (Corporate Governance) Direction No. 5 of 2021, that there is no financial, business, family

or other material/relevant relationship(s) between the Chairperson and the Managing Director and/or amongst the members of the Board.

## Directors' Remuneration and Related Expenditure

The consolidated details of Directors' Fees and Directors' Emoluments paid during the year are stated in Note 53.2 to the accounts.

## Appraisal of Board Performance

Appraisal of the Board Performance is conducted on an annual basis. Self - assessments were carried out by the individual Directors and the Chairperson also assesses the performance of the Directors.

The Board as a whole evaluates its performance against pre determined criterion and the information is collected by the Company Secretaries and discussed at the Board level.

Performance of the Board Committees is also evaluated and the records are maintained.

## Corporate Governance

The Board of Directors has placed great importance in adhering to corporate governance principles from the inception of the Company. Thus our present Board of directors is likewise committed to good governance and ensures the importance of having sound governance practices is upheld.

## Human Wealth

The Board considers its employees as its wealth and is committed to provide opportunities for continuous improvement and invests in career enhancement, training of its employees and has implemented measures for the overall well-being of all employees with a holistic approach. Operating in a competitive environment skills are honed and developed to provide the

competitive edge and to optimize their contribution towards the achievement of the High Impact Goals and objectives of the Company. This aspect is further covered on pages 78 to 83 of this Annual Report. Our recruitment policy is structured in a manner that bears no bias to age, gender, religion or race and to give equal opportunity for all.

## Employee Share Option

The Company has not adopted an Employee Shares Option Scheme.

## Stakeholder Management/Corporate Social responsibility

The Company continues to take measures on an ongoing basis to manage the expectations of all its stakeholders and enhance the value created to shareholders, customers, suppliers, and the community. These efforts are presented in the Social and Relationship Capital Report presented on Pages 84 to 90 of the Annual Report.

## Environmental Protection

To the best of its knowledge the Board, of the Company has complied with the relevant environmental laws and regulations. The Company has not engaged in any direct activity that is harmful or hazardous to the environment. On the contrary, the Company has undertaken several initiatives that contributed to the environmental protection positively. Further details of these initiatives of the Company are outlined in the Report on Pages 95 to 101.

## New IT System

The Company procured a new IT system and the Implementation is currently underway with the transition to the new system scheduled during the next Financial Year.

### Compliance with Laws and Regulations

The Company has not engaged in any activity contravening any laws and regulations.

### Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments due to the Government and other regulatory payments due to the Government and other regulatory institutions and in relation to the employees have been made except for certain income tax assessments against which appeals have been lodged.

### Outstanding Litigation

In the opinion of the Directors formed in consultation with the Company's lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on Note 48.1 to the Financial Statements on Page 240.

### Events after the Reporting Period

Details of events after the reporting date are reflected in Notes 49 on Page 240 to the Financial Statements.

### Going Concern

After considering the Financial Position, the Company's Corporate/Business plans, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

### Contingent Liabilities.

There are no contingent liabilities for the Company in the foreseeable future.

### Auditors

The Company's Auditors during the year under review were Bakertilly Edirisinghe & Company. As far as the Directors are aware, the Auditors do not have any relationship or interest in the Company or its subsidiaries other than to the extent disclosed in this Annual Report.

### Remuneration

A total amount of LKR 2,450,160 is payable by the Company to the Auditors for the year under review comprising LKR 1,900,000 as Audit Fees and LKR 550,160 as other assurance service related expenses.

### Auditors

The retiring auditors, Bakertilly Edirisinghe & Company in compliance with the Corporate Governance Direction No.5 of 2021, will not be seeking re-appointment.

We wish to thank our outgoing Auditors who have been associated with the Company for many years for their professional approach advice and guidance, with the support of a team of professionals is gratefully acknowledged.

M/S SJMS Associates, Independent Correspondent Firm to Deloitte Touche Tohmatsu situated at No.11 Castle Lane, Colombo 4 Sri Lanka has offered their services at a remuneration of LKR 3,500,000 being all inclusive payment for the audit, consolidation and assurance report for the financial year ending 31st March 2024. A special fee of LKR 300,000 in payable with regard to system migration.

Their appointment rests with the Shareholders.

### Annual General Meeting

The Alliance Finance Co PLC AGM will be held on Tuesday, 26th September 2023 at 9.30 a.m. at 722, Kotte Road, Rajagiriya.

### Notice of Meeting

Notice of the meeting relating to the 67th Annual General Meeting is provided on Page 284 of this Annual Report.

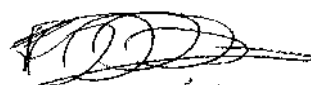
### Acknowledgment of the Content of the Report

On behalf of the Board of Directors of the Company, the Deputy Chairman & Managing Director, Deputy Managing Director and Company Secretaries of the Company in pursuance of the authority granted by the Board, have acknowledged the contents of this Annual Report.

By order of the Board of Directors,  
**Alliance Finance Co.PLC**



**Romani de Silva**  
Deputy Chairman/ Managing Director



**Kusal Jayawardana**  
Deputy Managing Director

(Sgd.)  
**Alliance Management Services (Pvt) Ltd.**

31st August 2023

# REMUNERATION COMMITTEE REPORT

GRI 2-19

GRI 2-20

## Composition of the Committee

Composition of the Remuneration Committee (RC)

### Name

#### Mr. L. J. H. de Silva

Chairman -Independent Non Executive Director

#### Mrs. G. S. T.Dharmakirti Herath

Member

#### Mr. D. L. I. Hettiarachchi

Member

The Company Secretaries functioned as the Secretary to the Remuneration Committee.

The Remuneration Committee was formed by the Board in compliance with Rule 7.20.5 of the Listing Rules of the Colombo Stock Exchange, its composition and functions are in conformity with the provisions of the Listing Rules.

## Meetings

The Committee met on three occasions during the year under review.

## Remuneration Policy

The Committee recognizes rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programs are designed to attract, retain and motivate employees to perform by linking performance to measurable performed-based criteria. Variable pay (bonus) plan of the Company is determined according to the overall achievements of the Company on an annual basis and on pre-agreed individual targets, which are based on comprehensive performance parameters. The level of variable pay is set to ensure that individual rewards reflect the performance. The Committee makes appropriate adjustments to the bonus

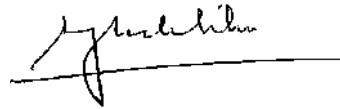
pool upon the recommendations of the Executive Directors in the event of over or under achievements against pre-determined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

## Functions

Assist the Board where necessary in setting guidelines and policies to formulate compensation packages which are attractive, motivating and capable of retaining qualified and experienced Directors/employees in the Company. The Committee recommends to the Board on the compensation of the Managing Director, Executive Directors, and, when required that of the Key management positions.

## Directors Remuneration

The details of the Directors Remuneration appear on page No.246 of the Annual Report.



### L.J.H. de Silva.

Chairman  
Remuneration Committee

27th June 2023

# REPORT OF THE BOARD AUDIT COMMITTEE

## Composition

The Board Audit Committee (BAC) comprises of three Independent Non Executive Directors, neither and Mrs. Priyanthi de Silva, functions as the Chairperson.

The Board Audit Committee is appointed by and responsible to the Board of Directors of Alliance Finance Company PLC and the constituent members possess the required compliance financial, commercial compliance and management with experience in the industry.

The details of the members of the Board Audit Committee are set out in the Board of Directors profiles section of the Annual Report. The Chairperson of the Committee is a Fellow member of Institute of Management Accountants of UK.

- ◆ **Ms. Priyanthi de Silva**  
Independent Non-Executive Director
- ◆ **Ms. G.S.T. Dharmakirti Herath**  
Independent Non-Executive Director
- ◆ **Mr. L.J.H. de Silva**  
Independent Non-Executive Director

Alliance Management Services (Pvt) Ltd., Company Secretaries, functioned as Secretary to the BAC.

## Meetings

The Board Audit Committee meets on a regular basis and has met on occasions over and above the stipulated requirement to fulfill its mandate.

Both the Managing Director / Deputy Managing Director and Executive Directors attended the BAC meetings by invitation. AGM Finance, AGM Risk and Compliance and Senior Management staff were invited when required to attend the meetings consequent to the matters being considered at the specific BAC meeting.

External Auditors attended the BAC meetings on more than two occasions, with only the members of the BAC being present. During these meetings, neither the Managing Director, Executive Directors, nor the KRP's were in attendance. Internal Auditors also attended these meetings by invitation.

Proceedings at meetings were in accordance with the circulated Agenda to the BAC members. Matters considered were in keeping with the role and functions outlined in the Terms of Reference of the BAC, as well as the Audit Charter.

Members of the BAC were briefed at the meetings on the impact the changes in the Directions issued by the Central Bank of Sri Lanka and changes to the legislations would have on the functions of the Company.

## Number of audit meetings held during the year and details of attendance.

Name	Attendance
Mrs. P.de Silva Chairperson	12/12
Mrs. G.S.T. Dharmakirti Herath Member	12/12
Mr. L.J.H. de Silva Member	12/12

## Overview of the functions of the Committee during the financial year

### Review of the Terms of Reference and Charter

The BAC reviewed the Terms of Reference and the Charter to ensure that it is in keeping with the regulations applicable and also current in terms of the audit requirements of the Company in the changing demography.

### Executive Functions

The Board Audit Committee has executed its duties and responsibilities during the financial year in accordance

with its Terms of Reference. It also in relation to the matters of the Company's internal and external audit processes, financial reporting, risk assessment and internal controls over financial reporting.

### External Auditors and Audit

With regard to the External Auditors and the annual audit of the Company, BAC, carried out the undermentioned matters.

- ◆ In keeping with the Corporate Governance Direction No.5 of 2021, recommended the appointment of a new auditor, SJMS Associates Chartered Accountants for the year ending 31st March 2024 and their appointment lies with the shareholders at the Annual General Meeting. The change, is made in keeping with Corporate Governance Direction No.5 of 2021.
- ◆ Reviewed and made recommendation on the audit scope and audit plan for the year under review. Also the resources to be deployed for the audit function, prior to the commencement of the audit. Evaluated the effectiveness of the audit with applicable standards and practices and had been advised that the Management and staff had extended their fullest co operation to the External Auditors in carrying out their functions.
- ◆ Reviewed the Management Letter and the Management's responses at a meeting with the External Auditors and briefed the Management on the recommendations specified for implementation.
- ◆ Obtained assurance from the Auditors that their independence was not impaired.
- ◆ The External Auditors were not called upon to provide non audit services.
- ◆ Apprised the External Auditors on the changes to the Directions issued by the Central Bank of Sri Lanka with regard to the appointment of External Auditors.

## REPORT OF THE BOARD AUDIT COMMITTEE

### In respect of Financial Statements

- ◆ Reviewed the interim and annual Financial Statements of the Company as well as the financial information and disclosures made to the public in relation to the said financials prior to its submission and approval by the Board.
- ◆ Reviewed the methodologies adopted in the determination of the significant estimates and judgments contained therein.
- ◆ Ensured that the annual Financial Statements fairly present the financial position of the Company and of the Group as at the end of the Financial year together with the results of operations and cash flows for the financial year and considered the basis on which the Company and the Group was determined to be a going concern.
- ◆ Considered the appropriateness of the accounting policies adopted and changes thereto.
- ◆ Noted there were no material reports or complaints received concerning the accounting practices, internal audit, internal financial controls, contents of annual Financial Statements and related matters.
- ◆ Reviewed the recommendation of First and Final Dividend for the year 2022/23 of the Company in terms of the regulatory requirements.
- ◆ Evaluated the systems and procedures in place for the recording of the financial transactions whether it was robust.

### In respect of Internal Control and Internal Audit

- ◆ In line with the Section 11 of the Finance Companies Direction No. 05 of 2021 assessed the effectiveness of the Internal Control over Financial Reporting as at 31 March 2023.
- ◆ Reviewed and approved the annual internal audit mandate and comprehensive audit plan, and evaluated the independence,

effectiveness and performance of the Internal Audit Department and compliance with its mandate and continuously monitored the implementation of the audit plan with periodic reviews. Adopted appropriate measures as and when required on the implementation of the audit plan.

- ◆ The comprehensive internal audit plan included the areas of risk management compliance.
- ◆ BAC sends a report to the Board on its deliberations, outcomes and recommendations at the conclusion of a BAC meeting.
- ◆ Reviewed the policies and procedures of the Company and made recommendations for improved performance through revamped controls where necessary.
- ◆ Considered reports of the internal and External Auditors on the Group's system of internal control, including internal financial controls and maintenance of effective internal control systems.
- ◆ Reviewed significant issues raised by the internal auditors on processes and the adequacy of corrective action in response to such findings and made recommendations to the Board.
- ◆ Reviewed significant differences of opinion between the internal audit function and management and noted that there were none.
- ◆ Assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be sufficient with relevant expertise and experience to carry out the audit functions. Their performance is assessed against the predetermined parameters.
- ◆ Received assurance that proper and adequate accounting records were maintained and that the system controls that safeguard the assets had been fulfilled.

- ◆ Based on the above, the Committee formed the opinion that at the date of this report there were no material concerns on internal control, including internal financial controls, resulting in any material loss to the Group.

### Regulatory Compliance

A compliance related framework is operational, and the Compliance Officer is tasked with ensuring that the Company is compliant with all regulatory requirements and apprises the Board and Management of the changes in the regulatory requirements consistently and in a timely manner to ensure effective implementation and follow up. This process includes the implementation of the recommendations on the onsite examination report.

Reviewed the onsite Examination report of the Central Bank of Sri Lanka and reviewed the progress on the implementation of the recommendations.

Operating procedures of the Company have been set up to encompass the regulatory requirements as well as compliance.

As a monitoring mechanism, a reporting system has been set up for periodic confirmations to be sent to the Board on the levels of compliance and if there are deviations. Thereby, confirmations have been received on the compliance of the Company, and it is in keeping with the regulatory requirements. The internal Audit Department of the Company independently conducts periodic reviews of the compliance function and on the regulatory reporting to the regulatory bodies.



Priyanthi de Silva  
Chairperson  
Board Audit Committee

27th June 2023

# RELATED PARTY TRANSACTIONS REVIEW

## COMMITTEE REPORT

### Composition

The Related Party Transactions Review Committee (RPTRC) is composed of Board members, and the Chairperson of the Committee is an independent Non-Executive Director. The Members are also Independent Non Executive Directors. The composition is given below.

#### **Mrs. G. S. T.Dharmakirti Herath**

Chairperson

#### **Mr. L. J. H. de Silva**

Member

#### **Mr. D. L. I. Hettiarachchi**

Member

Company Secretaries functioned as the Secretary for the Committee.

### Meetings

The Committee met on four separate occasions.

The Committee reviewed all Related Party Transactions carried out during the year at its meetings, and the proceedings of the Committee meetings also included activities under its Terms of Reference, which were regularly reported to the Board of Directors with its comments and observations.

The Managing Director, Executive Directors and others have been invited to the meetings as and when required.

Name	Attendance
Mrs. G. S. T.Dharmakirti Herath	4/4
Mr. L. J. H. de Silva	4/4
Mr. D. L. I. Hettiarachchi	4/4

### Constitution

The Related Party Transactions Review Committee was formed in compliance with the laws and regulations stipulated by the Securities and Exchange Commission, Section 9 of the Listing Rules of the Colombo Stock Exchange and Corporate Governance Directions

of the Central Bank of Sri Lanka and Accounting Standards. The mandate for the Committee and the Terms of Reference is stipulated in the Related Party Transactions Review Policy.

The Related Party Transactions Review Policy and the Terms of Reference was reviewed in 2022/23, and required changes were made to the procedures.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Company in order to ensure that related parties are treated on par with other stakeholders and constituents of the Company and ensure good governance in terms of managing the relationships with related parties to ensure that it is in the best interest of the Company. In carrying out the duties of the Committee, it is required to avoid conflict of interest which may arise in any transaction of the Company with any person particularly with related parties, ensure arms length dealings and adequate transparency is maintained with related parties. Whilst also ensuring adherence to the Corporate Governance Directions, which requires the Company to avoid engaging in transactions with related parties in a manner that would grant such parties 'more favourable treatment' than accorded to other constituents of the Company carrying on the same business.

### Summary of Responsibilities

The Committee reviews all Related Party Transactions in accordance with the Related Party Transactions Review Policy approved by the Board of Directors. Key responsibilities of the RPTRC are as follows:-

- ◆ Review the Related Party Transactions on a quarterly basis or sooner, as determined if required, and ensure that it is conducted on an arms' length basis without preferential treatment.

- ◆ Establish and review the mechanism for recurrent transactions to be carried with related parties and monitor its effectiveness.
- ◆ Ensure that the appropriate framework is in place to evaluate the provision of obtaining services to and from related parties.
- ◆ Review any post quarter confirmations on related party transactions.
- ◆ Review the thresholds for Related Party Transactions which, require either shareholders' approval or immediate market disclosures, and the criteria of Key Responsible Persons and the related party entering into a transaction with the Company.
- ◆ Ensure that the transactions are carried out as per the guidelines laid down in the Related Party Transactions Review Policy.
- ◆ Evaluate non recurrent transactions adopting the mechanism stipulated, and if required, obtain expert advice when making such recommendations.
- ◆ In evaluating the related party transactions to ensure that a Director who is an interested party does not participate in the decision making process unless expressly requested to do so.

### Significant areas

- ◆ Reviewed the Related Party Transactions Procedure.
- ◆ Evaluated and made recommendations on the procedure for the procurement policy.
- ◆ Recommended modification to the IT system to effectively manage the related party transactions.

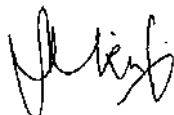
## RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

### Disclosures

- ◆ Information relating to all related parties, as extracted at the end of each quarter, was presented to the RPTRC and the Board was apprised of the outcome of the review.
- ◆ The non-recurrent related party transactions value for the year was below the threshold set by the Colombo Stock Exchange.
- ◆ The aggregate value of the recurrent Related Party Transactions that were recorded were below the threshold set by the Colombo Stock Exchange and does not require disclosure in the Annual Report.
- ◆ The aggregate value of all Related Party Transactions during the year is disclosed in Note No.53 to the Financial Statements in terms of LKAS 24-Related Party Transactions.
- ◆ The Committee confirms that the Company has complied with the requirements of the Code of Best Practice on Related Party Transactions and compliance with the Listing Rules in respect of requisite disclosures.

### Declaration

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2023.



**G.S.T. Dharmakirti-Herath**

Chairperson  
Related Party Transaction Review  
Committee

27th June 2023



# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

## Composition

The Board Integrated Risk Management Committee (BIRMC) comprises of two Independent Non Executive Directors, Executive Directors and AGM Risk and Compliance of the Company.

### **Mrs. G.S.T. Dharmakirti Herath**

Chairperson - Independent Non Executive Director

### **Mrs. P. de Silva**

Member

(Independent Non Executive Director)

### **Mr. R.K.E.P. de Silva**

Member (Deputy Chairman & Managing Director)

### **Mr. W.P.K. Jayawardana**

Member (Deputy Managing Director)

### **Mr. J.M. Gunasekera**

Member (Executive Director Sustainability)  
(Retired on 15th July 2023)

### **Mr. R.E. Rambukwelle**

Member (Executive Director Credit Marketing and Operations)

(Retired on 06th April 2023)

### **Mrs. Thamara Rathnayaka**

AGM Risk Management & Compliance

The Company Secretaries functioned as the Secretary to the Committee

## Meetings

The Committee held six meetings during the year under review, and a summary of the proceedings was reported to the Board.

## Attendance

<b>Mrs. G.S.T. Dharmakirti Herath</b> Chairperson	6/6
<b>Mrs. P. de Silva</b> Member	6/6
<b>Mr. R.K.E.P. de Silva</b> Member	6/6
<b>Mr. W.P.K. Jayawardana</b> Member	6/6
<b>Mr. J.M. Gunasekera</b> Member	6/6
<b>Mr. R.E. Rambukwelle</b> Member	6/6
<b>Mrs. Thamara Rathnayaka</b> AGM Risk Management & Compliance	6/6

## Charter

The BIRMC was established by the Board of Directors in compliance with the Section 3 of Direction No. 5 of 2021 with the transitional provisions on the Corporate Governance for Licensed Finance Companies in Sri Lanka. The Composition and the scope of work of the Committee is in conformity with the provisions of the Section 10.3 of the said Direction.

The Board Integrated Risk Management Committee functions within the Terms of Reference, which sets out the objectives and responsibilities.

## Role and Responsibilities of the BIRMC

- ◆ To assess the effectiveness of the Company's risk management framework and ensure that the Company has a comprehensive and prudent risk management framework relative to its business activities, corresponding risk tolerance limits as permitted by the Board and in compliance to regulatory and supervisory requirements.
- ◆ Undertake to review all business risks on a monthly basis viz appropriate Risk indicators presented by the Risk Management Department and submit to the Board risk assessment reports, with appropriate recommendations to mitigate risk as required.
- ◆ To ensure that the compliance function is in place to assess the compliance with laws, regulations, directions, regulatory guidelines, internal controls and approved policies assisted by the Compliance Officer of the Company.
- ◆ Review the Business Continuity Plan and make recommendations to the Board.
- ◆ Report and recommend to the Board of Directors on compliance related matters seeking the Board's view and directions.
- ◆ Take appropriate action against the officers for failure to identify specific risk and take prompt corrective actions as recommended by the Committee.
- ◆ Perform stress testing mechanisms and monitor outcomes through sensitivity analysis and its impact on the capital adequacy of the Company and apprise the Board of the outcome.
- ◆ Review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset & Liability Committee, to address specific risks and manage those risks within the quantitative and qualitative risk limits as specified by the Committee.
- ◆ To work closely with the Board Audit Committee to ensure that any lapses identified in relation to the Company's approved business processes, policies, and risk and compliance functions are discussed. Appropriate disciplinary action and/or risk mitigating strategies are recommended to the Board for necessary action.
- ◆ On a quarterly basis to furnish a risk review report to the Board.

# BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

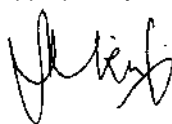
## Significant Activities

- ◆ Carried out stress testing on different occasions for the core business products to assess the possible impact of the external factors on the lending and recoveries.
- ◆ Key Management Positions Policy Revision.
- ◆ Reviewed the Credit Risk Policy.
- ◆ Reviewed the Risk Appetite Statement and the related framework.
- ◆ Amended the Compliance Policy.

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The Integrated Risk Management framework and related matters are described in the Risk Management Report on pages 163 to 170 of this report.

The BIRMC is satisfied that the risk exposure of the Company is being appropriately managed.



**G.S.T. Dharmakirti Herath**  
Chairperson  
Board Integrated Risk Management  
Committee

27th June 2023

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## Responsibility

Responsibility in line with the Section 10(2)(b) of the Finance Companies Direction No.3 of 2008 as amended by the Direction No.6 of 2013, the Board of Directors presents this Report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Alliance Finance Co. PLC. In considering such adequacy and effectiveness, the Board recognizes that the business of financing requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Company. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

## Process of Evaluation

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and is in accordance with the guidance for Directors of Licensed Finance Companies on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

The Company has adopted Sri Lanka Accounting Standards comprising of LKAS and SLFRS and the Board has assessed the internal control over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with the relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The key processes have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting. The Internal Audit Division of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance.

The Board Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department and the Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. In assessing the internal control system over financial reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis.

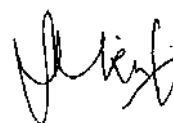
## Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide a reasonable

assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of Central Bank of Sri Lanka.

## Review of the Statement by External Auditors

The External Auditors, Messrs Bakertilly Edirisinghe & Company has reviewed the above Directors' Statement on internal control for the year ended 31st March 2023 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with the understanding of the process adopted by the board in the review of the design and effectiveness of the internal control system over the financial reporting of the Company.



**Tamara Dharmakirti-Herath**  
Chairperson



**Romani de Silva**  
Deputy Chairman/ Managing Director



**Priyanthi de Silva**  
Chairperson  
Audit Committee

27th June 2023

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The following Statement sets out the responsibilities of the Directors in relation to the preparation and presentation of the Financial Statements of the Company as per sections 148 ( 1 ) , 150 ( 1 ) , 151 ,152 and 153 ( 1 ) and ( 2) of the Companies Act No 07 of 2007.

The Directors confirm that the Company's financial statements for the year ended 31st March 2023, are prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards, the Regulations and Directions of the Central Bank of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, Finance Business Act No 42 of 2011 and the Companies Act No. 07 of 2007. They believe that the financial statements present a true and fair view of the state of the affairs of the Company as at the end of the financial year. The financial statements comprise the statement of financial position as at 31st of March 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and notes thereto.

The Directors also accept the responsibility for the integrity and accuracy of the Financial Statements presented and confirm that the appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgment has been exercised so as to accurately report transactions.

The Directors have taken reasonable steps to ensure that the Company maintains adequate general supervision, control and administration of the affairs and business of the Company to safeguard the assets of the Company, to prevent, deter and detect fraud, to ensure the integrity, accuracy and safeguarding of operational and financial records.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the date of the Statement of Financial Position has been paid for, or where relevant, provided for.

The Directors also wish to confirm that as required under Sections 166 (1) and 167 (1) of the Companies Act No. 07 of 2007, they have prepared this Annual Report on time and ensured that a copy thereof is sent to the shareholders within the stipulated period of time as required by Rule No 7.5 (a) and (b) of the Listing Rules of the Colombo Stock Exchange.

The Directors also wish to confirm that all shareholders have been treated in an equitable manner in accordance with the original terms of issue.

The External Auditors, Messrs, Bakertilly Edirisinghe & Company were provided with the opportunity to make appropriate inspections of financial records, Minutes of Shareholders' and Directors' meetings and other documents and carry out review and sample check on the system of internal controls as they consider appropriate and necessary to enable them to form an opinion on the Financial Statements. The Report of the Auditors is set out on pages 172 to 175.

By order of the Board  
**Alliance Finance Co.PLC**

**(Sgd.)**  
Alliance Management Services (Pvt) Ltd.  
Secretaries

27th June 2023

# RISK MANAGEMENT REPORT

GRI 2-23   GRI 2-24   GRI 2-25   GRI 2-26

## Risk Environment

The year under review was extraordinary, with a combination of economic stress, social unrest, and political instability which resulted in systemic shocks affecting all Sri Lankans and all sectors of the economy. The entire political and socio-economic landscape of the country underwent extraordinary turbulence with rapidly changing scenarios.

Sri Lanka lost access to international financial markets following the suspension of debt payments and credit rating downgrades. Thus, the economy experienced a severe Forex liquidity constraint, which consequently led to shortages of fuel, medicines, cooking gas, and other inputs necessary for economic activities. The situation triggered a wave of further consequences as interest rates significantly increased, adversely impacting most of the customers' capacity to service debts. This led to fewer lending opportunities as customers postponed their investment decisions. Consequently, the credit quality of customers in vulnerable sectors also experienced a downfall.

The year-on-year inflation reached an unprecedented 64.3% in August 2022, largely due to high food inflation of 93.7%. This reflects the impact of rising global commodity prices, monetization of the fiscal deficit, and currency and depreciation.

The second half of the year saw a gradual stabilisation of the exchange rate and an easing of dollar liquidity as imports declined and exports maintained an upward trend. Remittance increase has no relationship with economic activity.

Further, a glimmer of hope arose as the IMF approved a US \$3 billion loan to Sri Lanka. This loan aims to assist in resolving the spiraling economic crisis that originated after Sri Lanka's default its debt in April 2022.

## Risk Management Strategy

AFC's Risk management strategy aims to manage the risks of the Company in a proactive manner while taking a calculated risk that will allow greater benefits to the Company as we pursue our identified growth opportunities.

We take a holistic and forward-looking view of the risks we face, continuously assessing our existing risk universe while constantly keeping tabs on emerging risks. This approach, we believe is critical to our long-term sustainability, enabling us to deliver what matters most to our customers while balancing our obligations to our other stakeholders, thereby protecting the Company's legitimacy and reputation.

## Objectives of Risk Management

- ◆ To assist in making decisions relating to accepting, avoiding, transferring and mitigating risks and recommending remedial actions.
- ◆ To evaluate the risk profile against the approved risk appetite on a continuing basis.
- ◆ To estimate possible losses that could arise from the assumed risk exposures.
- ◆ To periodically conduct stress testing to ensure that the company has adequate buffers of capital and liquidity to meet unexpected losses and contractual obligations.
- ◆ To integrate risk management with strategy development and implementation.
- ◆ To instill and maintain a strong risk culture within the Company.

## Risk Management Framework

Our comprehensive risk management framework and clear risk appetite, which describes the risk tolerance levels, ensure a consistent approach to managing risk across the Company. We regularly assess and enhance our risk management framework to ensure that it is fit for purpose and that we have adequate capacity to manage risks in unpredictable operating environments.

## Risk Appetite

Risk appetite is the level and type of risk the Company is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. The Board regularly reviews the Company's Risk Appetite in response to changes in our operating environment while in specific situations it is reviewed more often in order to guide decision making in relation to our exposures and capital allocation toward specific customers and sectors. The decisions are documented and clearly articulated comprehensively.

## Risk Culture

The risk culture of AFC determines the effectiveness of the management of the risks of the Company. AFC has nurtured a culture led by the management in setting the risk management tone of the Company to manage risks proactively. In recent years, we have made focused efforts to strengthen the risk culture by improving risk awareness by means of embedding the principles in the Company's values and norms, extensive training programs to staff and adopting a scientific risk assessment methodology.

# RISK MANAGEMENT REPORT

## Stress Testing

Stress testing is an integral part of the AFC’s risk management framework, which assesses the vulnerability and movements in key financial variables, which could impact the Company’s profitability, liquidity and capital adequacy and results are designed to indicate the resilience of the Company to face potential and future risks.

## Risk Governance

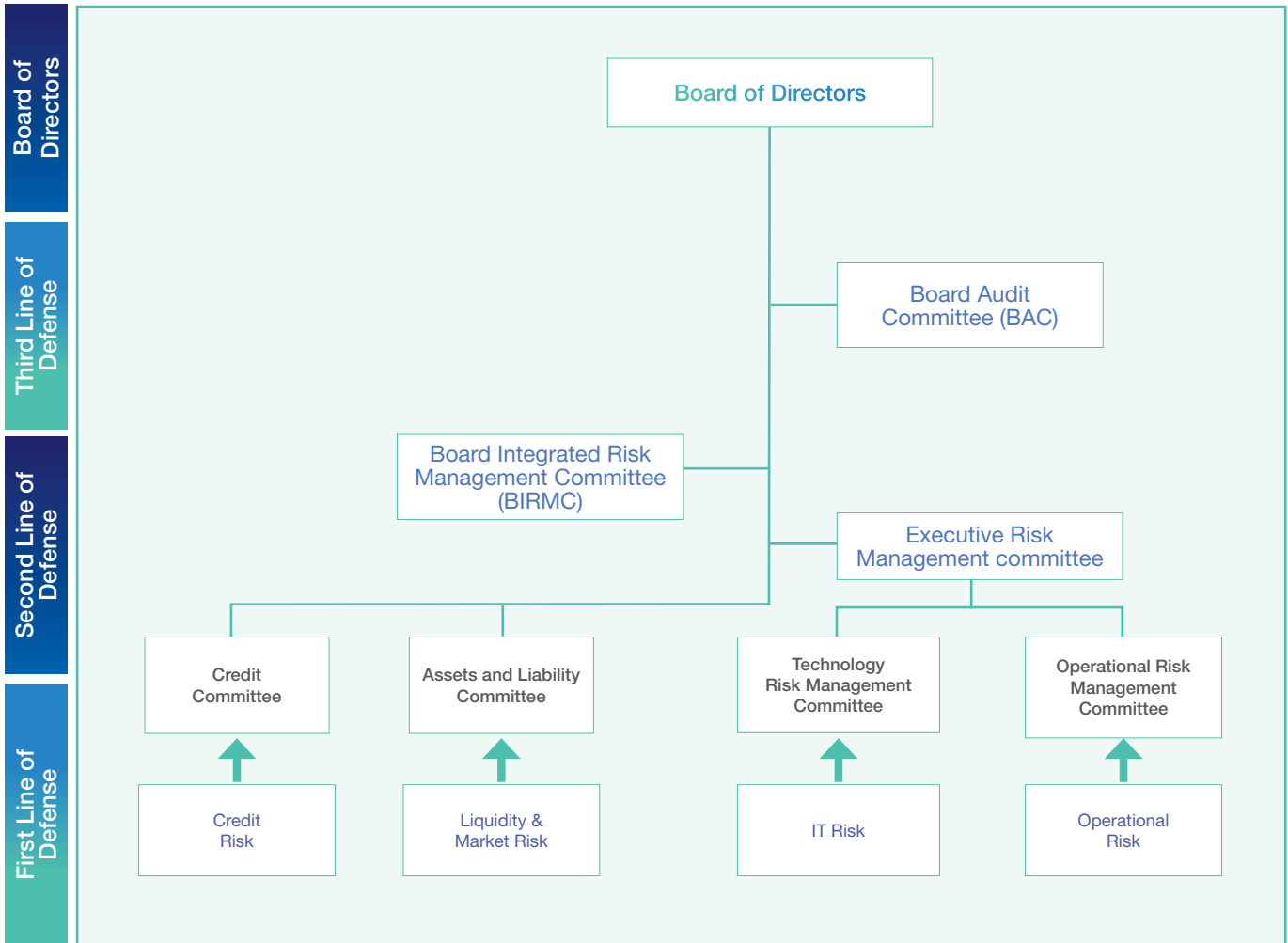
The comprehensive governance and risk management framework ensures maximum coverage and readiness for risks and opportunities to convert them into sustainable financial performance.

The Company has implemented a governance framework with three lines of defense to create a strong risk management system. This establishes accountability for risk management, oversight, and independent assurance within the Company. By doing so, it promotes accountability and ownership while ensuring an appropriate level of independence and segregation of duties.

The AFC’s Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk-related responsibilities, it is supported by two key committees namely the Board Integrated Risk

Management Committee (BIRMC) and the Board Audit Committee (BAC).

The BIRMC is supported by executive level committees namely, Credit Committee, Assets and Liability Committee, and Executive Risk Management Committee ( ERMC). Further, ERMC is supported by the Technology Risk Management Committee and Operational Risk Management Committee.



### Types of Risks

The Company is exposed to a multitude of financial and non-financial risks, which can be broadly categorized into credit, market, liquidity, operational, IT, legal and strategic risks. All of these risks taken together determine the risk profile of the Company which is monitored periodically against the risk appetite framework.

### Credit Risk

Credit risk is potential financial losses due to the failure of customers or counterparties to discharge the contractual obligations. Total Credit risk constitutes default risk and concentration risk. The objective of the credit risk management is to safeguard the asset quality.

Commencing 01 April 2022, the Company moved to 90 days past due classification for non-performing advances in line with the stage 3 classification under SLFRS 9. Early adoption of 90 days past due classification helped the Company to better focus and be ready with the conservative provisioning approach guided by SLFRS 9.

Changing the NPLs classification, cessation of debt moratorium and adverse economic conditions contributed to the increase in the NPL ratio.

### Actions for the year

- ◆ Large loan facilities were subjected to independent pre sanction credit risk review process to assess the financial and commercial viability of loan proposals and to ensure compliance to the Credit Policy Framework.
- ◆ Post sanction review carried out on a sample basis.
- ◆ Risk appetite levels were reviewed and revised.

- ◆ Concessionary & affordable payment terms were offered to customers affected by COVID-19.
- ◆ Regulatory moratorium concessions were provided for eligible borrowers.

### Credit Risk Governance

The Board of Directors is responsible for providing oversight for the appropriate credit risk management strategy.

The Governance of Credit Risk falls under the purview of BIRMC through the Credit Committee where discussions and actions are primarily focused on proactive review of credit quality and trends where diagnostic and planning of actions are taken place. Alternatively, the development of the external environment is being discussed at large to ensure proactive decision making regarding minimizing the credit risk of AFC. The credit risk policy of the Company is reviewed and revised periodically with the approval of the Board of AFC.

As a financial services institution, the effective management of Credit Risk enables the Company to maintain a well-diversified portfolio that has the capacity to maximize returns and achieve an optimal risk-reward pay-off and thereby ensure our business achieves its strategic purpose. Furthermore, proper Credit Risk Management helps to minimize non-performing loans and safeguards the portfolio quality.

### Default Risk

Default Risk is the risk of potential financial loss resulting from the failure of customers or the counterparties to meet their debt or contractual obligation.

Managing default risk requires a joint effort from the central recoveries' unit, recovery call center and collection teams based in branches.

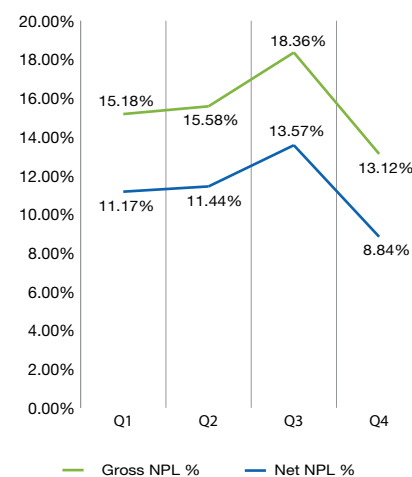
### Actions for the year

- ◆ As per the Company's policy, routine customer reminders were sent to all customers, while strict monitoring procedures are in place to maintain proactive follow-up of collections.
- ◆ Early warning signals were monitored centrally, to control new entrants to the non-performing loan baskets.
- ◆ The Monthly Recovery meetings were held to monitor recovery performance of the previous month.
- ◆ Strengthened collection monitoring mechanisms while curtailing lending to relatively risky segments of the market.
- ◆ KPI's were aligned to ensure the focus on timely recoveries.

### Assessment

- ◆ Non-performing loans ratio is monitored on a regular basis at different delegated levels for different product categories.
- ◆ In addition, the company's NPL ratio is compared with peers and industry for benchmarking.

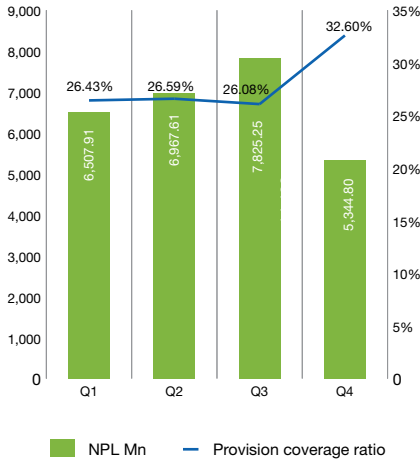
### Gross NPL ratio and net NPL ratio (%)



End of Mar-23 , AFC's Gross NPLs ratio stood at 13.12% while net NPL ratio stood at 8.84%

# RISK MANAGEMENT REPORT

## Provisioning Coverage Ratio (%)



At the end of Mar-23, provision coverage stood at 33%.

### Concentration Risk

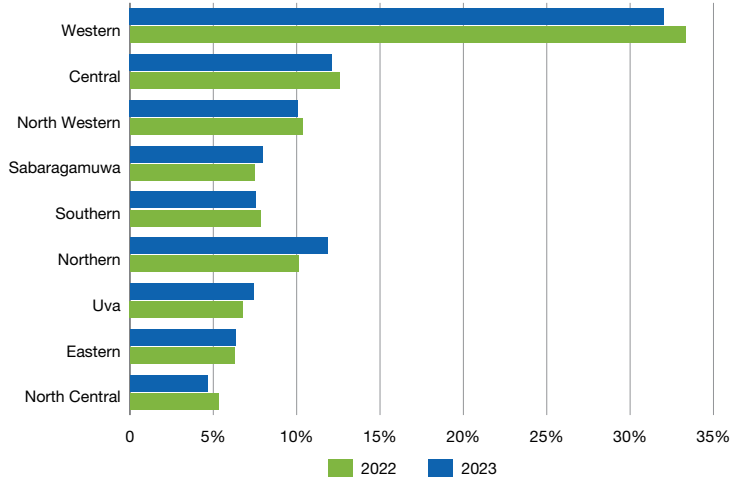
Concentration risk is the uneven distribution of the company's loans and advances amongst the borrowers, products, regions, collaterals and tenors.

AFC takes action to mitigate Concentration Risk at portfolio level to reduce over reliance on a single product, region, collateral or tenor. A strong emphasis is placed on product diversification within each business unit, which supports our efforts to minimize the over reliance on a single product.

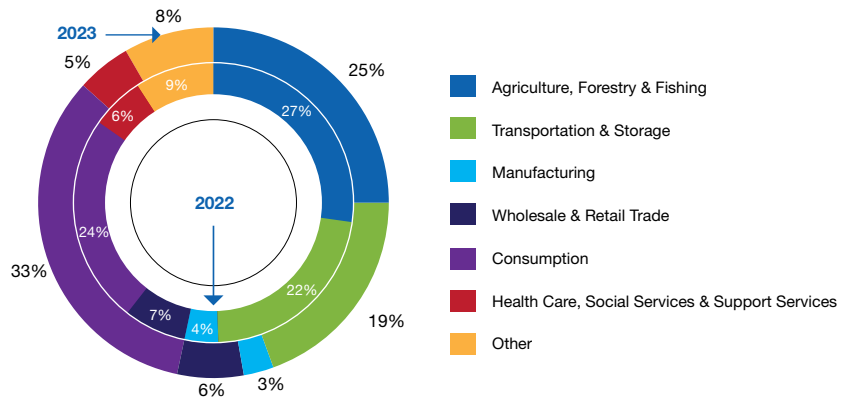
### Actions for the Year

- ◆ AFC Credit Committee reviewed the product mix and carried out revisions on a regular basis to mitigate the risk arising due to regular market changes.
- ◆ More emphasis was given for short term asset products due to increased uncertainty of long term lending and to manage the interest rate risk.

## Geographical Distribution (%)



## Sector wise Exposure (%)



### MARKET RISK

Market risk is the risk of potential losses due to changes in market variables such as interest prices, equity prices and changes in foreign currency. Given the nature of AFC's operations, AFC is most vulnerable to interest rate risk and commodity risk. The objective of market risk management is to manage and control market risks within acceptable parameters while optimizing the return on investment.

### Market Risk Governance

The Board remains the ultimate authority in charge of determining the Company's Market Risk Management policy. AFC's Asset and Liability Committee (ALCO) is tasked with overseeing market risk, reviewing risks and periodic reporting, setting limits and guidelines, and formulating and implementing plans regarding market risk management in line with the Board approved guidelines.



### Interest Rate Risk

Interest Rate Risk refers to the current or potential risk to the financial institutions' capital and earnings arising from adverse movements in interest rates. There were several factors that had a bearing on Interest Rate Risk in 2022. Interest Rate Risk remained at elevated levels owing to major changes in policy rates following the CBSL's decision to increase policy rates by 700 basis points in April 2022 and another 100 basis points in July 2022 in response to the rising inflation. This hike resulted in an upward movement of market interest rates. Since AFC had a high bearing on short term and variable borrowing, a hike in market interest rates affected the AFC's net interest income significantly. This was further exacerbated with negative interest rate gap where re-pricing of the liabilities were faster than assets.

### Actions for the year

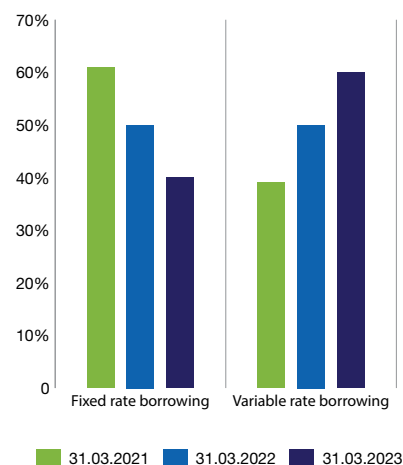
- ◆ Maintained the balance between fixed and floating rate funding arrangements
- ◆ ALCO closely monitored the interest rate movements and issued directions to lending and borrowing units on interest rate strategies
- ◆ Timely adjustments were made in the composition of the funding mix
- ◆ Promoted short term investments

### Assessment

Interest rate risk is managed principally through minimizing interest rate sensitive asset and liability gaps. In order to manage interest rate risk, interest rate margin and spreads are maintained. The Company conducts periodic reviews and re-prices its assets accordingly. AFC uses sensitivity analysis, stress testing

and scenario analysis to monitor the impact of various forms of interest rate risk.

### AFC Borrowings Mix (%)



### Maturity Gap of Rate Sensitive Assets and Liabilities - LKR Mn

Assets or Liability	0 to 1 Month (b)	0 to 3 Months (c)	0 to 6 Months (d)	0 to 12 Months (e)
Interest Bearing Assets	9,164,242	17,615,220	21,259,445	32,472,178
Interest Bearing Liabilities	3,232,375	10,302,707	16,295,884	26,464,021
Net rate sensitive Gap	5,931,867	7,312,512	4,963,561	6,008,157
Interest Rate Sensitivity Ratio	284%	171%	130%	123%

### Analysis of impact on net interest income due to re-pricing of assets and liabilities -LKR Mn

Magnitude of impact	2023		2022	
	Parallel up	Parallel down	Parallel up	Parallel down
1%	110	(110)	112	(112)
2%	220	(220)	225	(225)
3%	331	(331)	337	(337)

### Foreign exchange rate risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies.

Foreign exchange risk arises due to exposure to foreign currency resulting from transaction and translation

exposures. Due to foreign funding facilities, AFC is susceptible to changes in the exchange rates.

Sri Lankan rupee continued to show a depreciating trend against the USD throughout the year of 2022/23 due to consecutive sovereign rate downgrades by global rating agencies.

To alleviate the impact, the CBSL implemented many measures to restrict the outflow of foreign currency and pursued a tightening monetary policy stance throughout the year.

# RISK MANAGEMENT REPORT

## Managing Exchange Rate Risk

In parallel to the increase in the Company's foreign currency borrowings, AFC continued to engage in proactive foreign currency swaps as part of its hedging strategy aimed at reducing the exposure to exchange rate fluctuations. These actions helped safeguard the Company's repayment capacity of foreign borrowings.

## Commodity Price Risk

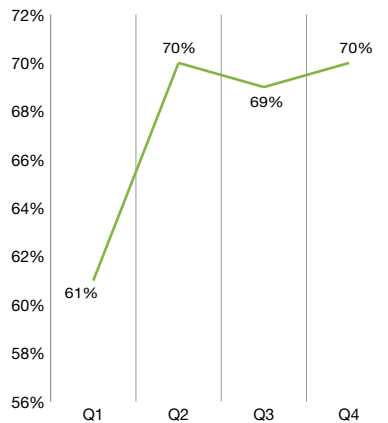
Commodity price risk refers to the uncertainties of future market values and the size of the future income caused by the fluctuation in the prices of commodities. As AFC engages in the gold loan business, the company is subjected to the commodity price volatility. Gold price risk could arise from either of adverse movement in the local and international gold prices or exchange rates. The Gold Loan business reflects 24% of the total loan portfolio. Given the significance of the gold loan business to the company's overall lending position, fluctuation in the gold price could have an adverse impact on earnings.

During the year under review international gold prices showed strong upward movement and it provided an opportunity to bolster the Company's Gold Loan business.

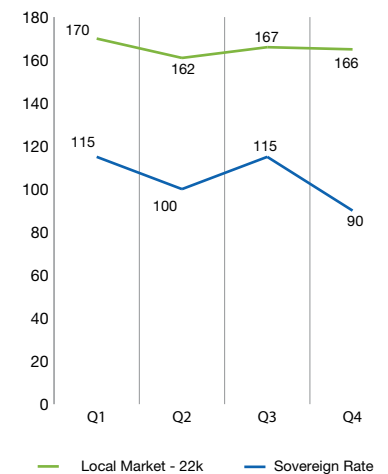
## Managing Gold Price Risk

- ◆ Concentrates on short term products to initiate its recovery process faster
- ◆ Frequent revision to the advance offered per gold sovereign: the company practices a process of revisiting advances offered per sovereign to reflect market value fluctuation to maintain the desired security cover
- ◆ Conducting timely auctions of unredeemed gold loan articles
- ◆ Review and update the gold loan policy manual to mitigate possible operational risk.
- ◆ More stringent recovery process

## Gold Loan LTV Ratio (%)



## Gold prices vs Advance amount



In order to measure the commodity risk, AFC uses the Value At Risk model (VAR). It measures the probable loss at different confidence levels. In addition, daily gold price movements are measured and proactive pricing decisions are taken.

## Equity risk

Equity risk refers to the impact on AFC's equity portfolio due to adverse movements in stock market prices.

AFC's exposure to equity risk was minimal as at 31 March 2023.

Value at Risk model used to measure the probable risk of the equity portfolio.

## Liquidity Risk

Liquidity risk is the Company's inability to meet financial obligations as they fall due without incurring unacceptable losses.

Liquidity Risk arises as a result of the maturity mismatch between assets and liabilities portfolio. The company's primary objective in the liquidity management is to ensure adequate funding for its businesses throughout market cycles, even in periods of financial distress.

To achieve this objective, the Company regularly monitors liquidity position and maintains an adequate buffer of liquid assets. Further, it ensures the availability of stock of unencumbered high quality liquid assets to meet both expected and unexpected cash flows.

The Company has made efforts to secure long term foreign funding and has also borrowed funds from financial institutions at competitive rates.

This strategy would help the Company to successfully bridge the maturity mismatch and thereby maintain a consistently low liquidity risk profile.

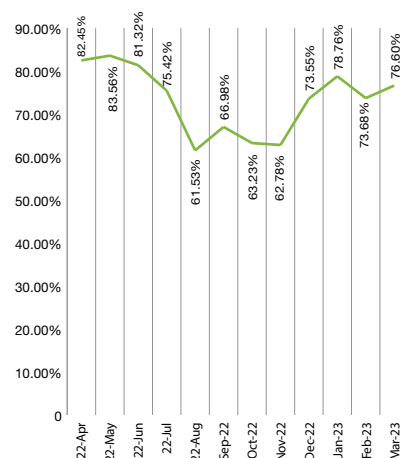
## Actions for the year

- ◆ The Company maintained a statutory liquidity assets ratio well above the regulatory limit.
- ◆ Strengthened the contingency funding arrangements using standby facilities.
- ◆ Regular ALCO meetings were held and the Committee monitored the liquidity position of the Company.
- ◆ Maintained the deposit renewal ratio at an acceptable level.
- ◆ Maintained close relationship with lenders.

## Contractual Gap Analysis (LKR Mn)

Maturity bucket	On Demand	Less than 03 Months	3-12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years
Total Financial Assets	566.95	17,037.88	15,157.87	12,623.41	2,977.04	90.71
Total Financial Liabilities	1,051.11	10,403.40	16,567.92	10,468.25	5,421.64	54.70
Gap	(484.16)	6,634.47	(1,410.05)	2,155.17	(2,444.60)	36.01
Cum Gap	(484.16)	6,150.31	4,740.26	6,895.42	4,450.83	4,486.83

## Deposit renewal ratio (%)



## Operational Risk

Operational risk is defined as the risk of loss resulting from failed or inadequate processes, systems and people or an external event.

The primary responsibility for achieving the organizational objectives and management of the operational risk assigned to the respective business unit where the risk is originated.

The AFC manages its operational risk through policies, procedures, comprehensive business continuity plan, disaster recovery plan and creating culture of risk awareness. Internal audit function ensures the effectiveness of internal control mechanisms adopted by the operational departments.

## Actions for the year

- ◆ Strengthened the incident reporting and monitoring process covering root cause analysis, review of controls and proposed actions to prevent or mitigate the recurrence.
- ◆ Risk and control self-assessment (RCSA) was performed annually by all key business units to determine the inherent risks associated with their risk respective business processes. Significant findings were subsequently evaluated and served as a foundation for taking corrective actions, which involved structural changes, process improvements, and the implementation of new policies.
- ◆ Reviewed disaster recovery plan and business continuity plan.

- ◆ Conducted periodic internal audits.
- ◆ Reviewed operational risk policies and procedures.

## Business continuity management system (BCMS)

The BCMS framework of AFC encompasses business continuity, disaster recovery, crisis management, incident reporting, emergency management and contingency planning activities. These activities will ensure that AFC is committed to serve its customers, employees, shareholders and suppliers with minimum business interruptions in the event of an unforeseen destruction to its business activities arising from human error, natural disaster or technical failure. AFC was also recertified under BCMS accreditation.

## Actions for the year

- ◆ Periodical audit was conducted by an external auditor and renewed the BCMS certification.

## IT Risk

IT risk is the business risk associated with the use, ownership, operation, involvement, influence and adaptation of IT system within the organization. These risks comprise system interruption, errors, frauds through the system manipulation, cyber-attacks, obsolesces in applications and falling behind competitors in technology. Such risks could potentially harm business operations and continuity.

## Statutory Liquid Assets Ratio (%)



AFC's liquid asset ratio remained well above the regulatory minimum.

# RISK MANAGEMENT REPORT

## Actions for the year

- ◆ Conducted IT security vulnerability assessment through a professional IT security firm.
- ◆ Conducted internal IT audits.
- ◆ Reviewed the IT security policy.
- ◆ Enhanced the policies on access controls.

## Legal risk

Legal risk is defined as exposure to fines, penalties or punitive damages resulting from regulatory action or cost of private settlement.

Legal risk is managed by ensuring compliance with relevant regulations and meeting contractual obligations to third party institutions and individuals.

## Strategic Risk

Strategic risk is defined as the risk posed by the company's business strategy and strategic objectives.

A board-approved strategic plan is evaluated annually to establish the company's future direction through a set of long-term high-impact goals, objectives, and priorities, as well as the activities required to achieve them in keeping with the company's overall vision.

## Actions for the year

- ◆ Constantly monitored the macro economic developments amidst the economic crisis to proactively manage the emerging strategic risks.
- ◆ Reviewed the monthly business performance and took corrective actions to address the deviations to the strategic plan.
- ◆ Carried out regular rollover forecasts to address volatile market conditions due to the economic crisis.

## Reputational Risk

The risk of potential or actual damage to the Company's image which may have a detrimental impact on the profitability and/ or sustainability of the business.

## Actions for the year

- ◆ The Company continued to strengthen relationships through open and transparent communications with all stakeholders.

## Capital Risk

Capital risk is the risk that the Company has insufficient capital resources to meet minimum regulatory capital requirements, to meet timely debt obligations, support credit rating and achieve strategic objectives.

The main objective of capital is to withstand unexpected losses. For a financial institution capital is a buffer which could be utilized to absorb unseen losses which asserts the company's ability to continue its operation for a foreseeable future.

The company's capital management process is steered with the aim of holding sufficient capital to support company's risk appetite while adhering to regulatory requirements.

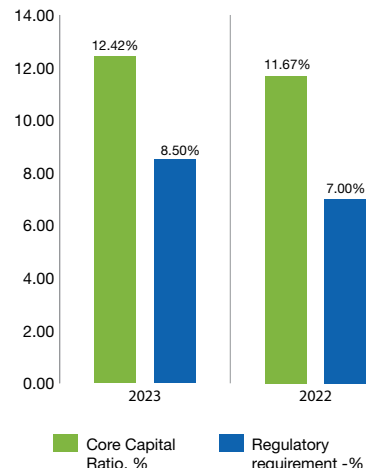
## Actions for the year

- ◆ Carried out stress testing on key variables impacting capital on a regular basis.
- ◆ Monitored the Capital Adequacy Ratios on a monthly basis.

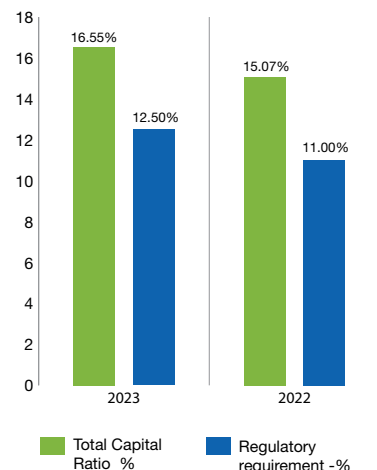
## Assessment of Capital Risk

Capital Adequacy Ratio (CAR) is the key indicator which measures the financial strength of a financial institution expressed as a ratio of its capital to its risk weighted assets. A higher capital adequacy ratio indicates that the Company is able to handle losses and fulfill its obligations to depositors without ceasing operations. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of a financial institution. From 01st July 2022, the Core Capital Ratio was increased from 7% to 8.5% and total Capital Ratio was increased from 11% to 12.5%.

### Capital Adequacy Ratios



### Capital Adequacy Ratios





# FINANCIAL STATEMENTS

With over six decades of consistent performance, Alliance Finance demonstrated resilience and strength amidst adverse externalities. This reflects the Company's solid business model which is built on principles of sustainability and governance.

# INDEPENDENT AUDITORS' REPORT



**Edirisinghe & Co.**  
**Chartered Accountants**  
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 Sri Lanka

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**W:** www.bakertilly.lk

## TO THE SHAREHOLDERS OF ALLIANCE FINANCE COMPANY PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Alliance Finance Company PLC (the “Company”) and the Consolidated financial statements of the Company and its subsidiary ( the “Group”), which comprise the Statement of financial position as at 31 March, 2023 and the Statement of profit or loss, Statement of other comprehensive income, Statement of changes in equity and Statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March, 2023 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor’s Responsibility for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, we have provided a description of how our audit procedures addressed the matters in that context.

Partners: P.P. Edirisinghe FCA ACIM MBA Ms. M.K.K. Karunaratne FCA ACMA P.K.A.M. Alahakoon ACA MAAT  
 S.A. Harischandra FCA ACMA CGMA MBA Bcom (Sp.)

Consultants: A.T.P. Edirisinghe FCA FCMA (UK) A.D. Jayasena FCA

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## EDIRISINGHE & CO.

Chartered Accountants

Key audit matter	How our audit procedures addressed the key audit matter
<p><b>Impairment of loans and advances, lease and hire purchase rental receivables.</b></p>	<p>We assessed whether the Company and the Group's impairment computations and underlying methodology align with the requirements of SLFRS 9 with consideration of worsened economic condition, related responses from industry, the regulator, and CA Sri Lanka based on the best available information up to the date of our report.</p>
<p>Refer to accounting policy No. 4.5.7 - Impairment of financial assets and Note 11 - Impairment charges for loans and other losses together with Notes 23,24 and 25 for details of impairment provisions carried as at 31 March 2023.</p>	<p>Our audit procedure was designed to obtain sufficient and appropriate audit evidence, including amongst others the following:</p>
<p>The assessment of impairment requires significant judgment by the Company and Group and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgments inherent in the determination of the provision for impairment and historical issues in relation to classifying loans as non-performing advances (NPAs), the significance of the loans and receivables, lease and hire purchases receivables balances to these financial statements, the inherent complexity of the Company's ECL models used to measure impairment allowances and the level of required disclosures set out by the requirements of SLFRS 7 financial instruments: Disclosures, we determined this to be a matter of most significance to our audit.</p>	<ul style="list-style-type: none"> <li>◆ Evaluated design, implementation, and operating effectiveness of controls over estimation of impairment of loans and receivables, which included assessing the level of oversight, review, and approval of impairment policies by the Board of Directors.</li> <li>◆ We checked the completeness and accuracy of underlying data used in the computations.</li> <li>◆ In addition to the above, the following procedures were performed.</li> </ul>
<p>Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. They are calculated on a collective basis for portfolios of loans of a similar nature (the collective impairment model) and on an individual basis for significant loans (individual impairment model). Both models used by the company utilize arrears as the primary impairment trigger; however, there is a risk that other impairment triggers are not identified on a timely basis.</p>	<p><b>For individual impairment</b></p> <ul style="list-style-type: none"> <li>◆ We tested control over the timely identification of potentially impaired loans and receivables.</li> <li>◆ We tested the sample of loans and receivables to ascertain whether the loss event (the point at which impairment is recognized) had been identified in a timely manner.</li> <li>◆ We selected a sample of large customers based on quantitative thresholds that were individually identified by management due to; a significant increase in credit risks, having signs of deterioration, or in areas of emerging risk (assessed against external market conditions and considering prevailing uncertain and volatile macro-economic environment).</li> <li>◆ We assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rate, and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries.</li> <li>◆ We evaluated the associated reasonableness of the provisions made with particular focus on the prevailing uncertain and volatile macro-economic environment in high-risk industries, strategic responsive actions are taken, collateral values, and the value and timing of recoveries.</li> </ul>

# INDEPENDENT AUDITORS' REPORT

## EDIRISINGHE & CO. Chartered Accountants

Key audit matter	How our audit procedures addressed the key audit matter
<p>For the collective impairment model (ECL model), impairment is calculated on a modeled basis for portfolios of loans and advances. This is because loans and advances considered under this model comprise large numbers of accounts with relatively small individual balances. The key assumptions and judgments made by the Company underlie the calculation of impairment. A high degree of complexity and judgment is involved in estimating impairment. There are also several key assumptions made by the Company in applying the requirements of SLFRS 9 to the ECL model including the identification of the loss stage, probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgments over the use of data inputs required.</p> <p>The prevailing uncertain and volatile macro-economic environment, continued disruption to economic activities have meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgment required by the Company and the Group in estimating impairment allowances.</p>	<p><b>For collective impairment</b></p> <ul style="list-style-type: none"> <li>◆ We assessed the completeness of the input data used in the impairment calculations by agreeing with details to the Company and Group's sources of documents and information as well as re-performing the calculation of impairment allowance using computer-assisted audit techniques.</li> <li>◆ We obtained a review report from our internal expert to evaluate the impairment methodology and model developed by the management. It assessed the management's computation of the Expected Credit Loss (ECL) model, including staging, segmentation, Probability of Default (PD), Loss Given Default (LGD), and the appropriateness of incorporating forward-looking factors and scenario-based analysis assumptions.</li> <li>◆ Recalculated the ECL on sample basis, by using the key assumptions used in the models, such as PD and LGD.</li> <li>◆ We assessed the adequacy of the related financial statement disclosures with relevant accounting standard requirements.</li> </ul>

### Other information

Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going

concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibility for the Audit of the Financial Statements

The Directors and those charged with governance are responsible for overseeing the Group's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an



## EDIRISINGHE & CO.

Chartered Accountants

audit conducted in accordance with SLAuS will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- ◆ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- ◆ Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be

thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3534



**Edirisinghe & Co.,**  
Chartered Accountants  
Colombo

27th June 2023

# STATEMENTS OF PROFIT OR LOSS

	Notes	Company		Group	
		2023	2022	2023	2022
		LKR	LKR	LKR	LKR
<b>Gross Income</b>	6	12,420,568,123	8,697,463,749	12,525,096,443	8,776,702,341
Interest income		11,946,843,634	7,852,033,338	11,959,844,861	7,858,602,585
Interest expenses		(7,411,342,695)	(2,651,181,039)	(7,395,214,020)	(2,651,181,039)
<b>Net Interest Income</b>	7	4,535,500,939	5,200,852,299	4,564,630,841	5,207,421,546
Fee and commission income		182,764,216	267,503,991	272,637,751	341,843,804
Fee and commission expenses		(246,958,194)	(255,158,346)	(253,243,666)	(255,158,346)
<b>Net Fee and Commission Income / (Expense)</b>	8	(64,193,978)	12,345,645	19,394,085	86,685,458
Net gain from trading	9	16,315,769	28,124,476	13,779,786	28,604,778
Other operating income	10	274,644,504	549,801,944	278,834,045	547,651,174
<b>Total Operating Income</b>		4,762,267,234	5,791,124,364	4,876,638,757	5,870,362,956
Impairment charges for loans and other losses	11	(274,638,036)	(102,890,184)	(274,638,036)	(102,890,184)
<b>Net Operating Income</b>		4,487,629,198	5,688,234,180	4,602,000,721	5,767,472,772
<b>Operating Expenses</b>					
Personnel expenses	12	(1,219,117,857)	(1,193,004,228)	(1,231,220,988)	(1,203,890,498)
Other operating expenses	13	(1,757,351,521)	(1,455,233,111)	(1,767,472,554)	(1,462,637,445)
Depreciation and amortization	14	(162,069,603)	(127,463,057)	(162,752,147)	(127,957,310)
Total operating expenses		(3,138,538,981)	(2,775,700,396)	(3,161,445,689)	(2,794,485,253)
<b>Operating Profit before Taxes on Financial Services</b>		1,349,090,217	2,912,533,784	1,440,555,032	2,972,987,518
Taxes on financial services	15	(419,432,886)	(554,549,356)	(419,432,886)	(554,549,356)
<b>Operating Profit after Taxes on Financial Services</b>		929,657,331	2,357,984,428	1,021,122,146	2,418,438,162
Share of profit / (loss) from associate		21,068,498	5,946,770	21,068,498	5,946,770
<b>Profit before Taxation from Operations</b>		950,725,829	2,363,931,198	1,042,190,644	2,424,384,932
Provision for income taxation	16	(445,801,882)	(900,830,572)	(482,740,665)	(913,616,229)
<b>Profit for the Year</b>		504,923,947	1,463,100,626	559,449,979	1,510,768,703
Profit attributable to :					
Equity holders of the company		504,923,947	1,463,100,626	532,796,238	1,483,891,999
Non controlling interest		-	-	26,653,741	26,876,704
<b>Profit for the Year</b>		504,923,947	1,463,100,626	559,449,979	1,510,768,703
Basic earnings per share	17	14.98	43.42	15.81	44.04
Dividend per share (paid)	18	8.00	12.00	8.27	12.11

Figures in brackets indicate deductions.

Accounting policies & notes to accounts on pages 184 to 265 form an integral part of these Financial Statements.

# STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Company		Group	
		2023	2022	2023	2022
		LKR	LKR	LKR	LKR
<b>Profit for the Year</b>		504,923,947	1,463,100,626	559,449,979	1,510,768,703
<b>Other Comprehensive Income</b>					
<b>Other Comprehensive Income not to be Reclassified to Profit or Loss</b>					
Actuarial gains / (losses) on defined benefit plans	43	69,304,725	(114,165,613)	70,635,125	(113,377,667)
Deferred tax effect on above		(20,791,418)	27,399,747	(20,791,418)	27,399,747
		48,513,307	(86,765,866)	49,843,707	(85,977,920)
Equity Investments at FVTOCI - net change in fair value and disposal gain / (loss)		(7,105,330)	(103,157,996)	(7,105,330)	(101,670,914)
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>		41,407,977	(189,923,862)	42,738,377	(187,648,834)
<b>Total Comprehensive Income for the Year</b>		546,331,924	1,273,176,764	602,188,356	1,323,119,869
<b>Attributable to:</b>					
Equity Holders of the Company		546,331,924	1,273,176,764	575,534,615	1,296,243,165
Non Controlling Interest		-	-	26,653,741	26,876,704
<b>Total Comprehensive Income for the Year</b>		546,331,924	1,273,176,764	602,188,356	1,323,119,869

Figures in brackets indicate deductions.

Accounting policies & notes to accounts on pages 184 to 265 form an integral part of these Financial Statements.

# STATEMENTS OF FINANCIAL POSITION

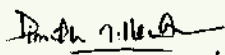
	Notes	Company		Group	
		2023	2022	2023	2022
		LKR	LKR	LKR	LKR
<b>Assets</b>					
Cash and cash equivalents	21	566,946,383	795,260,944	624,723,130	898,748,640
Repurchase agreements		250,154,110	250,000,000	250,154,110	250,000,000
Placements with banks & financial institutions		4,905,611,281	287,925,208	4,919,075,748	287,925,208
Financial assets recognised through profit or loss	22	3,130,690,272	1,502,280,225	3,130,690,272	1,502,280,225
Loans and advances - at amortised cost	23	17,449,867,823	14,797,772,357	17,449,867,823	14,797,772,357
Lease rentals receivable & stock out on hire - at amortised cost	24	21,552,425,838	25,503,747,256	21,552,425,838	25,503,747,256
Hire purchase rentals receivable & stock out on hire - at amortised cost	25	-	-	-	-
Financial assets- fair value through other comprehensive income	26	182,705,621	184,720,884	182,705,621	184,720,884
Other trading stocks	27	59,653,942	392,525,744	59,653,942	392,525,744
Other financial assets	28	415,454,128	636,340,449	417,933,228	630,656,592
Other non financial assets	29	173,787,786	243,886,129	174,283,305	244,361,452
Derivative financial assets	41	-	82,923,194	-	82,923,194
Investments in associates	30	70,906,846	49,838,348	97,412,381	83,092,843
Investments in subsidiaries	31	16,924,038	16,924,038	-	-
Investment property	32	163,200,000	159,590,100	253,200,000	245,250,516
Property, plant & equipment	33	2,595,446,980	2,502,324,245	2,596,074,215	2,503,442,359
Intangible assets	34	139,188,404	126,715,431	139,461,804	127,180,497
Right of use asset	35	365,346,690	397,784,021	365,346,690	397,784,021
Deferred tax assets	44	209,616,678	209,679,475	210,498,249	210,485,254
<b>Total Assets</b>		<b>52,247,926,820</b>	<b>48,140,238,048</b>	<b>52,423,506,356</b>	<b>48,342,897,042</b>
<b>Liabilities</b>					
Due to banks	36	22,571,002,700	22,558,061,981	22,571,002,700	22,558,061,981
Due to depositors - at amortised cost	37	20,475,847,835	14,681,375,682	20,390,703,071	14,681,375,682
Debt instruments issued and other borrowed funds	38	-	867,759,553	-	867,759,553
Other financial liabilities	39	883,998,853	1,670,249,511	919,990,176	1,704,808,662
Other non financial liabilities	40	87,430,045	184,106,172	88,295,194	184,106,173
Derivative financial liabilities	41	36,175,016	-	36,175,016	-
Income tax liabilities	42	708,410,305	865,153,792	722,146,198	869,537,847
Retirement benefit obligations	43	48,489,232	121,428,671	50,962,873	124,326,196
Deferred tax liabilities	44	478,434,654	510,728,430	478,434,654	510,728,430
<b>Total Liabilities</b>		<b>45,289,788,640</b>	<b>41,458,863,792</b>	<b>45,257,709,882</b>	<b>41,500,704,524</b>

	Notes	Company		Group	
		2023 LKR	2022 LKR	2023 LKR	2022 LKR
<b>Shareholders' Funds</b>					
Stated capital	45	613,980,000	613,980,000	613,980,000	613,980,000
Retained earnings	46	3,761,997,661	3,500,238,368	3,870,187,587	3,588,577,822
Reserves	47	2,582,160,519	2,567,155,888	2,582,160,519	2,567,155,888
<b>Total Equity Attributable to Equity Holders of the Company</b>		<b>6,958,138,180</b>	<b>6,681,374,256</b>	<b>7,066,328,106</b>	<b>6,769,713,710</b>
Non controlling interest		-	-	99,468,368	72,478,808
<b>Total Equity</b>		<b>6,958,138,180</b>	<b>6,681,374,256</b>	<b>7,165,796,474</b>	<b>6,842,192,518</b>
<b>Total Liabilities and Shareholders' Funds</b>					
Contingent liabilities and commitments	48	857,880,137	38,415,571	857,880,137	38,415,571
Net assets value per share (LKR)	19	206	198	210	201

Accounting policies & notes to accounts on pages 184 to 265 form an integral part of these Financial Statements.

#### Certification

I certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No. 07 of 2007.



#### Dimuthu Tillekeratne

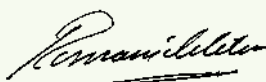
AGM-Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by,



#### Kusal Jayawardana

Deputy Managing Director



#### Romani de Silva

Deputy Chairman/ Managing Director

27th June 2023

Colombo

# STATEMENTS OF CHANGES IN EQUITY

Company	Stated Capital	Statutory Reserve Fund	Revaluation Reserve	General Reserve	FVTOCI	Non Controlling Interest	Retained Earnings	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1st April 2021	613,980,000	904,081,009	1,556,017,602	388,258,055	58,527,420	-	2,295,549,890	5,816,413,977
Profit for the year	-	-	-	-	-	-	1,463,100,626	1,463,100,626
<b>Other Comprehensive</b>								
<b>Income, Net of Tax</b>								
Net actuarial gain / (loss) on defined benefit plan	-	-	-	-	-	-	(86,765,866)	(86,765,866)
Equity investments at FVTOCI - net change in fair value & disposal profit	-	-	-	-	(103,157,996)	-	-	(103,157,996)
Transfer of realized profit / (loss) on equity instrument disposal to retained earnings	-	-	-	-	22,902,218	-	(22,902,218)	-
Net asset adjustment - Associate Company	-	-	-	-	-	-	(3,864,484)	(3,864,484)
Transfer of realized profit on investment property disposal to retained earnings	-	-	(332,627,451)	-	-	-	332,627,451	-
Transfer to statutory reserve	-	73,155,031	-	-	-	-	(73,155,031)	-
Dividend paid	-	-	-	-	-	-	(404,352,000)	(404,352,000)
<b>Balance as at 31st March 2022</b>	<b>613,980,000</b>	<b>977,236,040</b>	<b>1,223,390,151</b>	<b>388,258,055</b>	<b>(21,728,358)</b>	<b>-</b>	<b>3,500,238,368</b>	<b>6,681,374,256</b>
Balance as at 1st April 2022	613,980,000	977,236,040	1,223,390,151	388,258,055	(21,728,358)	-	3,500,238,368	6,681,374,256
Profit for the year	-	-	-	-	-	-	504,923,947	504,923,947
<b>Other Comprehensive</b>								
<b>Income, Net of Tax</b>								
Net actuarial gain / (loss) on defined benefit plan	-	-	-	-	-	-	48,513,307	48,513,307
Equity investments at FVTOCI - net change in fair value & disposal profit	-	-	-	-	(7,105,330)	-	-	(7,105,330)
Transfer of realized profit / (loss) on equity instrument disposal to retained earnings	-	-	-	-	(3,136,236)	-	3,136,236	-
Net asset adjustment - Associate Company	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	25,246,197	-	-	-	-	(25,246,197)	-
Dividend paid	-	-	-	-	-	-	(269,568,000)	(269,568,000)
<b>Balance as at 31st March 2023</b>	<b>613,980,000</b>	<b>1,002,482,237</b>	<b>1,223,390,151</b>	<b>388,258,055</b>	<b>(31,969,924)</b>	<b>-</b>	<b>3,761,997,661</b>	<b>6,958,138,180</b>

Figures in brackets indicate deductions.

Accounting policies & notes to accounts on pages 184 to 265 form an integral part of these Financial Statements.

Group	Stated Capital	Statutory Reserve Fund	Revaluation Reserve	General Reserve	FVTOCI	Non Controlling Interest	Retained Earnings	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 1st April 2021	613,980,000	904,081,009	1,556,017,602	388,258,055	58,527,420	53,955,005	2,374,274,468	5,949,093,560
Profit for the year	-	-	-	-	-	18,239,670	1,492,529,033	1,510,768,703
<b>Other Comprehensive Income, Net of Tax -</b>								
Net actuarial gain / (loss) on defined benefit plan	-	-	-	-	-	284,133	(86,262,053)	(85,977,920)
Equity investments at FVTOCI - net change in fair value & disposal profit	-	-	-	-	(103,157,996)	-	-	(103,157,996)
Transfer of realized profit on equity instrument disposal to retained earnings	-	-	-	-	22,902,218	-	(22,902,218)	-
Net asset adjustment - Associate Company	-	-	-	-	-	-	(20,372,399)	(20,372,399)
Transfer of realized profit on investment property disposal to retained earnings	-	-	(332,627,451)	-	-	-	332,627,451	-
Transfer to statutory reserve	-	73,155,031	-	-	-	-	(73,155,031)	-
Dividend paid	-	-	-	-	-	-	(408,161,429)	(408,161,429)
<b>Balance as at 31st March 2022</b>	<b>613,980,000</b>	<b>977,236,040</b>	<b>1,223,390,151</b>	<b>388,258,055</b>	<b>(21,728,358)</b>	<b>72,478,808</b>	<b>3,588,577,822</b>	<b>6,842,192,518</b>
Balance as at 1st April 2022	613,980,000	977,236,040	1,223,390,151	388,258,055	(21,728,358)	72,478,808	3,588,577,822	6,842,192,518
Profit for the year	-	-	-	-	-	26,653,741	532,796,238	559,449,979
<b>Other Comprehensive Income, Net of Tax -</b>								
Net actuarial gain / (loss) on defined benefit plan	-	-	-	-	-	335,819	49,507,888	49,843,707
Equity investments at FVTOCI - net change in fair value & disposal profit	-	-	-	-	(7,105,330)	-	-	(7,105,330)
Transfer of realized profit on equity instrument disposal to retained earnings	-	-	-	-	(3,136,236)	-	3,136,236	-
Net asset adjustment - Associate Company	-	-	-	-	-	-	-	-
Transfer of realized profit on investment property disposal to retained earnings	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	25,246,197	-	-	-	-	(25,246,197)	-
Dividend paid	-	-	-	-	-	-	(278,584,400)	(278,584,400)
<b>Balance as at 31st March 2023</b>	<b>613,980,000</b>	<b>1,002,482,237</b>	<b>1,223,390,151</b>	<b>388,258,055</b>	<b>(31,969,924)</b>	<b>99,468,368</b>	<b>3,870,187,587</b>	<b>7,165,796,474</b>

Figures in brackets indicate deductions.

Accounting policies & notes to accounts on pages 184 to 265 form an integral part of these Financial Statements.

# STATEMENTS OF CASH FLOWS

	Notes	Company		Group	
		2023	2022	2023	2022
		LKR	LKR	LKR	LKR
<b>Cash Flows From / (Used in) Operating Activities</b>					
Profit before Income Tax Expense		950,725,829	2,363,931,198	1,042,190,644	2,424,384,932
<b>Adjustments for;</b>					
Depreciation of property, plant & equipment	14	150,711,053	116,431,961	151,201,931	116,816,283
Amortization of intangible assets	14	11,358,550	11,031,096	11,550,216	11,141,027
Intangible asset write-off		-	1,014,204	-	1,014,204
Depreciation adjustment		-	(10,505,851)	-	(10,505,851)
Amortization of right of use asset	35	127,702,817	104,584,448	127,702,817	104,584,448
Interest expense on lease liability		44,022,441	40,649,243	44,022,441	40,649,243
Impairment provision / (reversal)	11	40,334,682	(133,250,305)	40,334,682	(133,250,305)
Interest on fixed deposits, commercial paper & treasury bills		(243,766,340)	(67,058,063)	(256,767,567)	(73,627,310)
Fair value gain on investments (FVTPL)		-	(275,394)	-	(275,394)
Fair value gain on investment property	32	(3,609,900)	(27,009,600)	(7,949,484)	(27,009,600)
Bad debt written-off	11	234,303,354	236,140,489	234,303,354	236,140,489
Diminution / (appreciation) in value of treasury bonds		2,753,591	(4,043)	2,753,591	(4,043)
Loss / (profit) on disposal of property, plant & equipment		(12,652,649)	(13,729,654)	(12,652,649)	(13,729,654)
Loss / (profit) on disposal of investment property		-	(67,140,000)	-	(67,140,000)
(Profit) from disposal of financial instrument (Quoted Shares)		-	-	-	(480,302)
Loss / (profit) from sale of vehicle		3,122,258	(111,492,609)	3,122,258	(111,492,609)
Loss / (profit) on disposal of real estates		(9,105,101)	-	(9,105,101)	-
Provision for defined benefit plans	43	64,321,756	43,803,310	65,228,272	44,423,948
Dividend received		(29,789,738)	(16,809,063)	(20,174,158)	(11,610,626)
Share of (profit) from associates	30	(21,068,498)	(5,946,770)	(21,068,498)	(5,946,770)
<b>Operating Profit before Working Capital Changes</b>		<b>1,309,364,105</b>	<b>2,464,364,597</b>	<b>1,394,692,749</b>	<b>2,524,082,110</b>
(Increase) / decrease in trading stock		53,647,645	(1,043,219,266)	53,647,645	(1,043,219,266)
(Increase) / decrease in loans and advances	23	(2,602,720,732)	(8,268,070,660)	(2,602,720,732)	(8,268,070,660)
(Increase) / decrease in lease rentals receivable	24	3,627,297,790	(5,531,357,034)	3,627,297,790	(5,531,357,034)
(Increase) / decrease in hire purchase rentals receivable	25	10,858	5,744,562	10,858	5,744,562
(Increase) / decrease in fixed deposits & repurchase agreements		(4,617,840,183)	655,843,416	(4,631,304,650)	655,843,416
(Increase) / decrease in other financial assets		220,886,321	(143,409,221)	212,723,364	(150,179,199)
(Increase) / decrease in other non financial assets		133,102,711	(222,002,020)	89,060,073	(222,002,020)
(Increase) / decrease in derivative financial liabilities		119,098,210	(96,468,744)	119,098,210	(96,468,744)
Increase / (decrease) in amounts due to depositors	37	5,794,472,153	1,762,589,204	5,709,327,389	1,762,589,204
Increase / (decrease) in other financial liabilities		(830,273,099)	745,722,568	(784,818,486)	764,465,640
Increase / (decrease) in other non financial liabilities		(96,676,127)	142,278,241	(95,810,979)	142,278,241
<b>Cash Generated from / (used in) Operations</b>		<b>3,110,369,652</b>	<b>(9,527,984,357)</b>	<b>3,091,203,230</b>	<b>(9,456,293,750)</b>
Retirement benefit liabilities paid	43	(27,744,250)	(10,155,107)	(27,744,250)	(10,155,107)
Investment in gratuity fund	43	(40,212,220)	(39,309,174)	(40,212,220)	(39,309,174)
Taxes paid	42	(655,567,767)	(782,917,956)	(676,481,543)	(794,789,292)
<b>Net Cash Generated from / (used in) Operating Activities</b>		<b>2,386,845,415</b>	<b>(10,360,366,594)</b>	<b>2,346,765,217</b>	<b>(10,300,547,323)</b>



	Notes	Company		Group	
		2023	2022	2023	2022
		LKR	LKR	LKR	LKR
<b>Cash Flows from Investing Activities</b>					
Acquisition of property, plant & equipment	33	(249,592,489)	(238,188,743)	(249,592,488)	(239,659,582)
Acquisition of right of use assets	35	(17,326,000)	(60,536,000)	(17,326,000)	(60,536,000)
Acquisition of intangible assets	34	(23,831,523)	(80,263,561)	(23,831,523)	(80,838,558)
Investment in unquoted equities		-	-	-	(954,940)
Proceeds from sales of property, plant & equipment		18,411,350	21,352,700	18,411,350	21,352,700
Proceeds from sales of investment property	32	-	508,813,500	-	508,813,500
Proceeds from sales of vehicles		262,252,000	1,041,752,701	262,252,000	1,041,752,701
Proceeds from sales of real estates		22,955,000	-	22,955,000	-
Purchase of equipment relating to the investment property		-	-	-	(1,807,034)
Net sales / (purchases) of financial investments - FVTPL / FVTOCI		(1,636,253,705)	(408,694,873)	(1,636,253,705)	(408,214,571)
Dividend received		29,789,738	16,809,063	20,174,158	11,610,626
Interest on fixed deposits, commercial paper & treasury bills		243,766,340	67,058,063	256,767,567	73,627,310
<b>Net Cash Generated from / (used in) Investing Activities</b>		<b>(1,349,829,289)</b>	<b>868,102,850</b>	<b>(1,346,443,641)</b>	<b>865,146,152</b>
<b>Cash Flows from / (used in) Financing Activities</b>					
Settlement of operating lease liabilities	35	(140,943,853)	(107,109,688)	(140,943,853)	(107,109,688)
Increase / (decrease) in borrowed funds		(867,759,553)	867,759,550	(867,759,553)	867,759,550
Net increase / (decrease) in other borrowings	36	(3,140,673,013)	9,087,499,254	(3,140,673,013)	9,087,499,254
Dividend paid		(269,568,000)	(404,352,000)	(278,584,400)	(408,161,429)
<b>Net Cash Generated from / (used in) Financing Activities</b>		<b>(4,418,944,419)</b>	<b>9,443,797,116</b>	<b>(4,427,960,819)</b>	<b>9,439,987,687</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>					
Cash and cash equivalents at the beginning of the year		429,792,059	478,258,687	533,279,755	528,693,239
Cash and cash equivalents at the end of the year	21	(2,952,136,234)	429,792,059	(2,894,359,487)	533,279,755
<b>Movement in Cash and Cash Equivalents</b>		<b>(3,381,928,293)</b>	<b>(48,466,628)</b>	<b>(3,427,639,242)</b>	<b>4,586,516</b>

**Note :** Reporting cash flows from operating activities

The Company reports cash flows from operating activities by using the indirect method. The indirect method – whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows – is shown above.

Figures in brackets indicate deductions.

Accounting policies & notes to accounts on pages 184 to 265 form an integral part of these Financial Statements.

# SIGNIFICANT ACCOUNTING POLICIES

GRI 202-1

GRI 207-1

GRI 207-2

GRI 207-3

## 1. CORPORATE INFORMATION

### 1.1 General

Alliance Finance Company PLC (the 'Company') is a Public Limited Liability Company listed on the Colombo Stock Exchange and incorporated on July 18, 1956, under the Companies Ordinance No 51 of 1938 and domiciled in Sri Lanka. It is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto. The Company is re-registered under the new Companies Act No 7 of 2007. The registered office of the Company and the principal place of business are situated at No.84, "Alliance House", Ward Place, Colombo 07.

### 1.2 Consolidated Financial Statements

Consolidated Financial Statements of the Group for the year ended 31st March 2023 comprises the Company, and its Subsidiary (together referred to as the "Group").

All the Group entities are limited liability Companies, incorporated and domiciled in Sri Lanka.

### 1.3 Principal Activities and Nature of Operations of the Company and Group

#### 1.3.1 The Company

The Company provides a comprehensive range of financial services encompassing accepting deposits, lease financing, hire purchase financing, mortgage loans, gold loan, term loans and other credit facilities, operating leases, vehicle hiring, micro financing activities and other value-added financial services.

#### 1.3.2 Subsidiary

Details of the Subsidiary as at 31st March 2023 is given below.

Subsidiary	Principal Activities	Ownership %	Incorporation Date	Registered Address
Alfinco Insurance Brokers (Pvt) Ltd	Insurance Brokering	63.94%	26th February 2008	No. 84, "Alliance House", Ward Place, Colombo 07

#### 1.3.3. Associate

Details of the Associate in operation as at 31st March 2023 is given below.

Associate	Principal Activities	Ownership % (Group)	Incorporation Date	Registered Address
Macbertan (Private) Limited	Manufacturing and trading of Non - Crossed Polyethylene Form, Air Bubble Sheet, Thermal Insulation for Heat Controlling in Roof and Flexible tubes, PPGI roofing sheet, local and import trading.	22.39%	07th October 2007	No. 84, "Alliance House", Ward Place, Colombo 07

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Financial Statements of the Group and the separate Financial Statements of the Company, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of the Financial Statements is also in compliance with the requirements of the Finance Business Act No. 42 of 2011 and amendments thereto, and provides appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

The Financial Statements comprise of the Statements of Financial Position, Statements of Profit or Loss, Statements of Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow, together with the accounting policies and notes.

These Financial Statements, except for information presented on cash flows have been prepared following accrual basis.

### 2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements of the Group and the Company as per Sri Lanka Accounting Standards (SLFRSs and LKASs) and the provisions of the Companies Act No. 7 of 2007.

### 2.3 Date of Authorization for Issue

The Financial Statements of the Group and Company for the year ended 31st March 2023 were

approved and authorized for issue in accordance with a resolution of the Board of Directors on 27th June 2023

#### 2.4 Basis of Measurement

The Financial Statements of Group and Company have been prepared on the historical cost basis, except for the following material items in the Statements of Financial Position.

- Financial assets held at Fair Value Through Other Comprehensive Income (FVTOCI) (Note 26)
- Financial assets recognized Fair Value Through Profit or Loss (FVTPL) are measured at fair value (Note 22)
- Retirement benefit obligation measured at difference between present value of defined benefit plan asset and the present value of defined benefit plan liability (Note 43)
- Land and buildings which are measured at cost at the time of acquisition, subsequently measured at revalued amounts, which are the fair values at the date of revaluation (Note 33)
- Investment property measured at fair value (Note 32)

#### 2.5 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Group's functional and presentation currency of the primary economic environment in which Alliance Finance Company PLC operates. All financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee, unless otherwise stated.

#### 2.6 Presentation of Financial Statements

The Group presents its Statement of Financial Position broadly in order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 54.3.

#### 2.7 Materiality & Aggregation and Offsetting

In compliance with Sri Lanka Accounting Standard- LKAS 01 (Presentation of Financial Statements), each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretations, and as specifically disclosed in the accounting policies.

#### 2.8 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current

period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The comparative information is re-classified wherever necessary to conform to the current year's classification in order to provide a better presentation.

#### 2.9 Statements of Cash Flows

Statement of Cash Flows has been prepared by using the 'Indirect Method', as stipulated in Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows', whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows, Cash and cash equivalents comprise short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand, balances with banks, placements with banks money at call and short notice.

#### 2.10 Changes in Accounting Policies

The Group has consistently applied accounting policies as set out in Note 6 to Note 54 to all periods presented in the Financial Statements.

#### 2.11 Use of Significant Accounting Judgments, Estimates and Assumptions

In preparing Financial Statements of the Group in conformity with Sri Lanka Accounting Standards (SLFRSs and LKASs), requires the

## SIGNIFICANT ACCOUNTING POLICIES

management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

The Group considered the impact of the current economic crisis of the country in preparing the Financial Statements in line with the circulars and guidelines issued by CBSL and CA Sri Lanka. While the specific areas, judgements may not change, the impact of economic crisis resulted in application of further judgement within those areas due to the limited recent experience of economic and financial impacts of such events.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments, estimates and assumptions in applying accounting policies that could have a significant effect on the Financial Statements of the Group are as follows:

### 2.11.1 Going concern

The Board of Directors has made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future and, do not foresee a need for liquidation or cessation of business, taking into account all available information about the future.

In assessing the appropriateness of the use of going concern assumption, Board of Directors have considered the effects of the ongoing economic crisis on the Company's operations including a possible domestic debt optimization. Having understood the effects of an economic downturn, the Company has taken steps to remain focused on asset backed lending, applying strict credit guidelines to minimize credit risk and having adequate buffers on liquidity, continuous monitoring on the portfolio and cash flow positions of the Company and cost rationalizations where possible towards mitigating this risk. Based on these proactive analyses and the Company's operating model, the management is confident that the Company has no impact on its business continuity and expects to manage the above challenges effectively.

### 2.11.2 Fair value of financial instruments

The determination of fair values of financial assets and financial liabilities which recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 52. Determination of the fair value of financial instruments of the Group was impacted by the current economic situation of the country.

### 2.11.3 Impairment losses on loans and receivables

The measurement of impairment losses across the categories of

financial assets under Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments” (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Statements of Profit & Loss. In particular; the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- ◆ Groups of homogeneous loans and advances that are not considered individually significant; and
- ◆ Groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL model that are considered accounting judgements and estimates include:

- ◆ The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so, allowances for financial assets measured on a Lifetime Expected Credit Loss (LTECL) basis;
- ◆ The segmentation of financial assets when their ECL is assessed on a collective basis;
- ◆ Development of ECL models, including the various statistical formulas and the choice of inputs;
- ◆ Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates and unemployment and the effect on Probability of Default (PDs), Exposure at Default (EAD) and Loss Given Default (LGD);
- ◆ Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The above assumptions and judgments are discussed in detail under note 4.5.7 to the Financial Statements.

#### 2.11.4 Impairment of non-financial assets

The Group assess at each reporting date, whether there is an indication that an asset

may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an assets or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined net of depreciation, had no impairment loss been

recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

#### 2.11.5 Classification of financial assets and liabilities

The Group's accounting policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 20, 'Analysis of Financial Instruments by Measurement Basis'.

#### 2.11.6 Leases

At inception of a contract, the Group assesses whether the contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group considers whether:

- ◆ The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- ◆ The Group has right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- ◆ The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what

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purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either;

- ◆ The Group has the right to operate the asset; or
- ◆ The Group designed the asset in a way that predetermines how and for what purpose it will be used.

### As a Lessee

Under SLFRS 16, The Group determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Group's incremental borrowing rate.

The lessee shall measure that lease liability at the present value of the lease payments, discounted using the Company's cost of fund rate at the date of initial application date.

The Group recognises as right-of-use asset at the date of initial application for leases. The Group selected to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial application.

The Group used a number of practical expedients when applying SLFRS In particular, the Group:

- ◆ did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months.
- ◆ did not recognize right-of-use assets and liabilities for leases of low-value assets
- ◆ excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- ◆ applied a single discount rate to a portfolio of leases with similar characteristics
- ◆ used hindsight when determining the lease term if the contact contains option to extend or terminate the lease

The Group presents right-of-use assets and lease liabilities separately in the Statement of Financial Position.

The right of use asset is subsequently depreciated using straight line basis starting from the lease commencement date to the end of the use full life of the right of use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability subsequently measured at amortized cost using the effective interest rate. Further the rent payment is subject to the changes when there is a termination of lease agreement, extension or exercise of a purchase. When the lease liability re-measured in this regards the corresponding adjustment made to the right of use asset.

The Group demonstrate the Right of use assets and operating lease liabilities under the Note 35.

### 2.11.7 Taxation

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes.

The Group recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made. Details relating to taxation is described the Note 16.

Company is liable to pay Crop Insurance Levy as per the section 14 of Finance Act No: 12 of 2013, 1% from the profit after tax.

### 2.11.8 Deferred tax assets and liabilities

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against such tax losses which can be set-off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies. Deferred tax asset and deferred tax liability details are present in the Note 44.

### 2.11.9 Defined benefit plans

The cost of defined benefit plans is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates etc.

Due to the complexity of the valuation, the underlying assumptions and their long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Group. Details of the assumptions used in the valuation are described in the Note 43.

### 2.11.10 Revaluation of property and equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engages independent professional valuers to assess the fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on “Fair Value Measurement” (SLFRS 13). The Group has revalued its freehold lands and buildings during this year for consolidated accounting purposes, the details relevant to

the revaluation of freehold land and buildings, including valuation method are given in the Note 33.

### 2.11.11 Useful lifetime of the property and equipment

The Group reviews the residual values, useful lives and methods of depreciation of assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. This is further described in Note 4.6.2.

### 2.11.12 Classification and valuation of investment property

Management requires using its judgements to determine whether a property qualifies as an Investment Property. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyor, who has recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The key assumptions used to determine the fair value of investment property are provided in detail in Note 32.

### 2.11.13 Commitment and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement

of Financial Position but are disclosed unless its occurrence is remote. All discernible risks are accounted for in determining the amount of all known liabilities. Details of commitments and contingencies are given in Note 48.

### 2.12 Events after the Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorized for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 49 where necessary.

### 3. NEW ACCOUNTING STANDARDS ISSUED DURING THE YEAR / CHANGES TO ALREADY EXISTING ACCOUNTING STANDARDS

The amendments to the following Accounting Standards, did not have a material impact on the Financial Statements of the Company

- ◆ Amendments to SLFRS 3 Business Combinations: Updating a reference to Conceptual Framework.
- ◆ Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Costs of Fulfilling a Contract.
- ◆ Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use.

Apart from the above, there were no new accounting standards/ amendments to existing

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accounting standards that became effective during the year. The Group has applied all relevant accounting standards which have been issued up to 31st March 2023 in preparation of the Financial Statements for the year ended 31st March 2023.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Group, unless otherwise indicated.

#### 4.1 Basis of Consolidation

The Group's Financial Statements comprise, Consolidated Financial Statements of the Company and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 on “Consolidated Financial Statements” (SLFRS 10) and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard – LKAS 28 on “Investments in Associates and Joint Ventures” (LKAS 28).

##### 4.1.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company (the Parent) holds more than 50% of the voting rights and / or has the power, directly or indirectly, to govern the financial and operational policies of an enterprise to obtain benefits from its activities.

The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Company

and continue to be consolidated until the date when such control ceases.

Currently, the Financial Statements of the subsidiary in the Group have a common financial year which ends on March 31.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration, given on the date of transferring the title. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Company continues to recognize the investments in Subsidiaries at cost.

The total assets and liabilities of the Subsidiaries as at the reporting date are included in the Group column of Statements of Financial Position. The total Profit or Loss for the year of the subsidiaries is included in the Group column of Statements of Profit or Loss.

The non-controlling interest is presented in the Group column of Statements of Financial Position within equity; separately from the equity attributable to the equity holders of the Company. Non-controlling interest in the Profit or Loss of the Group is disclosed in the Group column of Statement of Comprehensive Income. Total Comprehensive Income is allocated to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where subsidiaries have been acquired or sold during the year, their operating results have

been included from the date of acquisition or to the date of disposal.

Upon the loss of control, the Group derecognized the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognized in the Statement of Changes in Equity. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value on the date that control is lost. Subsequently, it is accounted for by an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

##### 4.1.2 Associates and jointly control entities

###### Associates

Associates are those entities which the Group has significant influence, but not control or power to govern the financial and operating policies of the entities so as to obtain benefits from their activities.

The Group Financial Statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis from the date that significant influence commences until the date that significant influence ceases.

Accordingly, under the equity method, investment in associates is carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The Statement of Profit or Loss reflects the share of current year's



Profit or Loss of the Associates.

When the Group and Associate's share of losses exceed the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses are discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

#### 4.1.3 Jointly controlled entities

Jointly controlled entities are those entities where the Group has entered into a contractual agreement to share the control over strategic, financial and operating decisions relating to economic activities of the entities through unanimous consent of other parties sharing control.

#### 4.1.4 Loss of control in subsidiary and associates

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the Statement of Profit or Loss.

#### 4.2 Transactions Eliminated on Consolidation

Intra-group balances and any income and expenses arising from intra- group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains (except that they are only eliminated to the extent that there is no evidence of impairment).

#### 4.3 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into functional currencies, which is Sri Lankan rupees, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies have been translated into local currency as per the exchange ruling at the date of the Statement of Financial Position while all non-monetary items are reported at the rate prevailing at the time transactions were affected. The financial currency gain or loss on monetary items is the difference between amortized cost in functional currency as at the beginning of the year adjusted for effective interest and payments during the year and amortized cost in foreign currency translated at exchange rates at reporting date.

Non- monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into functional currency at the spot exchange rate at the date that the fair value was determined. Non- monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the date of transactions.

Foreign currency differences arising from translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognized in OCI:

- ◆ Equity instruments measured at fair value through other comprehensive income

- ◆ A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- ◆ Qualifying cash flow hedges to the extent that the hedge is effective.

#### 4.4 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balances with banks and money at call & short notice.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

They are brought to Financial Statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

#### 4.5 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

##### 4.5.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognizes balances due to customers when funds are transferred to the Group.

##### 4.5.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in

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acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at Fair Value through Profit or Loss.

Transaction cost in relation to financial assets and financial liabilities at Fair Value through Profit or Loss are dealt through the Statement of Profit or Loss.

### 4.5.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' Profit or Loss) in 'Net Trading Income'.

### 4.5.3 Financial Assets and Liabilities

Group only measures loans and advances to customers and other financial assets at amortised cost if both of the following conditions are met:

- ◆ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- ◆ The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

#### 4.5.3.1 (a) Business Model Assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ◆ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- ◆ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- ◆ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The business model assessment is based on reasonably expected scenarios without taking into account "worse case" or "stress case" scenarios. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### 4.5.3.1 (b) The SPPI Test

As a second step of its classification process the Group assesses the contractual terms of the financial assets to identify whether they meet the SPPI test. "Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### 4.5.3.2 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument (Level 01 valuation). A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data from observable markets (Level 02 valuation), then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data, or the transaction is closed out. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### a) Financial assets at amortized cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### Loans and advances to banks and other customers

Loans and advances to other customers include amounts due from banks, loans and advances and lease receivables of the Group. Details of "Loans and advances to banks and other customers" are given in Notes 23, 24, and 25.

#### Repurchase agreements

Securities purchased under agreements to resell at a specified future date are recognised in the Statement of Financial Position. The consideration paid including accrued interest, is recorded in the Statement of Financial Position, under 'Other Financial Assets' which reflects the transaction's economic substance as a loan by the Group.

#### Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 21.

#### b) Financial assets measured at FVTOCI

Financial assets at FVTOCI include debt and equity instruments measured at fair value through other comprehensive income. For financial assets measured at FVTOCI refer Note 26.

#### Debt instruments measured at FVTOCI

Debt instruments are measured at FVTOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and selling financial assets, where the asset's contractual cash flows represent payments that are solely payments of principal and interest on principal outstanding. Currently Company has no debt instruments which are measured at FVTOCI.

#### Equity instruments designated at FVTOCI

Upon initial recognition, the Group elects to classify irrevocably some of its equity instruments held for strategic and regulatory purposes as equity instruments at FVTOCI.

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### c) Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVTOCI are classified as measured at FVTPL. Financial assets measured at FVTPL include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rate, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in Statement of Profit or Loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income). Fair values may be obtained from quoted market prices in an active market, recent market transactions and valuation techniques, including discounted cash flow models and option pricing models as appropriate, where the initially recognised fair value of a derivative contract is based on a valuation model that uses the inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets

and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments such as the conversion option in a convertible bond holds, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through Profit or Loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Statement of Profit or Loss. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives. The Group did not have separate embedded derivatives as at 31st March 2023.

### 4.5.3.3 Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group may acquire, dispose of, or terminates a business line (change in business model). When the Group reclassifies its financial assets, it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains, losses (including impairment gains or losses) or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the

reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from the difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit

losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

The Group did not reclassify any of its financial assets as at 31st March 2023.

#### 4.5.4 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ◆ The rights to receive cash flows from the asset have expired;
- ◆ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

- ◆ The Group has transferred substantially all the risks and rewards of the asset; or
- ◆ The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amounts of the asset and consideration received and any cumulative gain or loss that had been recognised in the Other Comprehensive Income is recognised in the Profit or Loss. When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### 4.5.5 Financial liabilities

##### 4.5.5.1 Initial recognition and measurement

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- ◆ Financial liabilities at fair value through profit or loss, and within this category as;
  - Held-for-trading; or
  - Designated at fair value through profit or loss;
- ◆ Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

##### 4.5.5.1.1 Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held-for-trading and financial liabilities designated as such upon initial recognition as at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes there in recognized in the Statement of Profit or Loss.

Upon initial recognition, transaction costs are directly attributable to the acquisition, are recognized in Statement of Profit or Loss as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

Changes in fair value are recorded in "Net fair value gains / (losses) from financial instruments at fair value through profit or loss" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Companies' own credit risk. Interest paid / payable is accrued in "Interest Expense", using the EIR. The Group has not designated any financial liabilities as at fair value through profit or loss as at the end of the reporting period.

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### 4.5.5.1.2 Financial liabilities at amortized cost

Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost under “Due to banks”, “Due to depositors” “Other borrowings” as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in “Interest Expense” in the Statement of Profit or Loss. Gains and losses too are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

### 4.5.5.2 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially

modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid are recognised in Statement of Profit or Loss.

### 4.5.5.3 Reclassification of financial liabilities

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

### 4.5.5.4 Modification of financial assets and financial liabilities.

#### Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. Subsequently the Group recognizes the interest income on recalculated gross carrying amount based on the Original EIR from the commencement of terms modification date to the end of the lifetime of the instrument.

### Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

### 4.5.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount presented in the Statement of Financial Position only when the Group has a legal right to set-off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under LKASs / SLFRSs or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### 4.5.7 Impairment of financial assets Overview of the ECL principles

SLFRS 9 presents a “three-stage” model for estimating expected losses on the basis of changes in credit quality since initial recognition.

**Stage 1:** When loans are originated, the Group recognises an allowance based on 12 months ECL and performed assessment collectively. Stage 1 loans also contain the facilities

which are reclassified from Stage 2 since the credit risk has improved.

**Stage 2:** When a loan credit risk increases significantly, the Group records an allowance for the Lifetime Expected Credit Loss (LTECL), which is performed collective basis. Stage 2 loans also include facilities, which are reclassified from Stage 3 since the credit risk has improved.

**Stage 3:** When a loan is considered to be credit impaired, contain objective evidence of incurred loss, the Group records an allowance for the LTECL. Stage 3 assessment performed either individually or collectively.

Under SLFRS 9, loss allowances measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Twelve months ECL measurement applies if it has not increased an entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

#### Based on the computations:

- The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the SLFRS 9 impairment model.
- The estimated ECLs were calculated based on actual credit loss experience over the past five years.
- The Group performed the calculation of ECL rates separately for each product type.

Exposures within each group were segmented based on common credit risk characteristics such as product type, delinquency status, age of relationship and type of product purchased.

The Group to be performed an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition.

#### Definition of default and cure

The Group considers a financial instrument as defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether an individually significant customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the

Group carefully considers whether the event should result in treating the customer as

defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria have been present and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank.

Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the days past due, at the time of the cure. The Group's criterion for 'cure' for rescheduled / restructured loans is more stringent than ordinary loans.

#### Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12M ECL or LTECL, the Group assesses whether there has been a significant increase in the credit risk since initial recognition. The Group considers an exposure to have a significantly increase in the credit risk when it is past due for more than 90 days.

#### Calculation of ECL

The Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the

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amount that might be received for selling the asset.

**Key elements of the ECL calculations are outlined below:**

### ◆ Probability of default (PD)

The Probability of Default is computed using a transition matrix for the last five years and computed average matrix from year 1 to 5. To minimize the sum of squared errors between average matrix and empirical matrix for that year computed a credit index. Regress macro-economic / other variables to forecast future indexes.

### ◆ Exposure at Default Computation (EAD)

The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

### ◆ Loss Given Default (LGD)

The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Actual credit loss experience will be adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Scalar factors were based on GDP and unemployment rate forecasts and industry outlook.

### Calculation of ECLs for Individually significant loans

The Group first assesses ECLs individually for financial assets that are individually significant to the Group. In the event the Group determines that such assets are not impaired (Not in Stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment of individually significant accounts is reviewed more regularly when circumstances require. This normally encompasses a reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;

- The amount and timing of expected receipts and recoveries;
- The realizable value of security (or other credit mitigants) and likelihood of successful repossession; and
- The likely deduction of any costs involved in recovery of amounts outstanding;

### Grouping financial assets measured on collective basis

The Group calculates ECLs either on a collective or an individual basis. The Group categorized the collective impairment exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- ◆ Product type
- ◆ Type of collateral
- ◆ Industry of the borrower

### The PD estimation process

PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Companies in the country at present.

Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- ◆ Zero days past due
- ◆ 1 – 30 days past due
- ◆ 31 - 60 days past due
- ◆ 61 – 90 days past due
- ◆ Above 90 days past due

### Exposure at Default

The Exposure at Default (EAD) represents the gross carrying amount of the financial instrument subject to the impairment



calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to be cured and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 financial assets and credit impaired assets at origination, events over the lifetime of the instruments are considered. The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of the Group's models.

#### Loss Given Default

LGD values are assessed at least annually for each material collateral type. The Group segregates its customer loan book based on following major types of collaterals when calculating the LGD,

- ◆ Secured against immovable property
- ◆ Secured against motor vehicles and other movable properties
- ◆ Secured against gold
- ◆ Secured against lease receivables

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held. Historically collected loss data

is used for LGD calculation and involves a wider set of transaction characteristics. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

#### Forward looking information

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- ◆ GDP growth
- ◆ Unemployment rates
- ◆ Interest rates
- ◆ Treasury bill rate
- ◆ Inflation rate

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. To ensure completeness and accuracy, the Group obtains the above data from third party sources (Central Bank, World Bank, IMF, ADB, UN and etc.).

To reflect these uncertainties in the calculation of expected credit losses, the Group also revisited the weightages assigned for multiple economic scenarios during the year. Weightages assigned for each scenario is given below along with the weightages used in 2022/23.

	2022/23	2021/22
Base Case	50%	50%
Best Case	5%	5%
Worst Case	45%	45%

#### Write-off of loan & advances, leases and hire purchases

Loans, advances, leases and hire purchases (the related impairment allowance was accounted)

are normally written off, either partially or in full, when there are no realistic prospects of recovery. Where such balances are secured, these are generally after receipt of any proceeds from the realisation of security.

#### Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

#### Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit / guarantees, gold, real estate, receivables, and other non-financial assets. The fair value of the collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

Non-financial collateral such as real estate, is valued based on data provided by third parties such as independent valuers and other independent sources.

#### Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

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### Material judgments and uncertainties

Company has made significant judgment as at period end to determine which events and circumstances relate and which do not. Typically, the shorter the period of time between period end and the information becoming available (e.g., a borrower defaulting on a loan shortly after period end), the more likely it is that the information confirms events and conditions as at period end, and therefore, ought to be reflected in ECL calculations.

A movement from Stage 1 to either Stage 2 or 3 will typically result in a higher ECL, as the probability of default (PD) over the lifetime of a financial asset will be at least equal to or higher than the PD over the next 12 months. However, the assessment of whether there has been a Significant Increase in Credit Risk (SICR) for a financial asset is carried out on the basis of the expected life of the financial asset.

### Forward looking and probability of default

IFRS 9 recognizes that information relevance decreases as the forecast horizon increases and emphasizes the relevance of historical information. In this regard, the IFRS 9 provisions lead to the conclusion that where there is no reliable evidence for specific forecasts, long-term macroeconomic outlooks will provide the most relevant basis for estimation. And further, scenario-based analysis has improved, and worst case has been given 45% of weighting when determine the forward looking and probability of default.

## 4.6 Non – Financial Asset

### 4.6.1 Investment property

#### Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, based in the production or supply of goods or services or for administrative purposes. Investment properties are recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured. Where the Group provides ancillary services to the occupants of a property it holds, the Group treats such a property as investment property if the services are insignificant to the arrangement as a whole.

If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply LKAS 16 "Property, Plant and Equipment" up to the date of change in use. When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and classified as Investment Property. The entity shall treat any difference at that date between the carrying amount of the property in accordance with LKAS 16 "Property, Plant and Equipment " and its fair value in the same way as a revaluation in accordance with LKAS 16 "Property, Plant and Equipment". The land is non-depreciated. Accordingly, land and buildings classified as investment properties are stated at fair value.

### De-recognition

Investment properties are de-recognised when disposed of, or permanently withdrawn from use since no future economic benefits are expected. Gains or losses arising from the de-recognition of an Investment Property are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Profit or Loss.

### 4.6.2 Property, plant and equipment

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on property, plant & equipment. Initially property, plant & equipment are measured at its cost.

#### Recognition and measurement Cost Model

Property, plant and equipment is stated at cost except land and building, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

#### Revaluation Model

Land and buildings are measured at fair value, less depreciation on buildings and impairment charged subsequent to the date of the revaluation. Valuations are performed every 3 to 5 years to ensure that the fair value of revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the Revaluation Reserve included in the Equity of the Statement of Financial Position except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Profit or Loss. In which case the increase is recognised in Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset Revaluation Reserve. For more details relating to the land and building valuation refer the Note 33.

#### Subsequent Cost

These are costs that are recognised in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in Profit or Loss as incurred.

#### Depreciation

The company has reassessed useful lifetime and changed the depreciation policy from reducing balance to the straight-line method from 1st April 2016, further company has applied this changes accordance with LKAS 8- "Accounting Policies and Change in Accounting Estimates and Errors".

The group provides depreciation from the date the assets are available for use and up to the date of disposal at the following rates on straight line basis over the periods appropriate to the estimated useful lives based on

the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Category of Asset	Expected Useful Lifetime (in years)
Building	20
Office Equipment	5
Plant & Machinery	5
Furniture & Fittings	8
Cutlery & Crockery	5
Motor Vehicles	5
Computers	3

Freehold lands are not depreciated. Depreciation of an asset ceases at the earlier of the date that the asset is classified as Held for Sale or the date that the asset is derecognised.

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

#### De-recognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Statement of Profit or Loss in the year the asset is derecognised.

#### 4.6.3 Intangible assets

The Group's intangible assets include the value of computer software.

#### Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standards LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets are stated in the Statement of Financial Position at cost less accumulated amortisation and accumulated impairment losses, if any.

Expenditure of internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can be reliably measured the costs to complete the development.

#### Subsequent expenditure

Subsequent expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embedded in the specific asset to which it relates. All other expenditures are expensed as incurred.

#### Amortisation

Group owned intangible assets are amortised over the period of 10 years unless otherwise stated.

#### De-recognition of intangible assets

The carrying amount of an item of an intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising

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from de-recognition of an item of intangible asset, is included in the Statement of Profit or Loss when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Intangible assets reported in Note 34 only included computer software and cost of licences.

The Group is in the process of implementing new system to replace its core banking system. The development cost incurred up to 31st March 2023, was presented as an addition to the intangible assets (WIP).

### 4.7 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date after taking in to account the risks and uncertainties surrounding the obligation as at that date. The expense relating to any provision, is presented in the Statement of Profit or Loss net of any reimbursement.

#### 4.7.1 Retirement benefit obligations

All the employees of the Group are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983. Employees who have resigned or whose services are terminated other than by retirement are eligible to receive

the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of half of the gross salary applicable to the last month of the financial year in which the employment is terminated or resigned for each year of completed service, for those who have served in excess of 5 years.

The Group operates an approved non-contributory Gratuity Fund to facilitate the gratuity payments to the retiring employees of the Group. The Group determines the adequacy of gratuity liability in terms of Payment of Gratuity Act No.12 of 1983. In order to meet this liability, the Group carries forward a provision in the Statement of Financial Position based on:

- Half a month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have complete service 5 to 10 years,
- One month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who completed the service over 10 years but not exceeding 15 years,
- One and half month's salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have completed the service over 15 years but not exceeding 25 years.
- Two months' salary of the last month's salary of the financial year for each completed year of service for all permanent employees who have completed the service over 25 years.

An actuarial valuation is carried out as every year end to ascertain the full liability under gratuity. The valuation was carried out as at 31st March 2023 by M/s Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries based on the Projected Unit Credit Method recommended by the actuarial present value of the defined benefit obligation (PV-DBO) under the PUC method.

#### Recognition of actuarial losses / gains

The Group recognized the total actuarial gain and losses that arose in calculating the Group's obligation in respect of gratuity in Other Comprehensive Income during the period which it occurred.

#### Recognition of past service cost (applicable only when a plan has been changed)

Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the instruction of, or changes to the plan, past service costs are recognized immediately.

#### Management of the fund's assets

The assets of the Gratuity Fund and the Employees' Provident Fund are held separately from those of the Group and are independently administered by a separate management team appointed by the Group. As at 31st March 2023 the fair value of plan assets is LKR 512,554,455/- (2022-LKR 356,598,097/-).

#### 4.7.2 Taxation

As per the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes' tax expense (Tax income)

is the aggregate amount included in determination of Profit or Loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Profit or Loss except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in the Statement of Changes in Equity or in OCI.

#### 4.7.2.1 Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the end of the reporting period. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for the taxation purpose in accordance with the provisions of the Inland Revenue Act No. 27 of 2017 and the amendments thereto.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognised for all deductible differences carrying forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of a deferred tax asset is

reviewed at end of the reporting period and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it is probable that the future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### 4.7.2.3 Value Added Tax on Financial Services (FVAT)

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto. The value base for the computation of Value Added Tax on Financial Services is calculated by adjusting the depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable.

#### 4.7.2.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April

01, 2013, and is payable to the National Insurance Trust Fund. Currently CIL is payable at 1% of the profit after tax.

#### 4.7.2.5 Withholding Tax on Dividends

Dividend distributed out of taxable profit of the subsidiaries attracts WHT at source and is not available to set off against the tax liability of the Company. Thus, the WHT deducted at source, on the dividends distributed by the subsidiaries is charged to the Consolidated Statement of Profit or Loss as a consolidation adjustment.

Withholding tax that arises from the distribution of dividends by the Group is recognised at the time of the liability is payable.

#### 4.7.2.5 Social Security Contribution Levy (SSCL)

Social Security Contribution Levy (SSCL) shall be paid by any person carrying on the business of supplying financial services, on the liable turnover specified in the Second Schedule of the Social Security Contribution Levy Act No.25 of 2022 (SSCL Act), at the rate of 2.5%, with effect from 01 October 2022. SSCL is payable on 100% of the Value Addition attributable to financial services.

The Value Addition attributable to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred into Chapter IIIA of the Value Added Tax Act No. 14 of 2002.

### 4.8 Recognition of Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following

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specific recognition criteria must also be met before revenue is recognised.

### 4.8.1 Net interest income

Interest income and expense are recognised in the Statement of Profit or Loss using the effective interest rate (EIR) method. Interest income and expense presented in the Income Statement include:

- ◆ Interest on financial assets measured at amortized cost (AC) calculated using EIR method;
- ◆ Interest on financial assets measured at fair value through other comprehensive income (FVTOCI) calculated using EIR method;
- ◆ Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- ◆ Interest on financial liabilities is measured at amortized cost calculated using the EIR method.

### Effective Interest Rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- ◆ The gross carrying amount of the financial asset; or
- ◆ The amortized cost of the financial liability.

When calculating the EIR for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is

calculated using estimated future cash flows including ECLs.

### Effective interest rate (EIR)

The credit adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

### 4.8.2 Net fee and commission income

#### Service income

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

#### Fee and commission income

The Group earns fee and commission income from a diverse range of services, it provides to its customers. Fee and commission income relates mainly to transactions and services fees which are charged from customers to provide relevant financial services. It mainly includes CRIB verification charges, Yard fees, Loan processing fees and vehicles transfer fees, income account on cash basis.

#### Fee and commission expenses

Fee and commission expense mainly relates to transactions and services fees which are expensed to third parties on behalf of customers. These expenses mainly include RMV expenses, brokerage and Insurance expenses. Fee and commission expenses are recognised on an accrual basis.

Fee and commission expenses collected from customers by way of capitalisation are released to Income Statement on the EIR method.

### 4.8.3 Dividend income

Dividend income is recognised when the right to receive the payment is established. Usually, this is the ex-dividend date for equity securities. Dividends are presented in the 'Other Operating Income' in Statement of Profit or Loss.

### 4.8.4 Net trading income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities recognized through Profit or Loss other than interest income.

### 4.8.5 Other operating income

Income earned on other sources, which are not directly related to the normal operations of the Group is recognised as Other Operating Income on an accrual basis.

The Profit / (Loss) on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of other operating income in the financial year in which significant risks and rewards of ownership are transferred to the buyer.

### 4.8.7 Personal expenses

Personal expenses include salaries and bonus, terminal benefits and other staff-related expenses. The provision for bonus is recognised when it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

#### **Defined Contributions Plans - Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions in to a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Parent Company and employees contribute 20% and 10% respectively of the employee's monthly gross salary to the Employees' Provident Fund. The subsidiary company and employees contribute 12% and 8% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

The Group operates an approved private fund to manage EPF and managed by the committee of management.

The Group contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

#### **4.8.8 Other operating expenses**

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit for the year.

#### **4.9 Dividends on Ordinary Shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

#### **4.10 Earnings per Share**

The Group presents basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

#### **4.11 Operating Segments**

A business segment is a distinguishable component of the Group, engaged in providing products or services subject to risks and returns that are different from those of other business segments. Operating results of those segments are reviewed regularly by the Board of Directors to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The primary business format is based on the core business activities of the Group, namely, lease, loans, pawning, hiring of vehicles, investing in shares, investing in government securities, collaboration finance & others. The management uses its judgment in determining the compositions of these core business activities by taking into account the objective of reporting financial information by segment as set forth in Sri Lanka Accounting Standard, SLFRS 8 "Operating Segments", segment reporting and qualitative characteristics of Financial Statements as identified in the Framework for the Preparation and Presentation of Financial Statements.

The Group's business activities are carried out in Sri Lanka. Consequently, the economic environment in which the Group operates is not subject to risk and returns that are significantly deferent on a geographical basis. Hence, disclosure by geographical region has not been provided. For the purpose of segment reporting disclosures, the information presented in respect of the Group's business segments is based on the Group's management and internal reporting structure.

Income recognized in segments is an income which is directly identified and reported in those segments and expenses directly identified to a particular segment are charged accordingly and expenses that cannot be directly identified to a particular segment are allocated on basis decided by the management and applied consistently throughout the period. Unallocated items mainly comprise of head office expenses. Measurement of segment assets, liabilities,

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segment revenue and results are based on the Group accounting policies. Segment revenue results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

### 5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLICABLE AS AT 31ST MARCH 2023

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs / LKASs) which will become applicable for financial periods beginning after 1 April 2023. Accordingly, the Group has not applied the following new standards in preparing these Consolidated Financial Statements. The following amended standards are not expected to have a significant impact on the Group's Consolidated Financial Statements.

#### SLFRS 17 Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective

of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17. The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

#### Definition of Accounting Estimates - Amendments to LKAS 8

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The Company is currently assessing the impact the amendments will have on current practice.

#### Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the Financial Statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company is currently assessing the impact the amendments will have on current practice.



### **Disclosure of Accounting Policies - Amendments to LKAS 1 and IFRS Practice Statement 2**

Amendments to LKAS 1 and IFRS Practice Statement 2 making materiality judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company is currently assessing the impact the amendments will have on current practice.

# NOTES TO THE FINANCIAL STATEMENTS

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>6</b>	<b>GROSS INCOME</b>			
Interest income (Note 7.1)	11,946,843,634	7,852,033,338	11,959,844,861	7,858,602,585
Fee & commission income (Note 8)	182,764,216	267,503,991	272,637,751	341,843,804
Net gains / (losses) from trading (Note 9)	16,315,769	28,124,476	13,779,786	28,604,778
Other operating income (Note 10)	274,644,504	549,801,944	278,834,045	547,651,174
	<b>12,420,568,123</b>	<b>8,697,463,749</b>	<b>12,525,096,443</b>	<b>8,776,702,341</b>
<b>7</b>	<b>NET INTEREST INCOME</b>			
<b>7.1</b>	<b>Interest Income</b>			
Financial assets- recognised through profit or loss	494,272,411	76,965,903	494,272,411	76,965,903
Loans and advances (Note 7.1.1)	4,543,166,668	1,916,659,183	4,543,166,668	1,916,659,183
Lease rentals receivable	6,667,295,277	5,801,508,632	6,667,295,277	5,801,508,632
Hire purchase & consumer durables	(17,482)	43,361	(17,482)	43,361
Repurchase agreements	56,397,818	7,711,482	56,397,818	7,711,482
Placements with banks & other financial institutions	185,728,942	49,144,777	198,730,169	55,714,024
<b>Total Interest Income</b>	<b>11,946,843,634</b>	<b>7,852,033,338</b>	<b>11,959,844,861</b>	<b>7,858,602,585</b>
<b>7.1.1</b>	<b>Interest Income from Loans &amp; Advances</b>			
Interest income from loans	1,530,536,146	790,557,408	1,530,536,146	790,557,408
Interest income from pledge loan	(378,439)	11,295,938	(378,439)	11,295,938
Interest income from gold loan	2,935,829,560	1,076,701,563	2,935,829,560	1,076,701,563
Interest income from loans against deposit	64,400,065	21,192,460	64,400,065	21,192,460
Interest income from micro finance	12,779,336	16,911,814	12,779,336	16,911,814
	<b>4,543,166,668</b>	<b>1,916,659,183</b>	<b>4,543,166,668</b>	<b>1,916,659,183</b>
<b>7.2</b>	<b>Interest Expenses</b>			
Securitization borrowings	2,001,362,978	693,808,948	2,001,362,978	693,808,948
Bank borrowings	2,016,084,916	791,671,403	2,016,084,916	791,671,403
Bank overdraft	116,262,608	9,561,402	116,262,608	9,561,402
Due to depositors	3,081,539,493	1,211,366,877	3,065,410,818	1,211,366,877
Other financial liabilities (Note 7.2.1)	196,092,700	(55,227,591)	196,092,700	(55,227,591)
<b>Total Interest Expenses</b>	<b>7,411,342,695</b>	<b>2,651,181,039</b>	<b>7,395,214,020</b>	<b>2,651,181,039</b>
<b>Net Interest Income</b>	<b>4,535,500,939</b>	<b>5,200,852,299</b>	<b>4,564,630,841</b>	<b>5,207,421,546</b>
<b>7.2.1</b>	The amount includes an amount of LKR 155,509,404/- incurred SWAP arrangement.			
<b>8</b>	<b>FEE AND COMMISSION INCOME</b>			
<b>8.1</b>	<b>Fees and Commission Income</b>			
Commission income	-	-	150,144,821	143,287,526
Service charges	66,329,737	165,987,179	66,329,737	120,991,307
Transfer fees	40,201,440	53,056,250	40,201,440	53,056,250
Other fees	76,233,039	48,460,562	15,961,753	24,508,721
<b>Total Fee and Commission Income</b>	<b>182,764,216</b>	<b>267,503,991</b>	<b>272,637,751</b>	<b>341,843,804</b>

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>8.2 Fee and Commission Expenses</b>				
Brokerage	(169,943,099)	(165,330,102)	(169,943,099)	(165,330,102)
Credit related fees	(77,015,095)	(89,828,244)	(83,300,567)	(89,828,244)
<b>Total Fee and Commission Expenses</b>	<b>(246,958,194)</b>	<b>(255,158,346)</b>	<b>(253,243,666)</b>	<b>(255,158,346)</b>
<b>Net Fee and Commission Income / (Expense)</b>	<b>(64,193,978)</b>	<b>12,345,645</b>	<b>19,394,085</b>	<b>86,685,458</b>
<b>9 NET GAIN FROM TRADING</b>				
Profit / (loss) on foreign currencies	5,232,566	16,757,983	2,696,583	16,757,983
Income from trust investment	11,083,203	11,366,493	11,083,203	11,366,493
Profit from disposal of financial investment (Quoted shares)	-	-	-	480,302
	<b>16,315,769</b>	<b>28,124,476</b>	<b>13,779,786</b>	<b>28,604,778</b>
<b>10 OTHER OPERATING INCOME</b>				
Income from financial investment - Quoted shares	29,789,738	16,809,063	20,174,158	11,610,626
Fair value gain on financial investments - FVTPL	-	275,394	-	275,394
Profit on disposal of property, plant & equipment	12,652,649	13,729,654	12,652,649	13,729,654
Profit on disposal of investment property	-	67,140,000	-	67,140,000
Fair value gain on investment property	3,609,900	27,009,600	7,949,484	27,009,600
Profit (loss) on sale of vehicles	(3,122,258)	111,492,609	(3,122,258)	111,492,609
Rental income from hiring vehicles	37,045,825	29,451,970	37,045,825	29,451,970
Income from sale of tiles & furniture	6,216,335	4,490,517	6,216,335	4,490,517
Bad debt recoveries	72,959,359	78,415,916	72,959,359	78,415,916
Recovery of charges on settlements	85,208,850	169,827,842	85,208,850	169,827,842
Others	30,284,106	31,159,379	39,749,643	34,207,046
<b>Total Other Operating Income</b>	<b>274,644,504</b>	<b>549,801,944</b>	<b>278,834,045</b>	<b>547,651,174</b>
<b>11 IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES</b>				
Impairment Charges / (Reversal)				
Lease rentals receivable	143,009,505	(170,635,323)	143,009,505	(170,635,323)
Hire purchase rentals receivable	(10,858)	(202,445)	(10,858)	(202,445)
Loans and advances (Note 11.1)	(102,663,966)	37,587,463	(102,663,966)	37,587,463
Impairment Charges / (Reversal) (Note 11.2)	40,334,682	(133,250,305)	40,334,682	(133,250,305)
<b>Bad Debts Written off</b>				
Lease rentals receivable	181,014,123	176,456,952	181,014,123	176,456,952
Loans and advances (Note 11.1)	53,289,231	59,683,537	53,289,231	59,683,537
	<b>234,303,354</b>	<b>236,140,489</b>	<b>234,303,354</b>	<b>236,140,489</b>
	<b>274,638,036</b>	<b>102,890,184</b>	<b>274,638,036</b>	<b>102,890,184</b>
<b>11.1 Impairment Charge on Loans and Advances</b>				
Term loans receivable	(120,786,148)	85,419,991	(120,786,148)	85,419,991
Gold loans receivable	47,004,707	(138,740,133)	47,004,707	(138,740,133)
Micro finance receivable	(7,864,720)	74,869,008	(7,864,720)	74,869,008
Pledged loan & speed cash loan receivable	(21,017,805)	16,038,597	(21,017,805)	16,038,597
	<b>(102,663,966)</b>	<b>37,587,463</b>	<b>(102,663,966)</b>	<b>37,587,463</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>Bad Debts Written off Charge on Loans &amp; Advances</b>				
Term loans receivable	49,612,141	23,224,217	49,612,141	23,224,217
Micro finance	-	25,956,186	-	25,956,186
Pledged loan & speed cash loan receivable	3,677,090	10,503,134	3,677,090	10,503,134
	<b>53,289,231</b>	<b>59,683,537</b>	<b>53,289,231</b>	<b>59,683,537</b>

### 11.2 Impairment Charge / (Reversal) to Income Statement

IFRS 09 - Expected Credit Loss Charge for the Year ended 31 March 2023

	Stage 01	Stage 02	Stage 03	Total
	LKR	LKR	LKR	LKR
Loans and advances - Collective impairment	(100,249,623)	55,606,850	9,076,647	(35,566,126)
- Individual impairment	-	-	(67,097,839)	(67,097,839)
				-
Lease rentals receivable - Collective impairment	(153,591,637)	148,200,885	147,847,598	142,456,847
- Individual impairment	-	-	552,658	552,658
Hire purchase rentals receivable - Collective impairment	-	-	-	-
- Individual impairment	-	-	(10,858)	(10,858)
	<b>(253,841,260)</b>	<b>203,807,735</b>	<b>90,368,207</b>	<b>40,334,682</b>

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>12 PERSONNEL EXPENSES</b>				
Salaries and bonus	858,107,648	900,412,281	867,366,650	909,051,337
Gratuity charge for the year	64,321,756	43,803,310	65,228,272	44,423,948
Employer's contribution to EPF	148,629,612	135,413,627	149,574,859	136,302,022
Employer's contribution to ETF	22,294,442	20,312,044	22,530,754	20,534,143
Staff welfare	47,399,917	25,014,123	48,155,971	25,530,205
Other allowances & staff related expenses	78,364,482	68,048,843	78,364,482	68,048,843
	<b>1,219,117,857</b>	<b>1,193,004,228</b>	<b>1,231,220,988</b>	<b>1,203,890,498</b>

### 13 OTHER OPERATING EXPENSES

Auditors' remuneration				
Audit fee	1,900,000	1,652,000	2,061,500	1,787,000
Non audit fees and expenses	550,160	290,500	627,660	355,500
Directors emoluments and other expenses (Note 13.1)	107,872,814	90,124,700	109,472,814	91,724,700
Professional fees	14,094,627	13,990,138	14,132,127	14,052,138
Office administration & establishment expenses	685,619,349	447,589,920	687,930,008	449,615,370
Advertising & business promotion expenses	127,247,367	135,886,232	127,459,608	135,971,232
Motor vehicle running & maintenance	709,435,215	577,085,234	715,156,848	580,517,118
Others	110,631,989	188,614,387	110,631,989	188,614,387
	<b>1,757,351,521</b>	<b>1,455,233,111</b>	<b>1,767,472,554</b>	<b>1,462,637,445</b>

- 13.1 Directors emoluments and other expenses represent the fees, salaries, allowances and other expenses (except gratuity provision) of both Executive and Non-Executive Directors of the Company.

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>14 DEPRECIATION AND AMORTIZATION</b>				
Depreciation of property, plant and equipment	150,711,053	116,431,961	151,201,931	116,816,283
Amortization of intangible assets	11,358,550	11,031,096	11,550,216	11,141,027
	162,069,603	127,463,057	162,752,147	127,957,310
<b>15 TAXES ON FINANCIAL SERVICES</b>				
Value added tax on financial services	395,584,625	554,549,356	395,584,625	554,549,356
Social security contribution levy	23,848,261	-	23,848,261	-
	419,432,886	554,549,356	419,432,886	554,549,356
<b>16 PROVISION FOR INCOME TAXATION</b>				
Income Tax expense for the year (Note 16.1)	349,201,882	775,963,726	386,140,665	788,749,383
Provision for contingent tax liabilities	96,600,000	124,866,846	96,600,000	124,866,846
<b>Total Income Tax Expense for the Year</b>	<b>445,801,882</b>	<b>900,830,572</b>	<b>482,740,665</b>	<b>913,616,229</b>
<b>16.1 The Major Components of Income Tax Expense</b>				
<b>Current Income Tax Expenses</b>				
Current tax on profit for the year ( Note 16.2)	412,701,248	858,531,644	439,561,517	871,394,908
Under/ (over) provision of current taxes in respect of prior years	(10,476,969)	-	(7,071,623)	-
Share of income tax expenses for associates	-	-	6,748,960	-
	402,224,279	858,531,644	439,238,854	871,394,908
<b>Deferred Tax Expenses</b>				
Deferred taxation charge/ (reversal) (Note 16.4)	(53,022,397)	(82,567,918)	(53,098,189)	(82,645,525)
	349,201,882	775,963,726	386,140,665	788,749,383

Current year income tax expense of the subsidiary Company is LKR 33,533,437/-.

- 16.2 A reconciliation between the tax expense and the accounting profit multiplied by relevant tax rate for the year ended 31 March is as follows;

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Accounting profit before income taxation	950,725,829	2,363,931,198	1,042,190,644	2,424,384,932
Total value of non deductible expenses	1,055,836,635	1,532,586,849	1,057,425,695	1,533,701,740
Total value of other allowable credits	(404,126,033)	(263,895,736)	(404,629,866)	(264,399,569)
Total value of exempt income	(120,623,765)	(130,763,967)	(156,589,284)	(135,199,402)
Total value of tax losses claimable	33,350,359	(4,345,950)	33,350,359	(4,345,950)
	1,515,163,025	3,497,512,394	1,571,747,548	3,554,141,751
Income tax for the year @ 24%	181,819,563	839,402,975	192,666,716	852,994,020
Income tax for the year @ 30%	227,274,454	-	242,846,692	-
Tax on dividend income (@ 14%)	3,607,231	2,353,269	4,048,109	1,625,488
Capital gain tax on investment property disposal	-	16,775,400	-	16,775,400
<b>Total Income Tax for the Year</b>	<b>412,701,248</b>	<b>858,531,644</b>	<b>439,561,517</b>	<b>871,394,908</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Effective Tax Rate (with defferd tax)	37.83%	32.83%		
Effective Tax Rate (without defferd tax)	43.41%	36.32%		
<b>16.3 Applicable Income Tax Rates</b>				
Alfinco Insurance Brokers (Pvt) Ltd				
1st Six Months			24%	
2nd Six Months			30%	24%
Macbertan (Pvt) Ltd				
1st Six Months			18%	
2nd Six Months			30%	18%

### 16.4 Deferred Tax Expense / (Reversal)

The following table shows deferred tax expense recorded in the profit or loss due to changes in the deferred tax assets and liabilities.

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>Deferred Tax Liabilities</b>				
Lease rentals	44,074,166	40,952,334	44,074,166	40,952,334
Accelerated depreciation - Own assets	(11,780,390)	4,167,640	(11,780,390)	4,175,028
	32,293,776	45,119,974	32,293,776	45,127,362
<b>Deferred Tax Assets</b>				
Accelerated depreciation - Own assets	(6,612,428)	(12,149,487)	(6,612,428)	(12,149,487)
Defined benefit obligation - Profit or Loss	14,570,311	(26,015,314)	14,494,519	(26,085,533)
Other temporary differences	(28,686,504)	716,857	(28,686,504)	716,857
	(20,728,621)	(37,447,944)	(20,804,413)	(37,518,163)
<b>Total Deferred Tax Expense / (Reversal)</b>	<b>(53,022,397)</b>	<b>(82,567,918)</b>	<b>(53,098,189)</b>	<b>(82,645,525)</b>
<b>Other Comprehensive Income</b>				
Defined benefit obligation	20,791,418	(27,399,747)	20,791,418	(27,399,747)
<b>Deferred Tax Expense Adjusted Through Profit or Loss / OCI</b>	<b>(32,230,979)</b>	<b>(109,967,665)</b>	<b>(32,306,771)</b>	<b>(110,045,272)</b>

### 16.5 Effect of Changes in Tax Rate in Current Year

The Company computed the income tax liability for the first six months of the year of assessment 2022/2023 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the Company for the second six months of the year of assessment 2022/2023.

The deferred tax assets/liabilities of the Company as at 31st March 2023 were computed using the revised income tax rate of 30%.

**16.6 Change in Deductible Loan Loss Provision Method for Income Tax**

According to the Government Gazette No.2064/57 dated 1st April 2018, specific loan loss provisions made in accordance with the CBSL directives had been allowed as claimable loan loss provisions for income tax purpose up to 31st March 2022. However, as per Gazette No.2303/05 dated 25th October 2022, provisions for impairment charges of Stage 1 and 2 have not been considered as claimable. Consequently, only Stage 3 impairment provisions (subject to conditions) have been considered as claimable loan loss provisions for tax purpose in the current year. Specifications of the Gazette has been applied from 1st April 2022.

**17 BASIC EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

For the year ended 31 st March	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>Amounts Used as the Numerators:</b>				
Net profit for the year attributable to equity shareholders for basic earnings per ordinary share	504,923,947	1,463,100,626	532,796,238	1,483,891,999
<b>Number of Ordinary Shares Used as Denominators for Basic Earnings Per Share</b>				
Weighted average number of ordinary shares in issue	33,696,000	33,696,000	33,696,000	33,696,000
Basic Earnings Per Ordinary Share (LKR) (EPS)	14.98	43.42	15.81	44.04

Diluted EPS is equal to the Basic Earning per Ordinary Share since the Company does not have any convertible securities as at the reporting date.

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR

**18 DIVIDEND PER SHARE****18.1 Declared and Paid During the Year**

Dividends on ordinary shares:

Final dividend paid for 2022 LKR 8.00/- (2021 LKR 5.50/-) per share	269,568,000	185,328,000	278,584,400	185,328,000
Interim dividend paid per share 2022 LKR 6.50/-	-	219,024,000	-	222,833,429
	269,568,000	404,352,000	278,584,400	408,161,429
Dividend per share (LKR) paid	8.00	12.00	8.27	12.11

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR

**19 NET ASSETS VALUE PER ORDINARY SHARE**

Amount used as the numerator

Total equity attributable to equity holders of the Company

Number of Ordinary Shares Used as the Denominator

Total number of ordinary shares

Net Assets Value per Ordinary Share

206

198

210

201

## NOTES TO THE FINANCIAL STATEMENTS

### 20 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in SLFRS 9 on 'Financial Instrument Recognition & Measurement' under the headings of the Statement of Financial Position.

#### 20.1 Company

As at 31st March 2023	Fair Value Through Profit or Loss	Amortised Cost	Fair Value Through Other Comprehensive Income	Total
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash and cash equivalents	-	566,946,383	-	566,946,383
Repurchase agreements	-	250,154,110	-	250,154,110
Placements with banks & financial institutions	-	4,905,611,281	-	4,905,611,281
Financial assets recognised through profit or loss -measured at fair value	3,130,690,272	-	-	3,130,690,272
Loans and advances - at amortised cost	-	17,449,867,823	-	17,449,867,823
Lease rentals receivable - at amortised cost	-	21,552,425,838	-	21,552,425,838
Financial assets - fair value through other comprehensive income	-	-	182,705,621	182,705,621
Derivative financial assets	-	-	-	-
Other financial assets	-	415,454,128	-	415,454,128
<b>Total Financial Assets</b>	<b>3,130,690,272</b>	<b>45,140,459,563</b>	<b>182,705,621</b>	<b>48,453,855,456</b>

	Other Financial Liabilities at Amortised Cost	Total
	LKR	LKR
<b>Financial Liabilities</b>		
Due to banks	22,571,002,700	22,571,002,700
Due to depositors	20,475,847,835	20,475,847,835
Derivative financial liabilities	36,175,016	36,175,016
Other financial liabilities	883,998,853	883,998,853
<b>Total Financial Liabilities</b>	<b>43,967,024,404</b>	<b>43,967,024,404</b>



## 20.2 Company

As at 31st March 2022	Fair Value Through Profit or Loss	Amortised Cost	Fair Value Through Other Comprehensive Income	Total
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash and cash equivalents	-	795,260,944	-	795,260,944
Repurchase agreements	-	250,000,000	-	250,000,000
Placements with banks & financial institutions	-	287,925,208	-	287,925,208
Financial assets recognised through profit or loss -measured at fair value	1,502,280,225	-	-	1,502,280,225
Loans and advances - at amortised cost	-	14,797,772,357	-	14,797,772,357
Lease rentals receivable - at amortised cost	-	25,503,747,256	-	25,503,747,256
Hire purchase rentals receivable - at amortised cost	-	-	-	-
Financial assets - fair value through other comprehensive income	-	-	184,720,884	184,720,884
Derivative financial assets	82,923,194	-	-	82,923,194
Other financial assets	-	636,340,449	-	636,340,449
<b>Total Financial Assets</b>	<b>1,585,203,419</b>	<b>42,271,046,215</b>	<b>184,720,884</b>	<b>44,040,970,517</b>

	Other Financial Liabilities at Amortised Cost	Total
	LKR	LKR
<b>Financial Liabilities</b>		
Due to banks	22,558,061,981	22,558,061,981
Due to depositors	14,681,375,682	14,681,375,682
Derivative financial liabilities	-	-
Other financial liabilities	1,670,249,511	1,670,249,511
<b>Total Financial Liabilities</b>	<b>38,909,687,174</b>	<b>38,909,687,174</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 20.3 Group

As at 31st March 2023	Fair Value Through Profit or Loss	Amortised Cost	Fair Value Through Other Comprehensive Income	Total
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash and cash equivalents	-	624,723,130	-	624,723,130
Repurchase agreements	-	250,154,110	-	250,154,110
Placements with banks & financial institutions	-	4,919,075,748	-	4,919,075,748
Financial assets recognised through profit or loss -measured at fair value	3,130,690,272	-	-	3,130,690,272
Loans and advances - at amortised cost	-	17,449,867,823	-	17,449,867,823
Lease rentals receivable - at amortised cost	-	21,552,425,838	-	21,552,425,838
Hire purchase rentals receivable - at amortised cost	-	-	-	-
Financial assets - fair value through other comprehensive income	-	-	182,705,621	182,705,621
Derivative financial assets	-	-	-	-
Other financial assets	-	417,933,228	-	417,933,228
<b>Total Financial Assets</b>	<b>3,130,690,272</b>	<b>45,214,179,877</b>	<b>182,705,621</b>	<b>48,527,575,770</b>

	Other Financial Liabilities at Amortised Cost	Total
	LKR	LKR
<b>Financial Liabilities</b>		
Due to banks	22,571,002,700	22,571,002,700
Due to depositors	20,390,703,071	20,390,703,071
Derivative financial liabilities	36,175,016	36,175,016
Other financial liabilities	919,990,176	919,990,176
<b>Total Financial Liabilities</b>	<b>43,917,870,963</b>	<b>43,917,870,963</b>

## 20.4 Group

As at 31st March 2022	Fair Value Through Profit or Loss	Amortised Cost	Fair Value Through Other Comprehensive Income	Total
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash and cash equivalents	-	898,748,640	-	898,748,640
Repurchase agreements	-	250,000,000	-	250,000,000
Placements with banks & financial institutions	-	287,925,208	-	287,925,208
Financial assets recognised through profit or loss -measured at fair value	1,502,280,225	-	-	1,502,280,225
Loans and advances - at amortised cost	-	14,797,772,357	-	14,797,772,357
Lease rentals receivable - at amortised cost	-	25,503,747,256	-	25,503,747,256
Hire purchase rentals receivable - at amortised cost	-	-	-	-
Financial assets - fair value through other comprehensive income	-	-	184,720,884	184,720,884
Derivative financial assets	82,923,194	-	-	82,923,194
Other financial assets	-	630,656,592	-	630,656,592
<b>Total Financial Assets</b>	<b>1,585,203,419</b>	<b>42,368,850,053</b>	<b>184,720,884</b>	<b>44,138,774,356</b>

	Other Financial Liabilities at Amortised Cost	Total
	LKR	LKR
<b>Financial Liabilities</b>		
Due to banks	22,558,061,981	22,558,061,981
Due to depositors	14,681,375,682	14,681,375,682
Other financial liabilities	1,704,808,662	1,704,808,662
<b>Total Financial Liabilities</b>	<b>38,944,246,325</b>	<b>38,944,246,325</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>21 CASH AND CASH EQUIVALENTS</b>				
Cash in hand	150,732,462	131,836,806	150,732,462	131,836,806
Balances with banks	416,213,921	663,424,138	473,990,668	766,911,834
	566,946,383	795,260,944	624,723,130	898,748,640
Less: Bank Overdrafts (Note 36)	(3,519,082,617)	(365,468,885)	(3,519,082,617)	(365,468,885)
	(2,952,136,234)	429,792,059	(2,894,359,487)	533,279,755

For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short term deposits as define above.

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>22 FINANCIAL ASSETS - RECOGNISED THROUGH PROFIT OR LOSS</b>				
Government of Sri Lanka treasury bills - at fair value	3,130,690,272	1,395,566,214	3,130,690,272	1,395,566,214
Government of Sri Lanka treasury bonds - at fair value	-	106,714,011	-	106,714,011
	3,130,690,272	1,502,280,225	3,130,690,272	1,502,280,225
<b>23 LOANS AND ADVANCES AT AMORTISED COST</b>				
Term loan receivable	7,589,442,662	8,642,803,991	7,589,442,662	8,642,803,991
Gold loans	9,876,152,006	6,402,550,988	9,876,152,006	6,402,550,988
Pledge loans	173,806,315	212,118,789	173,806,315	212,118,789
Micro finance loans	43,121,216	48,708,310	43,121,216	48,708,310
Loans against fixed deposits	420,575,385	244,027,663	420,575,385	244,027,663
<b>Gross Loans and Advances Receivable</b>	<b>18,103,097,584</b>	<b>15,550,209,741</b>	<b>18,103,097,584</b>	<b>15,550,209,741</b>
Less: Interest adjustment on NPLs using credit adjusted EIR (Note 23.1 (a))	(82,461,807)	(79,005,464)	(82,461,807)	(79,005,464)
<b>Outstanding Loans and Advances Receivable</b>	<b>18,020,635,777</b>	<b>15,471,204,277</b>	<b>18,020,635,777</b>	<b>15,471,204,277</b>
Less : Allowance for impairment losses (Note 23.1 (b), 23.2,23.3 & 23.4)	(570,767,954)	(673,431,921)	(570,767,954)	(673,431,921)
<b>Net Loans and Advances</b>	<b>17,449,867,823</b>	<b>14,797,772,357</b>	<b>17,449,867,823</b>	<b>14,797,772,357</b>
<b>23.1 a) Interest Adjustment on NPLs using Credit Adjusted EIR</b>				
As at 01st April	79,005,464	54,898,878	79,005,464	54,898,878
Reversed /(credited ) to interest income	3,456,343	24,106,586	3,456,343	24,106,586
As at 31st March	82,461,807	79,005,464	82,461,807	79,005,464
<b>b) Allowances for Impairment Losses</b>				
As at 01st April	673,431,921	890,627,145	673,431,921	890,627,145
Charge / (Reversal) for the year	(102,663,967)	37,587,463	(102,663,967)	37,587,463
Writeoff	-	(254,782,687)	-	(254,782,687)
As at 31 st March	570,767,954	673,431,921	570,767,954	673,431,921

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>23.2 Loan Category wise Allowances for Impairment Losses</b>				
Term loan receivable	401,882,820	522,674,881	401,882,820	522,674,881
Gold loans	56,518,143	9,513,437	56,518,143	9,513,437
Pledge loans	102,660,328	123,672,220	102,660,328	123,672,220
Micro finance loans	9,706,663	17,571,383	9,706,663	17,571,383
	<b>570,767,954</b>	<b>673,431,921</b>	<b>570,767,954</b>	<b>673,431,921</b>

**23.3 Analysis of the Impairment for Expected Credit Losses, Based on the Staging of the Underlying Loans is Given Below:**

	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Outstanding loans and advances 31st March 2023	12,623,966,714	3,838,817,882	1,557,851,181	18,020,635,777
Less: Provision for collective impairment	(52,174,997)	(78,931,961)	(64,047,245)	(195,154,203)
Less: Provision for individual impairment	-	-	(375,613,751)	(375,613,751)
	<b>12,571,791,717</b>	<b>3,759,885,921</b>	<b>1,118,190,184</b>	<b>17,449,867,823</b>
Outstanding loans and advances 31st March 2022	14,261,117,335	347,303,855	862,783,087	15,471,204,277
Less: Provision for collective impairment	(152,424,620)	(23,325,111)	(54,976,511)	(230,726,242)
Less: Provision for individual impairment	-	-	(442,705,678)	(442,705,678)
	<b>14,108,692,715</b>	<b>323,978,744</b>	<b>365,100,898</b>	<b>14,797,772,357</b>

There are no term loan receivables assigned under securitization funding arrangements as of 31st March 2023.  
(2021/22 -LKR 3,348,257,470/-)

**23.4 Company & Group**

As at 31st March 2023	Within One	1 - 5	Over	Total
	Year	Years	5 Years	
	LKR	LKR	LKR	LKR
<b>Outstanding Rentals Receivables</b>				
- Loan rentals	14,597,430,894	2,485,819,997	2,327,303	17,085,578,194
- Amounts receivable from hirers	935,057,583	-	-	935,057,583
	<b>15,532,488,478</b>	<b>2,485,819,997</b>	<b>2,327,303</b>	<b>18,020,635,777</b>
Less : Allowance for impairment losses				(570,767,954)
<b>Total Net Rentals Receivable</b>				<b>17,449,867,823</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 24 LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE AT AMORTIZED COST

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Lease rentals	28,717,795,981	35,882,459,006	28,717,795,981	35,882,459,006
Amounts receivable from hirers	2,108,881,366	1,397,321,276	2,108,881,366	1,397,321,276
<b>Gross Rentals Receivables</b>	<b>30,826,677,347</b>	<b>37,279,780,282</b>	<b>30,826,677,347</b>	<b>37,279,780,282</b>
Less: Unearned income	(8,189,117,338)	(10,829,520,674)	(8,189,117,338)	(10,829,520,674)
Less: Interest adjustment on NPLs using credit adjusted EIR (Note 24.1 (a))	(84,030,290)	(88,417,977)	(84,030,290)	(88,417,977)
<b>Outstanding Rentals Receivables</b>	<b>22,553,529,718</b>	<b>26,361,841,631</b>	<b>22,553,529,718</b>	<b>26,361,841,631</b>
Less : Allowance for impairment losses (Note 24.1 (b) & 24.3)	(1,001,103,880)	(858,094,375)	(1,001,103,880)	(858,094,375)
<b>Total Net Rentals Receivable (Note 24.2 &amp; 24.3)</b>	<b>21,552,425,838</b>	<b>25,503,747,256</b>	<b>21,552,425,838</b>	<b>25,503,747,256</b>

#### 24.1 a) Interest Adjustment on NPLs Using Credit Adjusted EIR

As at 01st April	88,417,977	59,159,842	88,417,977	59,159,842
Reversed / (credited) to interest income	(4,387,687)	29,258,135	(4,387,687)	29,258,135
As at 31st March	84,030,290	88,417,977	84,030,290	88,417,977

#### b) Allowances for Impairment Losses

As at 01st April	858,094,375	1,028,729,698	858,094,375	1,028,729,698
Charge / (Reversal) for the year	143,009,505	(170,635,323)	143,009,505	(170,635,323)
As at 31st March	1,001,103,880	858,094,375	1,001,103,880	858,094,375

#### 24.2 Analysis of the impairment for expected credit losses, based on the staging of the underlying leases is given below:

##### Company & Group

	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Outstanding lease and receivables 31st March 2023	9,580,987,023	9,355,855,147	3,616,687,549	22,553,529,718
Less: Provision for collective impairment	(93,696,095)	(258,115,685)	(207,431,155)	(559,242,935)
Less: Provision for individual impairment	-	-	(441,860,945)	(441,860,945)
	<b>9,487,290,928</b>	<b>9,097,739,462</b>	<b>2,967,395,449</b>	<b>21,552,425,838</b>
Outstanding lease and receivables 31st March 2022	22,856,771,235	2,456,572,337	1,048,498,059	26,361,841,631
Less: Provision for collective impairment	(247,287,732)	(109,914,800)	(59,583,556)	(416,786,088)
Less: Provision for individual impairment	-	-	(441,308,287)	(441,308,287)
	<b>22,609,483,503</b>	<b>2,346,657,537</b>	<b>547,606,216</b>	<b>25,503,747,256</b>

## 24.3 Company &amp; Group

As at 31st March 2023	Within	1-5	Over	Total
	one year	Years	5 years	
	LKR	LKR	LKR	LKR
Lease rentals	11,481,867,314	17,149,940,873	155,746	28,631,963,933
Amounts receivable from hirers	2,110,683,124	-	-	2,110,683,124
<b>Outstanding Rentals Receivables</b>	<b>13,592,550,437</b>	<b>17,149,940,873</b>	<b>155,746</b>	<b>30,742,647,056</b>
Less: Unearned income	(4,004,478,651)	(4,184,605,334)	(33,353)	(8,189,117,338)
<b>Net Rentals Receivables</b>	<b>9,588,071,786</b>	<b>12,965,335,539</b>	<b>122,393</b>	<b>22,553,529,718</b>
Less : Allowance for impairment losses				(1,001,103,880)
<b>Total Net Rentals Receivable</b>				<b>21,552,425,838</b>

As at 31st March 2022	Within	1-5	Over	Total
	one year	Years	5 years	
	LKR	LKR	LKR	LKR
Lease rentals	12,671,662,827	23,197,508,541	13,287,638	35,882,459,006
Amounts receivable from hirers	1,308,903,299	-	-	1,308,903,299
<b>Outstanding Rentals Receivables</b>	<b>13,980,566,126</b>	<b>23,197,508,541</b>	<b>13,287,638</b>	<b>37,191,362,305</b>
Less: Unearned income	(5,012,009,155)	(5,816,375,283)	(1,136,235)	(10,829,520,674)
<b>Net Rentals Receivables</b>	<b>8,968,556,971</b>	<b>17,381,133,258</b>	<b>12,151,403</b>	<b>26,361,841,631</b>
Less : Allowance for impairment losses				(858,094,375)
<b>Total Net Rentals Receivable</b>				<b>25,503,747,256</b>

Lease rental receivables include receivables amounting to LKR 21,628,479,365/- (2021/22 - LKR 22,447,682,581/-) that have been assigned under a securitization funding arrangement.

## 25 HIRE PURCHASE RENTALS RECEIVABLE &amp; STOCK OUT ON HIRE

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Rentals Receivables	-	-	-	-
Amounts receivable from hirers	3,975,448	3,968,823	3,975,448	3,968,823
<b>Gross Rentals Receivables</b>	<b>3,975,448</b>	<b>3,968,823</b>	<b>3,975,448</b>	<b>3,968,823</b>
Less: Interest adjustment on NPLs using credit adjusted EIR (Note 25.1 (a))	(208,062)	(190,579)	(208,062)	(190,579)
<b>Outstanding Rentals Receivables</b>	<b>3,767,386</b>	<b>3,778,244</b>	<b>3,767,386</b>	<b>3,778,244</b>
Less : Allowance for impairment losses (Note 25.1 (b))	(3,767,386)	(3,778,244)	(3,767,386)	(3,778,244)
<b>Total net rentals receivable (Note 25.2 &amp; 25.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 25.1 a) Interest Adjustment on NPLs using Credit Adjusted EIR

As at 01st April	190,579	(5,543,784)	190,579	(5,543,784)
Reversed / (credited) to interest income	17,482	5,734,363	17,482	5,734,363
As at 31st March	208,062	190,579	208,062	190,579

## b) Allowances for Impairment Losses

As at 01st April	3,778,244	3,980,689	3,778,244	3,980,689
Charge / (reversal) for the year	(10,858)	(202,445)	(10,858)	(202,445)
As at 31 st March	3,767,386	3,778,244	3,767,386	3,778,244

## NOTES TO THE FINANCIAL STATEMENTS

### 25.2 Analysis of the impairment for expected credit losses, based on the staging of the underlying hire purchase is given below:

	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Outstanding rental receivable 31st March 2023	-	-	3,767,386	3,767,386
Less: Provision for individual impairment	-	-	(3,767,386)	(3,767,386)
	-	-	-	-
Outstanding rental receivable 31st March 2022	-	-	3,778,244	3,778,244
Less: Provision for individual impairment	-	-	(3,778,244)	(3,778,244)
	-	-	-	-

### 25.3 Company & Group

As at 31st March 2023	Within one year	1-5 Years	Over 5 years	Total
	LKR	LKR	LKR	LKR
Hire purchase rentals	-	-	-	-
Amounts receivable from hirers	3,767,386	-	-	3,767,386
<b>Outstanding Rentals Receivables</b>	<b>3,767,386</b>	<b>-</b>	<b>-</b>	<b>3,767,386</b>
Less: Unearned income	-	-	-	-
<b>Net Rentals Receivables</b>	<b>3,767,386</b>	<b>-</b>	<b>-</b>	<b>3,767,386</b>

As at 31st March 2022	Within one year	1-5 Years	Over 5 years	Total
	LKR	LKR	LKR	LKR
Hire purchase rentals	-	-	-	-
Amounts receivable from hirers	3,778,244	-	-	3,778,244
<b>Outstanding Rentals Receivables</b>	<b>3,778,244</b>	<b>-</b>	<b>-</b>	<b>3,778,244</b>
Less: Unearned income	-	-	-	-
<b>Net Rentals Receivables</b>	<b>3,778,244</b>	<b>-</b>	<b>-</b>	<b>3,778,244</b>

### 26 FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Quoted equity securities (Note 26.1)	182,126,371	184,141,634	182,126,371	184,141,634
Unquoted equities (Note 26.2)	579,250	579,250	579,250	579,250
	<b>182,705,621</b>	<b>184,720,884</b>	<b>182,705,621</b>	<b>184,720,884</b>



## 26.1 Quoted Equities

	2023			2022		
	Company & Group			Company & Group		
	No of Shares	Cost of Investment	Fair Value	No of Shares	Cost of Investment	Fair Value
	LKR	LKR		LKR	LKR	
<b>Banks, Finance &amp; Insurance</b>						
Sanasa Development Bank	3,516,310	182,085,425	88,259,381	3,516,310	182,085,425	103,731,145
Sampath Bank PLC	220,000	10,120,000	11,550,000	-	-	-
		192,205,425	99,809,381		182,085,425	103,731,145
<b>Hotels &amp; Travels</b>						
Aitken Spence PLC	30,000	2,411,876	3,929,927	45,608	3,666,849	3,361,310
Ceylon Hotels Corporation PLC	32,247	1,293,867	725,558	52,475	2,105,616	477,523
Jetwing Symphony PLC	84,154	841,850	597,493	270,000	2,970,000	2,835,000
Mahaweli Reach Hotels PLC	-	-	-	71,686	2,960,739	860,232
Tal Lanka Hotels PLC	14,481	811,828	220,111	16,611	931,236	219,265
		5,359,420	5,473,089		12,634,441	7,753,330
<b>Manufacturing</b>						
Teejay Lanka PLC	855,000	38,795,565	27,360,000	355,000	15,121,519	14,129,000
JAT Holding PLC	-	-	-	389,400	10,513,800	6,191,460
Hela Apparel Holdings Limited	-	-	-	150,000	2,250,000	1,935,000
Tokyo Cement PLC - non voting	-	-	-	91,971	5,601,917	2,418,837
		38,795,565	27,360,000		33,487,236	24,674,297
<b>Diversified Holdings</b>						
Hayleys PLC	298,403	33,962,784	21,485,087	493,609	57,423,573	37,958,532
		33,962,784	21,485,087		57,423,573	37,958,532
<b>Energy</b>						
Lanka Indian Oil Company	105,748	23,536,565	18,135,782	-	-	-
		23,536,565	18,135,782		-	-
<b>Construction &amp; Engineering</b>						
Access Engineering PLC	401,622	9,869,736	5,703,032	401,622	9,869,736	6,024,330
		9,869,736	5,703,032		9,869,736	6,024,330
<b>Telecommunications</b>						
Dialog Axiata PLC	400,000	5,077,540	4,160,000	400,000	5,077,540	4,000,000
		5,077,540	4,160,000		5,077,540	4,000,000
<b>Total Investment</b>		<b>308,807,035</b>	<b>182,126,371</b>		<b>300,577,951</b>	<b>184,141,634</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 26.2 Unquoted Equities

Company & Group	2023		2022	
	Cost of Investment	Fair Value	Cost of Investment	Fair Value
	LKR	LKR	LKR	LKR
Comp trust Equity Fund	200,500	200,500	200,500	200,500
Commercial Fund Management	1,500	1,500	1,500	1,500
Shaw Wallace Ceylon Ltd	11,544	11,544	11,544	11,544
Alliance Agencies Ltd	75,300	75,300	75,300	75,300
Ceylon Japan Industries Ltd	1	1	1	1
Orient Food Processing (Lanka) Ltd	1	1	1	1
Trigem Knitwear Ltd	1	1	1	1
Credit Information Bureau of Sri Lanka	25,400	25,400	25,400	25,400
Finance House Consortium (Pvt) Ltd	200,000	200,000	200,000	200,000
Orient Hotels Ltd	1	1	1	1
Ranwelli Holiday Resorts Ltd	65,001	65,001	65,001	65,001
Nation Lanka Equities (Pvt) Ltd	8,785,740	1	8,785,740	1
<b>Total</b>	<b>9,364,989</b>	<b>579,250</b>	<b>9,364,989</b>	<b>579,250</b>

Directors of the Company assessed that fair value of the unquoted share investments held by the Company as at 31st March 2023 and concluded that the carrying value as at that date is a reasonable approximation of fair value.

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>27 OTHER TRADING STOCKS</b>				
Real estates	8,422,473	10,688,250	8,422,473	21,376,500
Provision for real estate	(8,422,473)	-	(8,422,473)	-
Vehicles stock	59,653,942	381,837,494	59,653,942	371,149,244
	<b>59,653,942</b>	<b>392,525,744</b>	<b>59,653,942</b>	<b>392,525,744</b>
<b>28 OTHER FINANCIAL ASSETS</b>				
Collaboration debtors	65,024,225	58,441,360	65,024,225	58,441,360
Deferred expenses	268,838,163	440,564,990	268,838,163	440,564,990
Other receivables	81,591,740	137,334,099	84,070,840	131,650,242
	<b>415,454,128</b>	<b>636,340,449</b>	<b>417,933,228</b>	<b>630,656,592</b>
<b>29 OTHER NON FINANCIAL ASSETS</b>				
Pre-paid expenses	155,292,493	232,523,694	155,358,650	232,523,694
Stationery stock account	18,495,293	11,362,435	18,495,293	11,362,435
VAT recoverable	-	-	429,362	475,323
	<b>173,787,786</b>	<b>243,886,129</b>	<b>174,283,305</b>	<b>244,361,452</b>

**30 INVESTMENT IN ASSOCIATES****a) Equity Method**

Company	% Holding	Carrying Value 01.04.2022	Share of Profit / (Loss)	Other Movements	Carrying Value 31.03.2023
		LKR	LKR	LKR	LKR
Macbertan (Pvt) Ltd	22.39%	49,838,348	21,068,498	-	70,906,846
		49,838,348	21,068,498	-	70,906,846

Group	% Holding	Carrying Value 01.04.2022	Share of Profit / (Loss)	Other Movements	Carrying Value 31.03.2023
		LKR	LKR	LKR	LKR
Macbertan (Pvt) Ltd	22.39%	83,092,843	21,068,498	(6,748,960)	97,412,381
		83,092,843	21,068,498	(6,748,960)	97,412,381

Company shareholding of Macbertan (Pvt) Ltd is 9.02%. However Company have a significant influence over the Associate and recognised its holding based on the Group effective rate of 22.39%

	No. of Ordinary Shares	2023 Cost of Investment LKR	2022 Cost of Investment LKR

**b) Cost Method- Holding by Company**

Macbertan (Pvt) Ltd	1,720,000	17,200,000	17,200,000
		17,200,000	17,200,000

**Cost Method- Holding by Group**

Macbertan (Pvt) Ltd	5,706,241	66,962,410	66,962,410
		66,962,410	66,962,410

**Summarized Financial Information of Associate Company**

As at 31st March	2023 LKR	2022 LKR
<b>Macbertan (Pvt) Ltd</b>		
Revenue	957,854,805	739,432,043
Profit / (Loss) for the period	94,097,804	28,844,224
Current Assets	450,863,414	365,858,086
Non Current Assets	361,406,605	350,241,413
Current Liabilities	358,155,734	323,899,070
Non Current Laibilities	41,217,678	28,215,286

- c) Alliance Tech Trading (Pvt) Ltd is an Associate Company (40% holding) and the Company has been dormant and no significant assets or liabilities were carried in its books as at 31st March 2023 and 31st March 2022. Investment in Alliance Tech Trading (Pvt) Ltd amount LKR 200,000/-.

## NOTES TO THE FINANCIAL STATEMENTS

### 31 INVESTMENT IN SUBSIDIARIES

	Principal Activity	% Holding	Cost of Investment
Alfinco Insurance Brokers (Pvt) Ltd	Insurance Brokering	63.94%	16,924,038

Alfinco Insurance Brokers (Pvt) Ltd is not quoted in Colombo Stock Exchange.

#### Summarized Financial Information of Subsidiary

As at 31st March	2023	2022
	LKR	LKR
<b>Alfinco Insurance Brokers (Pvt) Ltd</b>		
Net operating income	227,132,801	159,342,823
Less: Finance expenses	(2,535,983)	-
Less: Operating expenses	(89,463,466)	(87,732,570)
Profit before taxes	135,133,352	71,610,253
Less: Taxes	(33,533,437)	(16,625,358)
Profit after tax	101,599,915	54,984,895
Assets	367,180,130	280,654,637
Liabilities	70,947,255	62,352,077
Equity	296,232,875	218,302,560

### 32 INVESTMENT PROPERTY

Company	Balance as at 01.04.2022	Fair Value Gain	Addition	Disposals	Balance As at 31.03.2023
	LKR	LKR	LKR	LKR	LKR
<b>Gross Carrying Amounts</b>					
Land	159,590,100	3,609,900	-	-	163,200,000
	159,590,100	3,609,900	-	-	163,200,000

Group	Balance as at 01.04.2022	Fair Value Gain	Addition	Disposals	Balance As at 31.03.2023
	LKR	LKR	LKR	LKR	LKR
<b>Gross Carrying Amounts</b>					
Land	245,250,516	7,949,484	-	-	253,200,000
	245,250,516	7,949,484	-	-	253,200,000

#### 32.1 Revaluation of Investment Property

The Company revalued its investment properties as at 31st March 2023, adopting an open market comparable basis of valuation by Mr. M.T.H Farook, an independent, professional valuer with recent experience in the location category of the property being valued.

### Details of Investment Properties Stated at Valuation

Company and Group	Date of Valuation	Net Book Value at Valuation	Revaluation Amount	Company	Group
				Revaluation Gain Recognised in P & L	Revaluation Gain Recognised in P & L
Location		LKR	LKR	LKR	LKR
No.199/11,Obeysekara Crescent Rajagiriya Road, Rajagiriya	31.03.2023	72,190,100	71,200,000	3,560,000	3,560,000
Adjustment to the canal reservation (199/11) (Note 32.1.1)		-	-	(4,550,100)	(4,550,100)
No.199/10, Obeysekara Crescent Rajagiriya Road, Rajagiriya	31.03.2023	87,400,000	92,000,000	4,600,000	4,600,000
No.137,Sir James Pieris Mw, Colombo 02	31.03.2023	85,660,416	90,000,000	-	4,339,584
		245,250,516	253,200,000	3,609,900	7,949,484

32.1.1 The Company has not considered the valuation applicable to the canal reservation (1.45 perches) on the grounds that no development and additions permitted on the site of the reservation by the local authorities.

### 32.2 Details of Investment Properties as at 31st March 2023

Company and Group	Land Extent (Perches)	No of Buildings	Extent of the Building (Square Feet)	Value LKR
No.199/11,Obeysekara Crescent Rajagiriya Road, Rajagiriya	17.8	-	-	71,200,000
No.199/10, Obeysekara Crescent Rajagiriya Road, Rajagiriya	23	-	-	92,000,000
No.137,Sir James Pieris Mw, Colombo 02			1,654	90,000,000

#### Fair Value

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Inputs and Fair Value Measurements
Land value is based on the market prices of each land respectively.	Market value of Land (Price per Perch)	The estimated fair value would increase / (decrease), when market value per perch was higher (lower)

Consequently, as at the reporting date, the value reflected represents the best estimate based on the market conditions that prevailed, which in directors opinion, meets the requirements in SLFRS 13 Fair Value Measurements.

### 32.3 Title Restriction on Investment Properties

There were no restriction on the title of land classified as investment properties as at 31st March 2023.

### 32.4 Rental Income Earned and Expenses Incurred on Investment Property

There were no rental income earned and direct expense incurred in relation to the investment property during the financial year.

## NOTES TO THE FINANCIAL STATEMENTS

### 33 PROPERTY, PLANT AND EQUIPMENT

#### 33.1 Company

Gross Carrying Amounts	Balance as at 01.04.2022	Additions	Disposals	Transfers / Adjustments	Balance as at 31.03.2023
	LKR	LKR	LKR	LKR	LKR
<b>Cost / Valuation</b>					
<b>Freehold Assets</b>					
Land	1,817,902,940	15,257,521	-	-	1,833,160,461
Buildings	246,581,143	14,962,487	-	-	261,543,630
Furniture & fittings	93,228,646	24,475,529	(1,033,770)	(296,896)	116,373,509
Equipment	381,483,981	136,937,512	(6,854,508)	(958,657)	510,608,328
Motor vehicles & accessories	416,641,728	37,900,000	(13,857,158)	(255,222)	440,429,348
Computers	179,609,583	20,059,440	(812,990)	(1,343,631)	197,512,403
Antiques	25,580	-	-	-	25,580
	3,135,473,601	249,592,489	(22,558,426)	(2,854,406)	3,359,653,259
<b>Depreciation</b>					
<b>Freehold Assets</b>					
Land	-	-	-	-	-
Buildings	12,329,057	12,391,401	-	-	24,720,458
Furniture & fittings	54,270,297	13,162,884	(828,868)	(292,370)	66,311,943
Equipment	245,432,221	56,386,537	(6,813,180)	(963,179)	294,042,399
Motor vehicles & accessories	179,509,278	48,288,337	(8,344,688)	(255,222)	219,197,705
Computers	141,608,503	20,481,893	(812,990)	(1,343,633)	159,933,774
Antiques	-	-	-	-	-
	633,149,356	150,711,053	(16,799,725)	(2,854,404)	764,206,279
<b>Net Book Value</b>					
Land	1,817,902,940				1,833,160,461
Buildings	234,252,086				236,823,172
Furniture & fittings	38,958,349				50,061,566
Equipment	136,051,760				216,565,929
Motor vehicles & accessories	237,132,450				221,231,643
Computers	38,001,080				37,578,629
Antiques	25,580				25,580
	2,502,324,245				2,595,446,980

## 33.2 Group

Gross Carrying Amounts	Balance as at 01.04.2022	Additions	Disposals	Transfers / Adjustments	Balance as at 31.03.2023
	LKR	LKR	LKR	LKR	LKR
<b>Cost / Valuation</b>					
<b>Freehold Assets</b>					
Land	1,817,902,940	15,257,521	-	-	1,833,160,461
Buildings	246,581,144	14,962,487	-	-	261,543,631
Furniture & fittings	94,473,700	24,475,529	(1,033,770)	(296,896)	117,618,563
Equipment	383,843,954	136,937,512	(6,854,508)	(958,657)	512,968,301
Motor vehicles & accessories	416,641,728	37,900,000	(13,857,158)	(255,222)	440,429,348
Computers	181,991,752	20,059,440	(812,990)	(1,343,631)	199,894,572
Antiques	25,580	-	-	-	25,580
	3,141,460,798	249,592,489	(22,558,426)	(2,854,406)	3,365,640,456
<b>Depreciation</b>					
<b>Freehold Assets</b>					
Land	-	-	-	-	-
Buildings	12,329,057	12,391,401	-	-	24,720,458
Furniture & fittings	55,258,853	13,163,482	(828,868)	(292,370)	67,301,098
Equipment	247,829,295	56,386,537	(6,813,180)	(963,179)	296,439,473
Motor Vehicles & accessories	179,509,277	48,288,337	(8,344,688)	(255,222)	219,197,704
Computers	143,091,957	20,972,173	(812,990)	(1,343,633)	161,907,508
Antiques	-	-	-	-	-
	638,018,439	151,201,931	(16,799,725)	(2,854,404)	769,566,241
<b>Net Book Value</b>					
Land	1,817,902,940				1,833,160,461
Buildings	234,252,087				236,823,173
Furniture & fittings	39,214,847				50,317,465
Equipment	136,014,659				216,528,828
Motor vehicles & accessories	237,132,451				221,231,644
Computers	38,899,795				37,987,064
Antiques	25,580				25,580
	2,503,442,359				2,596,074,215

## NOTES TO THE FINANCIAL STATEMENTS

### 33.3 Revaluation of Property Plant and Equipment

#### 33.3.1 Carrying Value at Cost

The carrying amount of Company's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31st March 2023	Cost	Accumulated Depreciation	Net Book Value
	LKR	LKR	LKR
Freehold lands	353,350,808	-	353,350,808
Freehold buildings	203,334,042	61,013,999	142,320,043
	556,684,849	61,013,999	495,670,850

#### 33.3.2 Carrying Value at Revaluation

The carrying amount of Company's revalued freehold land and buildings, if they were carried at revalued amount less accumulated depreciation, would be as follows:

As at 31st March 2023	Revalued Amount	Accumulated Depreciation	Net Book Value
	LKR	LKR	LKR
Land	1,833,160,461	-	1,833,160,461
Building	261,543,630	24,720,458	236,823,172
	2,094,704,091	24,720,458	2,069,983,633

#### 33.4 Details of Freehold Land and Buildings as at 31st March 2023

Location	Land Extent (Perches)	Cost or Revaluation of Land	No of Buildings	Buildings (Square Feet)	Cost or Revaluation of Building	Total Value
		LKR			LKR	LKR
No 84 Ward Place Colombo - 7	65.00	1,072,981,930	2	6,967	33,750,000	1,106,731,930
No.98, Ward Place, Colombo - 7	19.41	308,046,420	1	8,460	46,080,000	354,126,420
No.152, 150/1 Batapadura Watta Road, Siyambalagoda	49.00	24,500,000	-	-	-	24,500,000
No.720, Kotte Road, Rajagiriya	33.85	212,389,850	1	-	25,000,000	237,389,850
No.722, Kotte Road, Rajagiriya	23.26	158,144,740	1	16,660	134,680,152	292,824,892
No.383, Kotugoda Road, Seeduwa	80.00	41,840,000	1	2,712	8,136,000	49,976,000
No. 107/2 Rathnapura Rd,Avissawella	7.55	15,257,521	1	2,737	13,897,479	29,155,000
<b>Freehold Land and Building</b>		1,833,160,461			261,543,631	2,094,704,092



33.5 During the financial year, the Company acquired property, plant & equipment to the aggregate value of LKR 249,592,489/- (2021/22 - LKR 238,188,743/-) and payment made by cash.

33.6 The cost of the fully depreciated / amortised property, plant and equipment and intangible assets of the Company which are still in use as at the end of the reporting date is as follows:

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
Motor Vehicles	96,087,643	43,941,359	97,217,773	43,941,359
Office Equipment	172,468,867	149,956,541	174,865,941	152,353,615
Furniture & Fittings	179,194	471,565	1,160,347	1,452,718
Computers	130,259,436	123,556,376	130,259,436	124,596,506
Software - Intangible Assets	15,074,059	5,153,427	16,627,059	6,706,427
	414,069,198	323,079,268	420,130,555	329,050,624

33.7 Title restriction on Property Plant and Equipment

There were no restriction on the title of Property, Plant and Equipment as at 31st March 2023.

33.8 Property Plant and Equipment pledged as security for liabilities

Property	Mortgaged with	Value
No.722, Kotte Road, Rajagiriya	Public Bank	550 Mn

33.9 Measurement of fair values

The fair value measurement for freehold lands have been categorized as a Level 3 fair value based on the input to the valuation technique used.

33.10 The Group does not foresee indications of Impairment of Fixed assets as at the reporting date due to the current macro economic situation and each business unit functions under the respective business continuity plans.

## 34 INTANGIBLE ASSETS

Gross Carrying Value	Balance	Additions	Transfers /	Balance
	As at		Disposals	As at
	01.04.2022			31.03.2023
	LKR	LKR	LKR	LKR

### 34.1 Company

#### Cost / Valuation

Computer Software - Freehold	124,923,235	384,285	-	125,307,520
Computer Software - WIP	68,404,712	23,447,238	-	91,851,950
	193,327,947	23,831,523	-	217,159,470

#### Amortization

Computer Software - Freehold	66,612,516	11,358,550	-	77,971,066
Computer Software - WIP	-	-	-	-
	66,612,516	11,358,550	-	77,971,066

#### Net Book Value

Computer Software - Freehold	58,310,719	-	-	47,336,454
Computer Software - WIP	68,404,712	-	-	91,851,950
	126,715,431	-	-	139,188,404

## NOTES TO THE FINANCIAL STATEMENTS

Gross Carrying Value	Balance	Additions	Transfers /	Balance
	As at 01.04.2022		Disposals	As at 31.03.2023
	LKR	LKR	LKR	LKR
<b>34.2 Group</b>				
<b>Cost / Valuation</b>				
Computer Software - Freehold	127,051,232	384,285	-	127,435,517
Computer Software - WIP	68,404,712	23,447,238	-	91,851,950
	195,455,944	23,831,523	-	219,287,467
<b>Amortization</b>				
Computer Software - Freehold	68,275,447	11,550,216	-	79,825,663
Computer Software - WIP	-	-	-	-
	68,275,447	11,550,216	-	79,825,663
<b>Net Book Value</b>				
Computer Software - Freehold	58,775,785	-	-	47,609,854
Computer Software - WIP	68,404,712	-	-	91,851,950
	127,180,497	-	-	139,461,804

**35 RIGHT OF USE ASSETS**

	Company	Group
	LKR	LKR
<b>35.1 Cost of Right of Use Asset</b>		
Balance as at 01st April 2022	651,538,009	651,538,009
Additions and improvements	95,265,486	95,265,486
Balance as at 31st March 2023	746,803,495	746,803,495
<b>Accumulated Amortisation</b>		
Balance as at 01st April 2022	253,753,988	253,753,988
Charge for the Year	127,702,817	127,702,817
Balance as at 31st March 2023	381,456,805	381,456,805
<b>Net Book Value as at 31st March 2023</b>	<b>365,346,690</b>	<b>365,346,690</b>
<b>Net Book Value as at 31st March 2022</b>	<b>397,784,021</b>	<b>397,784,021</b>
<b>35.2 Operating Lease Liability</b>		
Balance as at 01st April 2022	380,397,927	380,397,927
Additions and improvements	77,939,486	77,939,486
Accretion of Interest	44,022,441	44,022,441
Payments made during the year	(140,943,853)	(140,943,853)
Balance as at 31st March 2023	361,416,001	361,416,001
<b>Balance as at 31st March 2022</b>	<b>380,397,927</b>	<b>380,397,927</b>

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>36 DUE TO BANKS</b>				
Bank overdrafts	3,519,082,617	365,468,885	3,519,082,617	365,468,885
Securitized borrowings and other facilities (Note 36.1)	19,051,920,083	22,192,593,096	19,051,920,083	22,192,593,096
	<b>22,571,002,700</b>	<b>22,558,061,981</b>	<b>22,571,002,700</b>	<b>22,558,061,981</b>

### 36.1 Securitized Borrowings and Other Facilities

Company and Group	As at 01.04.2022	Loans Obtained	Interest Recognized	Repayments	As at 31.03.2023	Period	Security
	LKR	LKR	LKR	LKR	LKR		
<b>Securitized Borrowings</b>							
HNB Securitization -04	261,853,023	-	14,524,942	276,377,965	-	36 months	Lease receivables
HNB Securitization -05	362,646,539	-	13,129,609	375,776,148	-	24 months	Lease receivables
Seylan Trust 02 Securitization 06 - 01	622,860,427	-	31,112,949	653,973,376	-	30 months	Lease receivables
Securitization 06 Part 02	767,176,285	-	52,252,228	283,603,458	535,825,055	48 months	Lease receivables
Securitization 07	179,408,358	-	13,190,802	25,000,000	167,599,160	30 months	Lease receivables
Securitization 07 Part 02	600,689,648	-	67,955,778	481,459,237	187,186,189	24 months	Lease receivables
Securitization 08-1	257,872,392	-	26,942,588	75,424,614	209,390,366	24 months	Lease receivables
Securitization 08-2	65,024,041	-	4,227,496	69,251,537	-	04 months	Lease receivables
Securitization 08-3	10,003,699	-	650,384	10,654,083	-	04 months	Lease receivables
Securitization 09	400,147,945	-	26,015,361	426,163,306	-	06 months	Lease receivables
	-	500,000,000	67,008,789	66,609,809	500,398,980	15 months	Lease receivables
	3,527,682,357	500,000,000	317,010,927	2,744,293,533	1,600,399,751		
<b>Direct Bank Borrowings - Term Loans</b>							
DFCC Bank - PCI Loan	24,263,926	-	1,791,387	17,019,142	9,036,171	70 Months	Nil
Hatton National Bank	1,116,540,000	-	219,508,953	586,548,953	749,500,000	48 months	Lease receivables
Sampath Bank Loan	1,677,276,164	1,700,000,000	689,483,750	1,591,759,914	2,475,000,000	36 months	Lease receivables
Public Bank	304,130,786	-	59,982,024	141,122,184	222,990,626	60 months	Land & Building

## NOTES TO THE FINANCIAL STATEMENTS

Company and Group	As at 01.04.2022	Loans Obtained	Interest Recognized	Repayments	As at 31.03.2023	Period	Security
Union Bank	900,000,000	5,900,000,000	204,784,080	6,103,831,970	<b>900,952,110</b>	60 months	Lease receivables
Commercial Bank	403,448,144	750,776,810	91,040,945	1,245,265,899	-	36 months	Lease receivables
DFCC Bank	667,565,347	-	120,462,846	400,528,207	<b>387,499,987</b>	96 months	Lease receivables
National Development Bank	3,771,311,780	1,650,000,000	756,867,589	3,203,541,526	<b>2,974,637,843</b>	03 Months	Lease receivables
Seylan Bank	1,783,704,498	2,910,000,000	333,937,885	3,593,683,862	<b>1,433,958,521</b>	48 Months	Fixed Deposits
BOC Bank	508,333,362	-	101,852,998	301,853,032	<b>308,333,328</b>	12 Months	Lease receivables
Cargills Bank	751,885,479	-	173,596,717	287,982,196	<b>637,500,000</b>	48 months	Lease receivables
Nations Trust Bank	312,499,743	-	48,786,733	198,786,476	<b>162,500,000</b>	06 Months	Lease receivables
Reverse Repo on T-Bills	-	500,000,000	28,612,199	528,612,199	-	07 Days	T-Bills
National Savings Bank	84,030,829	-	8,323,504	92,354,333	-	36 months	Lease receivables
Syndication 02-Sub Debt	1,000,520,245	-	271,531,808	272,052,053	<b>1,000,000,000</b>	60 Months	Lease receivables
	<b>13,305,510,303</b>	<b>13,410,776,810</b>	<b>3,110,563,419</b>	<b>18,564,941,946</b>	<b>11,261,908,586</b>		
<b>Foreign Currency Borrowings</b>							
Triods Loan-SUB	577,900,000	385,188,761	71,791,028	1,034,879,789	-	72 Months	Nil
IFC	307,581,329	-	31,314,375	240,008,204	<b>98,887,500</b>	60 Months	Lease receivables
FMO	3,443,405,426	2,354,531,168	352,351,714	1,688,957,062	<b>4,461,331,246</b>	60 Months	Lease receivables
Enabling Capital Ltd	1,030,513,681	1,023,538,500	125,468,363	550,127,544	<b>1,629,393,000</b>	36 Months	Lease receivables
	<b>5,359,400,436</b>	<b>3,763,258,428</b>	<b>580,925,480</b>	<b>3,513,972,599</b>	<b>6,189,611,746</b>		
	<b>22,192,593,096</b>	<b>17,674,035,238</b>	<b>4,008,499,826</b>	<b>24,823,208,078</b>	<b>19,051,920,083</b>		

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>37</b>	<b>DUE TO DEPOSITORS AT AMORTIZED COST</b>			
Fixed deposits	20,184,830,962	14,209,386,348	20,100,463,835	14,209,386,348
Savings deposits	291,016,873	471,989,334	290,239,235	471,989,334
	<b>20,475,847,835</b>	<b>14,681,375,682</b>	<b>20,390,703,071</b>	<b>14,681,375,682</b>
<b>38</b>	<b>DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS</b>			
Commercial paper	-	867,759,553	-	867,759,553
	-	867,759,553	-	867,759,553
<b>39</b>	<b>OTHER FINANCIAL LIABILITIES</b>			
Accrued expenses	160,058,681	281,359,487	160,058,682	300,235,599
Trade creditors	37,694,156	364,995,886	37,694,156	364,995,886
Lease liability	361,416,001	380,397,927	361,416,001	380,397,927
Others	324,830,015	643,496,211	360,821,337	659,179,250
	<b>883,998,853</b>	<b>1,670,249,511</b>	<b>919,990,176</b>	<b>1,704,808,662</b>
<b>40</b>	<b>OTHER NON FINANCIAL LIABILITIES</b>			
FVAT payable	57,372,438	156,528,048	58,237,588	156,528,049
Other taxes payables	30,057,606	27,578,124	30,057,606	27,578,124
	<b>87,430,044</b>	<b>184,106,172</b>	<b>88,295,194</b>	<b>184,106,173</b>
<b>41</b>	<b>DERIVATIVE FINANCIAL LIABILITIES</b>			
Foreign currency swaps	36,175,016	-	36,175,016	-
	<b>36,175,016</b>	-	<b>36,175,016</b>	-
	<b>DERIVATIVE FINANCIAL ASSETS</b>			
Foreign currency swaps	-	82,923,194	-	82,923,194
	-	82,923,194	-	82,923,194
<b>42</b>	<b>INCOME TAX LIABILITY</b>			
Tax refunds and self assessment payments	(343,125,066)	(535,611,975)	(356,249,442)	(544,091,184)
Current tax liability	412,701,248	858,531,644	439,561,517	871,394,908
Provision for contingent tax liabilities	638,834,123	542,234,123	638,834,123	542,234,123
	<b>708,410,305</b>	<b>865,153,792</b>	<b>722,146,198</b>	<b>869,537,847</b>
<b>42.1</b>	<b>Movement of Income Tax Liability</b>			
Balance as at 01st April	865,153,792	646,313,080	869,537,847	649,705,208
Current tax based on profit for the year	412,701,248	858,531,644	439,561,517	871,394,908
(Over)/under provision in respect of previous years	(10,476,969)	(93,019,943)	(7,071,623)	(93,019,943)
Provision for contingent tax liabilities	96,600,000	236,246,967	96,600,000	236,246,967
Payment of tax	(655,567,767)	(782,917,956)	(676,481,543)	(794,789,292)
<b>Balance as at 31st March</b>	<b>708,410,305</b>	<b>865,153,792</b>	<b>722,146,198</b>	<b>869,537,847</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>43 RETIREMENT BENEFIT OBLIGATIONS</b>				
<b>Gratuity Liability</b>				
<b>43.1 Liability Recognized in the Statement of Financial Position</b>				
Balance as at 01st April	121,428,671	12,924,029	124,326,196	15,988,862
Amount charged / (reversed) for the year (Note - 43.2)	(4,982,969)	157,968,923	(5,406,853)	157,801,615
Transfer to gratuity trust fund	(40,212,220)	(39,309,174)	(40,212,220)	(39,309,174)
Payments made during the year	(27,744,250)	(10,155,107)	(27,744,250)	(10,155,107)
<b>Balance as at 31st March (Note 43.2 &amp; 43.3)</b>	<b>48,489,232</b>	<b>121,428,671</b>	<b>50,962,873</b>	<b>124,326,196</b>
<b>43.2 Amount Charged / (Reversed) for the Year</b>				
Current service cost for the year	46,231,083	42,906,153	46,441,904	43,178,052
Interest cost for the year	71,580,388	24,804,607	72,276,083	25,153,346
Expected return on plan assets	(53,489,715)	(23,907,450)	(53,489,715)	(23,907,450)
	64,321,756	43,803,310	65,228,272	44,423,948
<b>Amount Recognised in Other Comprehensive Income</b>				
Net actuarial (gains) / losses	(69,304,725)	114,165,613	(70,635,125)	113,377,667
Amount Charged for the Year	(4,982,969)	157,968,923	(5,406,853)	157,801,615
<b>43.3 Changes in the Present Value of Obligation</b>				
Present value obligation as at 01st April	478,026,768	354,459,035	479,755,758	355,567,387
Interest cost	71,580,388	24,804,607	72,276,083	25,153,346
Current service cost	46,231,083	42,906,153	46,441,904	43,178,052
Benefits paid / payable	(27,744,250)	(10,155,107)	(27,744,250)	(10,155,107)
Actuarial (Gain) / Loss	(7,050,302)	66,012,080	(8,380,702)	66,012,080
Present value obligation as at 31st March	561,043,687	478,026,768	562,348,793	479,755,758
<b>43.4 Movement in the Present Value of Plan Assets</b>				
Value of plan assets as at 01st April	356,598,097	341,535,006	355,429,562	339,578,525
Expected return on the plan assets for the period	53,489,715	23,907,450	53,489,715	23,907,450
Contribution paid to the plan	40,212,220	39,309,174	40,212,220	39,309,174
Actuarial gain/(loss) on plan assets	62,254,423	(48,153,533)	62,254,423	(47,365,587)
Value of plan assets as at 31st March	512,554,455	356,598,097	511,385,920	355,429,562
<b>Retirement Benefit Liability</b>	<b>48,489,232</b>	<b>121,428,671</b>	<b>50,962,873</b>	<b>124,326,196</b>
<b>43.5 Assumptions</b>				
Discount rate	18%	15%	18%	15%
Salary scale	16.0%	13.0%	16.0%	13.0%
Mortality table	A 67/70	A 67/70	A 67/70	A 67/70
Staff turnover	17%	12%	17%	12%
Retirement Age	Normal retirement age, or age on valuation date, if greater.			

An actuarial valuation of the gratuity was carried out as at 31st March 2023 by Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by LKAS 19.

	2023	2022
	LKR	LKR
<b>Sensitivity Analysis of Present Value of Defined Benefit Obligation</b>		
A one percentage point increase (+1%) in the discount rate	533,732,079	453,066,378
A one percentage point decrease (-1%) in the discount rate	591,507,733	505,677,973
A one percentage point increase (+1%) in the salary/wage increment rate	593,783,892	507,676,378
A one percentage point decrease (-1%) in the salary/wage increment rate	531,280,521	450,896,313

#### 44. DEFERRED TAX ASSETS AND LIABILITIES

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>Deferred Tax Liability</b>				
Balance as at 01st April	510,728,430	555,848,404	510,728,430	555,855,791
Recognised in profit or loss	(32,293,776)	(45,119,974)	(32,293,776)	(45,127,362)
Balance as at 31st March	478,434,654	510,728,430	478,434,654	510,728,430
<b>Deferred Tax Asset</b>				
Balance as at 01st April	209,679,475	144,831,784	210,485,254	145,567,344
Recognised in profit or loss	20,728,621	37,447,944	20,804,413	37,518,163
Recognised in other comprehensive income	(20,791,418)	27,399,747	(20,791,418)	27,399,747
Balance as at 31st March	209,616,678	209,679,475	210,498,249	210,485,254
Net Deferred Tax Liability / (Asset)	268,817,976	301,048,955	267,936,405	300,243,176

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR

#### 44.1 Composition of Deferred Tax Assets and Liabilities

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>Liabilities</b>				
Accelerated depreciation - Own assets	17,129,100	5,348,710	17,129,100	5,348,710
Lease rentals	32,538,547	76,612,713	32,538,547	76,612,713
Recognised in revaluation surplus	428,767,007	428,767,007	428,767,007	428,767,007
	478,434,654	510,728,430	478,434,654	510,728,430
<b>Assets</b>				
Accelerated depreciation - Own assets	27,803,793	21,191,365	27,803,793	21,191,365
Defined benefit obligation	14,546,770	29,117,081	15,428,341	29,922,860
Provisions	154,641,421	125,954,917	154,641,421	125,954,917
Recognised in other comprehensive income	12,624,694	33,416,112	12,624,694	33,416,112
	209,616,678	209,679,475	210,498,249	210,485,254

## NOTES TO THE FINANCIAL STATEMENTS

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	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
<b>45 STATED CAPITAL</b>				
<b>45.1 Issued and Fully Paid-Ordinary Shares</b>				
Ordinary shares	613,980,000	613,980,000	613,980,000	613,980,000
	613,980,000	613,980,000	613,980,000	613,980,000
<b>45.2 Number of Shares</b>				
Balance as at 01st April	33,696,000	33,696,000	33,696,000	33,696,000
	33,696,000	33,696,000	33,696,000	33,696,000

### 45.3 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled one vote per share at the meeting. All shares rank equally with regard to the Company's residual assets.

Shares in the Company quoted in the Colombo Stock Exchange.

### 46 RETAINED EARNINGS

	Company		Group	
	2023	2022	2023	2022
	LKR	LKR	LKR	LKR
As at 31st March				
<b>As at 01st April</b>	<b>3,500,238,368</b>	<b>2,295,549,890</b>	<b>3,588,577,822</b>	<b>2,374,274,468</b>
Dividend paid	(269,568,000)	(404,352,000)	(278,584,400)	(408,161,429)
Profit for the year	504,923,947	1,463,100,626	532,796,238	1,492,529,033
Transfer of realised share disposal profit from FVTOCI	3,136,236	(22,902,218)	3,136,236	(22,902,218)
Adjustment on actuarial gain / (losses) on defined benefit plan	48,513,307	(86,765,866)	49,507,888	(86,262,053)
Transfer of realised gain on investment property	-	332,627,451	-	332,627,451
Net Asset adjustment - Associate Company	-	(3,864,484)	-	(20,372,399)
Transfers to statutory reserve fund	(25,246,197)	(73,155,031)	(25,246,197)	(73,155,031)
As at 31st March	<b>3,761,997,661</b>	<b>3,500,238,368</b>	<b>3,870,187,587</b>	<b>3,588,577,822</b>

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

### 47 RESERVES

	Company			Group		
	2022	Transfers	2023	2022	Transfers	2023
	LKR	LKR	LKR	LKR	LKR	LKR
Fair Value Through OCI (Note 47.1)	(21,728,358)	(10,241,566)	(31,969,924)	(21,728,358)	(10,241,566)	(31,969,924)
Capital reserve - Revaluation reserve (Note 47.2)	1,223,390,151	-	1,223,390,151	1,223,390,151	-	1,223,390,151
General reserve	388,258,055	-	388,258,055	388,258,055	-	388,258,055
Statutory reserve fund (Note 47.3)	977,236,040	25,246,197	1,002,482,237	977,236,040	25,246,197	1,002,482,237
	2,567,155,888	15,004,631	2,582,160,519	2,567,155,888	15,004,631	2,582,160,519



#### 47.1 Fair Value Through OCI

The Fair Value through other Comprehensive income reserve represents the market to market change in the market values of the quoted share investments.

#### 47.2 Capital Reserve - Revaluation Reserve

The Capital Reserves represents the increase in the fair value of the land & buildings at the date of revaluation. The Company revalues its freehold lands and buildings in every three to five years, unless significant changes in fair values indicate it may be necessary to revalue freehold lands and buildings on an earlier date, to ensure that the carrying amounts do not differ materially from the fair values at the end of the reporting date.

The Company treats 50% of the revaluation surplus as supplementary capital in the Total Capital Base in the computation of the Risk Weighted Capital Adequacy Ratio in accordance with the Central Bank of Sri Lanka, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.03 of 2018 on Capital Adequacy Requirements.

#### 47.3 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year is transferred to the Reserve Fund as long as the capital funds are not less than 25% of total deposit liabilities.

### 48 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of the business, the Company makes various commitments and incurs certain contingent liabilities. The company has made a provision against contingent liabilities.

	Company		Group		
	2023	2022	2023	2022	
	LKR	LKR	LKR	LKR	
<b>Financial Guarantees</b>					
Tax Appeal Commission	66,135,950	-	66,135,950	-	
Hotel Developers (Lanka) Ltd	5,100,000	500,000	5,100,000	500,000	
SMCC-sanken JV-Behalf of Thuru Vijana	-	3,433,521	-	3,433,521	
Sri Lanka Air Lines	826,200	826,200	826,200	826,200	
	<b>72,062,150</b>	<b>4,759,721</b>	<b>72,062,150</b>	<b>4,759,721</b>	
<b>Tax Assessments</b>					
	<b>Tax Type</b>				
2014/15	Income Tax	124,479,988	121,253,215	124,479,988	121,253,215
2017/18	Income Tax	241,419,583	241,413,983	241,419,583	241,413,983
2018/19	Income Tax	751,590,614	-	751,590,614	-
2018/19	NBT on FS	9,982,687	-	9,982,687	-
Less: Provisions as at 31st March		(341,654,885)	(329,011,348)	(341,654,885)	(329,011,348)
		<b>785,817,987</b>	<b>33,655,850</b>	<b>785,817,987</b>	<b>33,655,850</b>
<b>Total</b>		<b>857,880,137</b>	<b>38,415,571</b>	<b>857,880,137</b>	<b>38,415,571</b>

The Company has received tax assessments for the following years of tax assessments as mentioned below

Tax Assessments	Tax Type	Tax	Penalty	Total
2014/15	Income Tax	88,501,080	35,978,908	124,479,988
2017/18	Income Tax	160,946,389	80,473,194	241,419,583
2018/19	Income Tax	492,175,005	259,415,609	751,590,614
2018/19	NBT on FS	6,655,125	3,327,562	9,982,687
		<b>748,277,599</b>	<b>379,195,273</b>	<b>1,127,472,872</b>

## NOTES TO THE FINANCIAL STATEMENTS

The company has formally objected to these tax assessments and clearly believes that these assessments are arbitrary and excessive. Company is also actively engaged with the Department of Inland Revenue to conclude these pending assessments. Based on the outcome of the discussions and agreement reached or likely to reach with the Department of Inland Revenue, management has made a provision of LKR 341,654,885/- as stated above.

### 48.1 Litigations Against the Company

Litigation is a common occurrence in the Finance Industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. No material losses are anticipated as a result of these transactions

There were no other capital commitments or contingent liabilities as at the end of reporting date which requires separate disclosure to these financial statements.

### 49 EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. No circumstances have arisen since the reporting date which would require adjustments or disclosure in the financial statements.

### 50 COMPARATIVE CHANGES

Comparatives of the following note was changed for better representation purpose.

- a) Interest income on impaired loans and advances have been off set against the interest income during the current financial year (Note 7.1). Accordingly, the comparatives were also changed to match the improved presentation.

51 SEGMENT REPORT										
31st March 2023- Group	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loans	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
<b>REVENUE</b>										
External sales	16,120,699,009	1,639,599	3,247,717,633	2,935,829,560	37,045,825	20,174,158	547,916,638	18,311,766	344,306,763	23,273,640,951
<b>Total Revenue</b>	<b>16,120,699,009</b>	<b>1,639,599</b>	<b>3,247,717,633</b>	<b>2,935,829,560</b>	<b>37,045,825</b>	<b>20,174,158</b>	<b>547,916,638</b>	<b>18,311,766</b>	<b>344,306,763</b>	<b>23,273,640,951</b>
Total income	6,967,150,528	1,622,117	1,644,775,406	2,935,829,560	37,045,825	20,174,158	558,999,841	18,311,766	341,187,241	12,525,096,443
<b>RESULTS</b>										
Segment Results	6,417,575,154	1,590,539	1,473,948,487	2,846,292,108	28,236,493	20,076,492	556,177,596	18,311,766	343,748,523	11,705,957,158
Unallocated company expenses										(3,289,620,992)
Operating profit										8,416,336,166
Interest expenses	(3,303,652,396)	-	(1,155,374,597)	(1,511,778,948)	(24,231,593)	(28,005,932)	(518,230,971)	(9,967,194)	(843,972,390)	(7,395,214,021)
Share of profits of associates before tax										21,068,498
Income Taxes										(482,740,665)
Net profit										559,449,978
<b>OTHER INFORMATION</b>										
Segment assets	21,552,425,901	-	7,537,453,218	9,862,570,224	158,082,500	182,705,621	3,380,844,382	65,024,152	5,505,922,007	48,245,028,005
Investment in associates										97,412,381
Unallocated company assets										4,081,065,969
<b>Total Assets</b>	<b>19,223,812,270</b>	<b>-</b>	<b>6,345,030,902</b>	<b>8,302,315,256</b>	<b>133,073,907</b>	<b>153,801,659</b>	<b>2,845,996,049</b>	<b>54,737,355</b>	<b>4,634,887,128</b>	<b>41,693,654,526</b>
Segment liabilities										3,564,055,358
Unallocated company liabilities										45,257,709,882
<b>Total Liabilities</b>										

## NOTES TO THE FINANCIAL STATEMENTS

51 SEGMENT REPORT										
31st March 2022 - Group	Leasing	Hire Purchase & Consumer Durables	Loans	Gold Loans	Hire of vehicles	Investing in Shares	Investing in Government Securities	Collaboration Finance	Others	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
<b>REVENUE</b>										
External sales	15,928,032,624	16,820,133	914,874,060	1,076,701,563	29,510,470	12,090,928	84,956,822	13,832,166	547,570,581	18,624,389,348
<b>Total Revenue</b>	<b>15,928,032,624</b>	<b>16,820,133</b>	<b>914,874,060</b>	<b>1,076,701,563</b>	<b>29,510,470</b>	<b>12,090,928</b>	<b>84,956,822</b>	<b>13,832,166</b>	<b>547,570,581</b>	<b>18,624,389,348</b>
Total income	6,104,385,271	10,100,391	893,399,856	1,076,701,563	29,510,470	12,090,928	96,323,315	17,986,459	536,204,088	8,776,702,341
<b>RESULTS</b>										
Segment Results	4,436,381,421	10,104,813	310,674,487	771,076,099	4,564,381	11,672,187	92,262,791	17,986,459	487,607,524	6,142,330,162
Unallocated company expenses										(1,072,710,961)
Operating profit	(1,537,507,726)	-	(509,905,311)	(385,162,597)	(8,059,886)	(11,135,998)	(105,637,198)	(3,523,170)	(90,249,153)	(2,651,181,039)
Interest expenses										5,069,619,201
Share of profits of associates before tax										5,946,770
Income taxes										(913,616,229)
Net profit										1,510,768,703
<b>OTHER INFORMATION</b>										
Segment assets	25,503,747,256	-	8,458,166,393	6,388,969,206	133,695,138	184,720,810	1,752,280,225	58,441,360	1,497,027,636	43,977,048,024
Investment in associates										83,092,843
Unallocated company assets										4,282,756,175
<b>Total Assets</b>	<b>22,403,945,850</b>	<b>-</b>	<b>7,014,723,551</b>	<b>5,298,648,747</b>	<b>110,879,165</b>	<b>153,196,964</b>	<b>1,453,241,848</b>	<b>48,467,950</b>	<b>1,241,549,826</b>	<b>37,724,653,901</b>
Unallocated company liabilities										3,776,050,623
<b>Total Liabilities</b>										<b>41,500,704,524</b>

## 52 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments. The amounts are based on the values recognised in the Statement of Financial Position.

### 52.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

**Level 1 :** Quoted (unadjusted) prices in active markets for identical assets or liabilities.

**Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

**Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

#### Company

As at 31st March 2023		Level 1	Level 2	Level 3	Total
	Note	LKR	LKR	LKR	LKR
<b>Financial Assets</b>					
<b>Financial Assets- Recognised through Profit or Loss</b>					
Government of Sri Lanka treasury bills / bonds	22	-	3,130,690,272	-	3,130,690,272
Investments in Unit Trusts		-	-	-	-
<b>Financial Investments - Fair Value through Other Comprehensive Income</b>					
Unquoted equities	26	-	-	579,250	579,250
Quoted equities	26	182,126,371	-	-	182,126,371
<b>Total Financial Assets</b>		<b>182,126,371</b>	<b>3,130,690,272</b>	<b>579,250</b>	<b>3,313,395,893</b>

As at 31st March 2022		Level 1	Level 2	Level 3	Total
	Note	LKR	LKR	LKR	LKR
<b>Financial Assets</b>					
<b>Financial Assets- Recognised through Profit or Loss</b>					
Government of Sri Lanka treasury bills / bonds	22	-	1,502,280,225	-	1,502,280,225
Investments in Unit Trusts	22	-	-	-	-
<b>Financial Investments - Fair Value through Other Comprehensive Income</b>					
Unquoted equities	26	-	-	579,250	579,250
Quoted equities	26	184,141,634	-	-	184,141,634
<b>Total Financial Assets</b>		<b>184,141,634</b>	<b>1,502,280,225</b>	<b>579,250</b>	<b>1,687,001,109</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### Group

As at 31st March 2023		Level 1	Level 2	Level 3	Total
	Note	LKR	LKR	LKR	LKR
<b>Financial Assets</b>					
<b>Financial Assets- Recognised through Profit or Loss</b>					
Government of Sri Lanka treasury bills / bonds	22		3,130,690,272		3,130,690,272
Investments in Unit Trusts	22	-			-
<b>Financial Investments - Fair Value through Other Comprehensive Income</b>					
Unquoted equities	26			579,250	579,250
Quoted equities	26	182,126,371			182,126,371
<b>Total Financial Assets</b>		<b>182,126,371</b>	<b>3,130,690,272</b>	<b>579,250</b>	<b>3,313,395,893</b>

As at 31st March 2022		Level 1	Level 2	Level 3	Total
	Note	LKR	LKR	LKR	LKR
<b>Financial Assets</b>					
<b>Financial Assets- Recognised Through Profit or Loss</b>					
Government of Sri Lanka treasury bills	22	-	1,502,280,225	-	1,502,280,225
Investments in Unit Trusts	22	-	-	-	-
<b>Financial Investments - Fair Value through Other Comprehensive Income</b>					
Unquoted equities	26	-	-	579,250	579,250
Quoted equities	26	184,141,634	-	-	184,141,634
<b>Total Financial Assets</b>		<b>184,141,634</b>	<b>1,502,280,225</b>	<b>579,250</b>	<b>1,687,001,109</b>

### 52.2 Determination of Fair Value and Fair Value Hierarchy

Set out below is the comparison by classes of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non- financial assets and non- financial liabilities.

Company	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash and cash equivalents	566,946,383	566,946,383	795,260,944	795,260,944
Repurchase agreement	250,154,110	250,154,110	250,000,000	250,000,000
Placement with banks & other financial institutions	4,905,611,281	4,905,611,281	287,925,208	287,925,208
Loans and advances	17,449,867,823	17,501,084,281	14,797,772,357	15,353,859,752
Lease rentals receivables	21,552,425,838	20,181,734,863	25,503,747,256	26,161,165,177
Hire purchase receivables	-	-	-	-
Other financial assets	415,454,128	415,454,128	636,340,449	636,340,449
<b>Total Financial Assets</b>	<b>45,140,459,563</b>	<b>43,820,985,046</b>	<b>42,271,046,214</b>	<b>43,484,551,530</b>
<b>Financial Liabilities</b>				
Due to banks	22,571,002,700	22,571,002,700	22,558,061,981	22,558,061,981
Due to customers	20,475,847,835	20,415,262,846	14,681,375,682	14,662,520,854
Debt instruments issued and other borrowed funds	-	-	867,759,553	867,759,553
Financial liabilities	883,998,853	883,998,853	1,670,249,511	1,670,249,511
<b>Total Financial Liabilities</b>	<b>43,930,849,388</b>	<b>43,870,264,399</b>	<b>39,777,446,727</b>	<b>39,758,591,899</b>

Group	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash and cash equivalents	624,723,130	624,723,130	898,748,640	898,748,640
Repurchase agreement	250,154,110	250,154,110	250,000,000	250,000,000
Placement with banks & other financial institutions	4,919,075,748	4,919,075,748	287,925,208	287,925,208
Loans and advances	17,449,867,823	17,501,084,281	14,797,772,357	15,353,859,752
Lease rentals receivables	21,552,425,838	20,181,734,863	25,503,747,256	26,161,165,177
Hire purchase receivables	-	-	-	-
Other financial assets	417,933,228	417,933,228	630,656,592	630,656,592
<b>Total Financial Assets</b>	<b>45,214,179,877</b>	<b>43,894,705,360</b>	<b>42,368,850,053</b>	<b>43,582,355,369</b>
<b>Financial Liabilities</b>				
Due to banks	22,571,002,700	22,571,002,700	22,558,061,981	22,558,061,981
Due to customers	20,390,703,071	20,330,118,082	14,681,375,682	14,662,520,854
Debt instruments issued and other borrowed funds	-	-	867,759,553	867,759,553
Financial liabilities	919,990,176	919,990,176	1,704,808,662	1,704,808,662
<b>Total Financial Liabilities</b>	<b>43,881,695,947</b>	<b>43,821,110,958</b>	<b>39,812,005,878</b>	<b>39,793,151,050</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued.)

#### Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

#### Assets for which Fair Value approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amount of an approximate to their fair value. This assumption is also applied to fixed deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

#### Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. For quoted debt issued the fair value are determined based on quoted market prices.

### 53 RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

Details of related party transactions which the Company had during the year are as follows,

#### 53.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities for the Company. Such KMPs include the Board of Directors of the Company (include executive and non executive directors ), executives who directly report to Board sub committees and other key executives who meet the criteria described above.

#### 53.2 Compensation to Key Management Personnel

	2023	2022
	LKR	LKR
KMP's Emoluments (other than directors)		
Short term	157,677,998	135,232,958
Long term	32,041,331	24,738,216
	<b>189,719,330</b>	<b>159,971,174</b>
Remuneration and other expenses of directors		
Short term	103,119,863	79,160,550
Long term & post employment benefits	27,523,194	13,572,413
	<b>130,643,057</b>	<b>92,732,963</b>



### 53.3 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

Close Family Members (CFMs) of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity. They may include KMPs domestic partner and children of the KMP, the children of KMP's domestic partner and dependents of KMP and KMPs domestic partner.

### 53.4 Transactions involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

#### Statement of Financial Position - Company and Group

	2023	2022
	LKR	LKR
<b>Liabilities</b>		
<b>Financial Liabilities Measured at Amortised Cost - Due to Depositors</b>		
Fixed deposits	739,798,889	275,992,066
Savings deposits	5,596,061	140,967,004
<b>Assets - Company and Group</b>		
Financial assets measured at amortised cost - Loans and advances	36,499,151	20,429,848
Financial assets measured at amortised cost - Lease rentals receivable & stock out of hire	100,773	216,051
<b>Statement of Profit or Loss - Company &amp; Group</b>		
Interest income	2,540,309	1,667,243
Interest expenses	78,417,132	18,148,227
<b>No of Shares held by KMPs</b>		
Ordinary shares	11,692,893	11,699,631

### 53.5 Transaction, arrangements and agreements involving with Entities which are controlled, and /or jointly controlled by the KMP's and their CFMs .

			Company	
	Nature of the Relationship	Nature of Transaction / Facility	2023	2022
			LKR	LKR
Alfinco Insurance Brokers (Pvt) Ltd.	Subsidiary	Saving deposits	777,638	743,893
		Fixed deposits	81,033,125	-
		Insurance fee receivables	17,881,249	23,951,840
		Insurance referral income	-	41,662,844
		Dividend income	15,983,600	6,753,071
			60,271,286	22,177,631
Macbertan (Pvt) Ltd	Associate	Dividend income	2,747,700	268,320
Alliance Management Services (Pvt) Ltd	Other related parties	Fixed deposits	2,432,088	1,921,453
		Secretarial fees	1,065,084	849,551
		Saving deposits	26,305	25,164
Alliance Travel Services Ltd.	Other related parties	Fixed deposits	4,705,252	4,267,960
		Saving deposits	213,566	331,924
Alliance Tech Trading (Pvt) Ltd.	Other related parties	Fixed deposits	-	14,572,855
		Investment	200,000	200,000

## NOTES TO THE FINANCIAL STATEMENTS

	Nature of the Relationship	Nature of Transaction / Facility	Company	
			2023	2022
			LKR	LKR
Alliance Ventures (Pvt) Ltd	Other related parties	Fixed deposits	960,623	954,973
		Saving deposits	37,777	22,491
Alliance Agencies Ltd	Other related parties	Fixed deposits	110,000,000	10,000,000
		Saving deposits	6,538,728	929,183
		Dividend income	86,020	39,100
		Share investment	75,300	75,300
Alliance Graphic Services (Pvt) Limited	Other related parties	Fixed deposits	8,590,578	7,831,513
Heshia Shipping (Pvt) Limited	Other related parties	Fixed deposits	4,550,194	4,385,238
Sanasa Development Bank PLC	Other related parties	Share investment	88,259,381	103,731,145
		Dividend income	5,274,465	4,649,198
Drive One (Pvt) Limited	Other related parties	Vehicles maintenance	359,801	-

### 53.6 Parent and Ultimate Controlling Party

The Company does not have an identifiable parent of its own.

## 54 FINANCIAL RISK MANAGEMENT

### 54.1 Introduction

Constantly assessing and being cognizant of the concept of risk is fundamental to the managerial philosophy of Alliance Finance Company PLC.

Consequent to the global, economic and financial crises, companies are placing greater emphasis on risk management by adopting comprehensive risk management framework to increasingly safeguard stakeholder interest. Due to diversified and geographic spread of the portfolio of businesses, Alliance Finance maintains a holistic risk management system that continuously monitors primary risk factors. Risk mitigation actions are also built in to the day - to day operations of the Company. The Company's business divisions are closely monitored through a comprehensive computerized information system and employees, ranging from managerial credit and other officers, have been apprised and trained to adopt risk management practices as an integral part of their decision making.

#### Risk Coverage

The Company's Comprehensive risk management framework covers three major areas that comprise credit risk, liquidity risk, and market risk management.

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, analysis, measurement and continuous monitoring, subject to the risk limits and their controls.

### 54.2 Credit Risk

Credit risk is the risk that the company will incur a loss because its customers or counterparties fail to discharge their contractual obligations and arises principally from the loans and advances to the customers. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

### 54.2.1 Credit quality analysis

The Company has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counter parties, including regular collateral revisions. Counter party limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

#### Impairment assessment

For accounting purposes, the Company uses an expected loss model for the recognition of losses on impaired financial assets. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Triggering events include the following:

- ◆ Significant financial difficulty of the customer
- ◆ A breach of contract such as a default of payment
- ◆ Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- ◆ It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- ◆ Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including hire purchases, lease receivables, other loans and advances and consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Company include macroeconomic factors within its expected credit loss assessments. The Company relies on a broad range of forward looking information as economic inputs, such as GDP growth, unemployment rates, interest rates, inflation rate and etc. (Note 4.5.7)

#### Analysis of Credit Risk Exposure

The following tables shows the maximum exposure to credit risk by class of financial asset.

#### Maximum Exposure to Credit Risk

	Note	Company		Group	
		2023	2022	2023	2022
		LKR	LKR	LKR	LKR
Cash and cash equivalents	21	566,946,383	795,260,944	624,723,130	898,748,640
Repurchase agreements		250,154,110	250,000,000	250,154,110	250,000,000
Placements with banks & financial institutions		4,905,611,281	287,925,208	4,919,075,748	287,925,208
Financial assets recognised through profit or loss	22	3,130,690,272	1,502,280,225	3,130,690,272	1,502,280,225
Loans and advances (Gross)	23	18,020,635,777	15,550,209,741	18,020,635,777	15,550,209,741
Lease rentals receivable & stock out on hire (Gross)	24	22,553,529,718	26,450,259,608	22,553,529,718	26,450,259,608
Hire purchase rentals receivable & stock out on hire	25	3,767,386	3,968,823	3,767,386	3,968,823
Financial assets- fair value through other comprehensive income	26	182,705,621	184,720,884	182,705,621	184,720,884
		49,614,040,548	45,024,625,433	49,685,281,761	45,128,113,129

## NOTES TO THE FINANCIAL STATEMENTS

The following table shows the classification of Financial Assets based on the three stage approach.

As at 31st March 2023						
Company		12 Month Expected Credit Losses	Life Time Expected Credit Losses - Not Credit Impaired	Lifetime Expected Credit Losses - Credit Impaired	Unclassified	Total
	Note	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	21	566,946,383	-	-	-	566,946,383
Repurchase agreements		250,154,110	-	-	-	250,154,110
Placements with banks & financial institutions		4,905,611,281	-	-	-	4,905,611,281
Financial assets recognised through profit or loss	22	3,130,690,272	-	-	-	3,130,690,272
Loans and advances (Gross)	23	12,623,966,714	3,838,817,882	1,557,851,181	-	18,020,635,777
Less :ECL allowance	23	(52,174,997)	(78,931,961)	(439,660,996)	-	(570,767,954)
Lease rentals receivable & stock out on hire (Gross)	24	9,580,987,023	9,355,855,147	3,616,687,549	-	22,553,529,718
Less :ECL allowance	24	(93,696,095)	(258,115,685)	(649,292,100)	-	(1,001,103,880)
Hire purchase rentals receivable & stock out on hire	25	-	-	3,767,386	-	3,767,386
Less :ECL allowance	25	-	-	(3,767,386)	-	(3,767,386)
Financial assets- fair value through other comprehensive income	26	182,126,371	-	-	579,250	182,705,621
		31,094,611,062	12,857,625,383	4,085,585,633	579,250	48,038,401,327

As at 31st March 2022						
Company		12 Month Expected Credit Losses	Lifetime Expected Credit Losses - Not Credit Impaired	Lifetime Expected Credit Losses - Credit Impaired	Unclassified	Total
	Note	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalents	21	795,260,944	-	-	-	795,260,944
Repurchase agreements		250,000,000	-	-	-	250,000,000
Placements with banks & financial institutions		287,925,208	-	-	-	287,925,208
Financial assets recognised through profit or loss	22	1,502,280,225	-	-	-	1,502,280,225
Loans and advances (Gross)	23	14,261,117,335	347,303,855	941,788,550	-	15,550,209,741
Less :ECL allowance	23	(152,424,621)	(23,325,111)	(576,687,652)	-	(752,437,384)

As at 31st March 2022						
Company		12 Month Expected Credit Losses	Lifetime Expected Credit Losses - Not Credit Impaired	Lifetime Expected Credit Losses - Credit Impaired	Unclassified	Total
	Note	LKR	LKR	LKR	LKR	LKR
Lease rentals receivable & stock out on hire (Gross)	24	22,856,771,236	2,456,572,337	1,136,916,036	-	26,450,259,608
Less :ECL allowance	24	(247,287,732)	(109,914,800)	(589,309,820)	-	(946,512,351)
Hire purchase rentals receivable & stock out on hire	25	-	-	3,968,823	-	3,968,823
Less :ECL allowance	25	-	-	(3,968,823)	-	(3,968,823)
Financial assets- fair value through other comprehensive income	26	184,141,634	-	-	579,250	184,720,884
		39,737,784,229	2,670,636,281	912,707,114	579,250	43,321,706,875

### ECL Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of Loan portfolio.

### Movement in Allowance for Expected Credit Losses (Stage Transition)

As at 31st March 2023					
Company		Stage 1: 12 Months ECL	Stage 2: Life time ECL not Credit Impaired	Stage 3: Life time ECL Credit Impaired	Total ECL
	Note	LKR	LKR	LKR	LKR
Balance as at the beginning of the year	23,24 & 25	441,905,849	133,239,911	1,128,103,272	1,703,249,032
Transferred from 12 month ECL		(366,621,707)	218,536,856	148,084,851	-
Transferred from lifetime ECL not credit impaired		619,711	(166,677,721)	166,058,009	-
Transferred from lifetime ECL credit impaired		628,125	482,402	(1,110,527)	-
Interest accrued / (reversals) on impaired loans and advances		-	-	(1,244,334)	(1,244,334)
Mirco finance - Write off		-	-	-	-
Net remeasurement of loss allowance		69,339,114	151,466,197	(180,470,630)	40,334,682
Balance as at the end of the year	23,24 & 25	145,871,093	337,047,646	1,259,420,641	1,742,339,380

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March 2022					
Company		Stage 1: 12 Months ECL	Stage 2: Lifetime ECL Not Credit Impaired	Stage 3: Lifetime ECL Credit Impaired	Total ECL
	Note	LKR	LKR	LKR	LKR
Balance as at the beginning of the year		341,936,987	136,830,925	1,553,084,555	2,031,852,467
Transferred from 12 month ECL		(21,128,719)	18,789,503	2,339,216	-
Transferred from lifetime ECL not credit impaired		38,290,106	(52,975,066)	14,684,960	-
Transferred from lifetime ECL credit impaired		238,987,427	108,348,630	(347,336,057)	-
Interest accrued / (reversals) on impaired loans and advances		-	-	59,099,083	59,099,083
Mirco finance - Write off		(65,027,854)	(163,456)	(189,591,376)	(254,782,686)
Net remeasurement of loss allowance		(91,152,097)	(77,590,626)	35,822,891	(132,919,833)
Balance as at the end of the year	23,24 & 25	441,905,849	133,239,911	1,128,103,272	1,703,249,031

### Stage Transition on Lending Portfolio

The following tables show reconciliations from the opening to the closing balance of the lending portfolio (gross) based on three stage approach.

As at 31st March 2023					
Company		Stage 1: 12 Months ECL	Stage 2: Lifetime ECL Not Credit Impaired	Stage 3: Lifetime ECL Credit Impaired	Total ECL
	Note	LKR	LKR	LKR	LKR
Balance as at the beginning of the year		37,117,888,059	2,803,876,192	2,082,673,921	42,004,438,172
Transferred from 12 month ECL		(10,445,445,720)	8,285,453,985	2,159,991,735	-
Transferred from lifetime ECL not credit impaired		179,067,318	(1,051,889,988)	872,822,670	-
Transferred from lifetime ECL credit impaired		18,309,981	16,833,624	(35,143,604)	-
Financial assets that have been derecognised		-	-	-	-
Other changes in the portfolio		(4,664,865,900)	3,140,399,216	94,194,008	(1,430,272,677)
Balance as at the end of the year	23,24 & 25	22,204,953,737	13,194,673,029	5,174,538,730	40,574,165,496

As at 31st March 2022					
Company		Stage 1: 12 Months ECL	Stage 2: Lifetime ECL Not Credit Impaired	Stage 3: Lifetime ECL Credit Impaired	Total ECL
	Note	LKR	LKR	LKR	LKR
Balance as at the beginning of the year		22,257,583,975	2,495,139,151	3,889,856,007	28,642,579,133
Transferred from 12 month ECL		(1,836,208,147)	1,716,462,367	119,745,780	-
Transferred from lifetime ECL not credit impaired		764,433,748	(1,016,180,197)	251,746,450	-
Transferred from lifetime ECL credit impaired		537,461,549	206,969,185	(744,430,734)	-
Financial assets that have been derecognised		(65,027,854)	(163,456)	(189,591,376)	(254,782,686)
Other changes in the portfolio		15,459,644,789	(598,350,857)	(1,244,652,206)	13,616,641,725
Balance as at the end of the year	23,24 & 25	37,117,888,059	2,803,876,192	2,082,673,921	42,004,438,172

#### Overview of rescheduled / restructured loans & advances

An analysis of rescheduled / restructured loans and advances of the Company which are in stage 1, 2 and stage 3 is given below along with the impairment for ECL.

Company	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
As at 31st March 2023				
Rescheduled / Restructured facilities (Gross)	438,546,761	211,234,379	95,196,848	744,977,989
Expected Credit Loss	(2,149,840)	(2,667,232)	(21,463,581)	(26,280,654)
Net Carrying Value	436,396,921	208,567,147	73,733,267	718,697,335
As at 31st March 2022				
Rescheduled / Restructured facilities (Gross)	1,525,859,976	248,879,481	70,732,585	1,845,472,041
Expected Credit Loss	(33,180,879)	(12,895,573)	(8,234,942)	(54,311,395)
Net Carrying Value	1,492,679,096	235,983,908	62,497,642	1,791,160,646

#### 54.2.2 Concentrations of Credit Risk

The Company monitors concentration of credit risk by sector exposures.

##### Industry wise concentration

The following table shows the risk of concentration by industry for the financial assets measured at amortised cost.

Sector Wise Breakdown	Cash And Bank Balances	Financial Assets - Fair Value through Profit or Loss	Financial Assets - Fair Value through OCI	Other Financial Assets	Total Financial Assets
	LKR	LKR	LKR	LKR	LKR
Financial services	566,946,383	-	-	4,905,611,281	5,472,557,664
Government	-	3,130,690,272	-	250,154,110	3,380,844,382
Services	-	-	-	415,454,128	415,454,128
Other	-	-	182,705,621	-	182,705,621
<b>Total</b>	<b>566,946,383</b>	<b>3,130,690,272</b>	<b>182,705,621</b>	<b>5,571,219,519</b>	<b>9,451,561,795</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Segment Concentration

Concentration of net loans and advances by segment is given below as at 31st March

Segment	Net Portfolio	
	2023	2022
Equipment	24,386,644	19,228,927
Heavy Vehicles and Motor Lorry	1,683,870,375	2,070,135,011
Agricultural Equipments	3,727,311	6,548,596
Tractor	167,976,171	220,535,313
Two - Wheelers -2W	1,172,593,020	1,320,936,765
Three Wheelers -3W	11,593,891,858	13,430,239,242
Transport Vehicles: W-4<=1Mn	1,956,534,103	2,427,883,709
Transport Vehicles: W-4>1Mn	5,029,013,959	5,951,183,910
Mortgage Loans<=2.5Mn	77,953,956	117,690,614
Mortgage Loans>2.5Mn	321,885,873	471,994,000
Personal Loans (Guarantees & Other)	3,730,297,991	3,476,555,249
Speed Cash	3,072,664,818	4,050,306,332
Gold loans	9,665,918,979	6,388,969,206
Pledge loans	49,897,567	74,985,210
Micro finance loans	31,105,652	30,299,865
Loans against fixed deposits	420,575,385	244,027,663
	<b>39,002,293,661</b>	<b>40,301,519,613</b>

### Geographical Concentration

Concentration of loans and advances by location is given below.

Province	2023	%	2022	%
Western	12,493,806,673	32%	13,429,754,587	33%
Central	4,727,058,059	12%	5,062,260,958	13%
North Western	3,930,496,295	10%	4,176,362,713	10%
Sabaragamuwa	3,105,703,549	8%	3,008,245,180	7%
Southern	2,929,427,383	8%	3,156,083,679	8%
Northern	4,629,198,762	12%	4,066,934,869	10%
Uva	2,889,601,285	7%	2,733,700,544	7%
Eastern	2,473,773,634	6%	2,531,192,327	6%
North Central	1,823,228,020	5%	2,136,984,756	5%
	<b>39,002,293,661</b>	<b>100%</b>	<b>40,301,519,613</b>	<b>100%</b>

Concentration by location for loans and advances is measured based on the location of the customer centre that granted the facility, which has a high correlation with the location of the borrower.



**Products Concentration of Gross Portfolio**

As at 31st March	2023		2022	
	Amount	%	Amount	%
Lease	22,637,560,009	55.56%	26,450,698,847	62.97%
Loan	7,806,370,193	19.16%	8,903,932,455	21.20%
Hire purchase	3,975,448	0.01%	3,969,335	0.01%
Gold loan	9,876,152,006	24.24%	6,402,550,988	15.24%
Fixed deposit against loan	420,575,385	1.03%	244,027,663	0.58%
	40,744,633,041	100.00%	42,005,179,288	100.00%

**Collateral held as Security and Other Credit Enhancements**

The Company holds collateral and other credit enhancements against its credit exposures. The following table sets out the principal types of collateral held against different types financial assets.

Type of Credit Exposure	Percentage of exposure that is subject to collateral requirements		Principal type of Collateral Held
	31.03.2023	31.03.2022	
<b>Loans and Receivables to Other Customers</b>			
Loans & Other Advances	100	100	Vehicles, Property and Equipment
Loans against Fixed Deposits	100	100	Fixed Deposits
Pledged Loans	100	100	Mortgages
Micro Finance Loans	100	100	Personal Guarantees
Gold Loans	100	100	Gold Articles
<b>Lease Rental and Hire Purchase Receivables</b>			
Lease Rental Receivables	100	100	Vehicles, Property and Equipment
Hire Purchase Receivables	100	100	Vehicles, Property and Equipment

There was no change in the Company's collateral policy during the year. Further, the Company did not observe any significant deterioration in the quality of the collaterals and other credit enhancements during the reporting period.

The Company does not provide for any allowances for ECL against financial assets secured by deposits held within the Company. Further, no allowance for ECL has been recognised for government securities, treasury bills and treasury bonds. Except for the above, Company has recognised ECL for all other financial assets classified at amortised cost.

**54.2.3 Risk limit control and mitigation policies**

The Company manages, limits and controls concentrations of credit risk wherever they are identified; in particular, to individual counterparties and groups, and to industries and geographical locations.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to quarterly or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Credit Committee.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. The Company doesn't have significant financial guaranteed contract as of the year ended 31st March 2023 & 31st March 2022.

## NOTES TO THE FINANCIAL STATEMENTS

### Collateral and other credit enhancements

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of a security for funds advanced. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The general creditworthiness of customer tends to be the most relevant indicator of the credit quality of a loan.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlining agreement. The company pursue timely realisation of the collateral in an orderly manner. The proceeds are used to reduce or repay the outstanding claim.

### Credit quality analysis of Placements with Banks and other Listed Companies

The following table sets out the credit quality of Placements with Banks and other Finance Companies. The analysis is based on credit ratings.

As at	2023	2022
Placements with Banks	LKR	LKR
Rated AA- to AA+	3,015,917,148	64,204,229
Rated A- to A+	1,772,782,098	123,797,265
Rated BBB + and below	116,912,036	99,923,614
	4,905,611,281	287,925,208

### 54.3 Liquidity Risk

Liquidity risk refers to the unavailability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments, debt obligations associated with its financial liabilities due to lack of funds or having to meet these obligations at excessive cost. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

#### Management of Liquidity Risk

The objective of the Company liquidity and funding framework is to ensure that funding commitments and deposit withdrawals can be met when due and that market access remains cost effective. The Company's liquidity management process is monitored by a separate team and includes;

- ◆ Maintaining a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow.
- ◆ Maintaining lines of credit that it can access to meet liquidity needs.
- ◆ Maintaining the liquidity ratio prescribed by Central Bank of Sri Lanka.
- ◆ Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- ◆ Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- ◆ Monitoring the liquidity ratios of the Statement of Financial Position against internal and regulatory requirements and reviewing the gaps by Assets and Liability Committee.

- ◆ Managing the concentration and profile of debt maturities.
- ◆ Monitoring and reporting daily, weekly and monthly cash flow requirements respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.
- ◆ Monitoring unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

#### 54.3.1 Statutory Liquid Asset Ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 01 of 2009, Company has to maintain minimum liquid assets, not less than the total of,

- (i) Ten percent of,
  - (a) the outstanding value of the time deposits received by the finance company at the close of the business on such day,
  - (b) the face value of certificate of deposits issued by the finance company; as appearing on the books of the finance company at the close of the business of such day and
- (ii) Fifteen percent of the outstanding value of savings deposits accepted by such company, at the close of the business on such day.

As at 31st March 2023, the Company maintained Statutory Liquid Asset ratio at 19.12% (2022 : 15.93 %).

## NOTES TO THE FINANCIAL STATEMENTS

### 54.3.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Company's financial assets and liabilities as at 31 March 2023.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns

As at 31st March 2023	On Demand	Less than 03 Months	3-12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
<b>Financial Assets</b>							
Cash and cash equivalents	566,946,383	-	-	-	-	-	566,946,383
Repurchase agreements	-	250,154,110	-	-	-	-	250,154,110
Placements with banks & financial institutions	-	201,850,341	4,703,760,940	-	-	-	4,905,611,281
Financial assets recognised through profit or loss	-	3,130,690,272	-	-	-	-	3,130,690,272
Loans and advances - at amortised cost	-	10,374,138,278	4,587,582,245	1,863,178,646	622,641,350	2,327,303	17,449,867,823
Lease rentals receivable & stock out on hire - at amortised cost	-	2,945,024,298	5,641,943,609	10,625,286,571	2,340,048,968	122,393	21,552,425,838
Hire purchase rentals receivable & stock out on hire - at amortised cost	-	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	-	-	-
Financial assets- fair value through other comprehensive income	-	-	94,446,240	-	-	88,259,381	182,705,621
Other financial assets	-	136,020,184	130,134,841	134,946,303	14,352,799	-	415,454,128
<b>Total Financial Assets</b>	<b>566,946,383</b>	<b>17,037,877,483</b>	<b>15,157,867,875</b>	<b>12,623,411,521</b>	<b>2,977,043,117</b>	<b>90,709,077</b>	<b>48,453,855,456</b>
<b>Financial Liabilities</b>							
Due to banks & other borrowings	250,602,249	2,139,006,489	8,917,457,383	7,780,399,240	3,483,537,339	-	22,571,002,700
Due to depositors - at amortised cost	800,509,044	7,795,942,089	7,552,159,621	2,590,611,936	1,736,625,145	-	20,475,847,835
Other financial liabilities	-	432,280,383	98,302,232	97,234,267	201,478,191	54,703,780	883,998,853
Derivative financial liabilities	-	36,175,016	-	-	-	-	36,175,016
<b>Total Financial Liabilities</b>	<b>1,051,111,293</b>	<b>10,403,403,978</b>	<b>16,567,919,236</b>	<b>10,468,245,443</b>	<b>5,421,640,675</b>	<b>54,703,780</b>	<b>43,967,024,404</b>
<b>Total Net Financial Assets / (Liabilities)</b>	<b>(484,164,910)</b>	<b>6,634,473,505</b>	<b>(1,410,051,360)</b>	<b>2,155,166,078</b>	<b>(2,444,597,558)</b>	<b>36,005,297</b>	<b>4,486,831,052</b>

As at 31st March 2022	On Demand	Less than 03 Months	3-12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR	LKR
<b>Financial Assets</b>							
Cash and cash equivalents	795,260,944	-	-	-	-	-	795,260,944
Repurchase agreements	-	250,000,000	-	-	-	-	250,000,000
Placements with banks & financial institutions	-	48,659,053	239,266,155	-	-	-	287,925,208
Financial assets recognised through profit or loss	-	1,230,678,725	271,601,501	-	-	-	1,502,280,225
Loans and advances - at amortised cost	-	7,206,213,007	5,033,620,292	1,753,312,333	801,962,140	2,664,585	14,797,772,357
Lease rentals receivable & stock out on hire - at amortised cost	-	3,117,959,547	5,542,580,940	12,020,569,375	4,810,817,435	11,819,959	25,503,747,256
Hire purchase rentals receivable & stock out on hire - at amortised cost	-	-	-	-	-	-	-
Derivative financial assets	-	57,573,394	25,349,800	-	-	-	82,923,194
Financial assets- fair value through other comprehensive income	-	-	80,989,739	-	-	103,731,145	184,720,884
Other financial assets	-	52,095,019	251,121,882	127,906,958	155,748,619	49,467,971	636,340,449
<b>Total Financial Assets</b>	<b>795,260,944</b>	<b>11,963,178,744</b>	<b>11,444,530,310</b>	<b>13,901,788,666</b>	<b>5,768,528,193</b>	<b>167,683,660</b>	<b>44,040,970,517</b>
<b>Financial Liabilities</b>							
Due to banks & other borrowings	365,468,885	4,496,559,365	5,427,605,948	8,160,920,433	4,975,266,903	-	23,425,821,534
Due to depositors - at amortised cost	-	5,706,799,590	6,850,204,987	1,865,800,145	258,570,961	-	14,681,375,682
Other financial liabilities	-	1,192,935,329	175,230,121	228,896,071	43,043,559	30,144,430	1,670,249,511
Derivative financial liabilities	-	-	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>365,468,885</b>	<b>11,396,294,285</b>	<b>12,453,041,056</b>	<b>10,255,616,649</b>	<b>5,276,881,423</b>	<b>30,144,430</b>	<b>39,777,446,727</b>
<b>Total Net Financial Assets / (Liabilities)</b>	<b>429,792,059</b>	<b>566,884,459</b>	<b>(1,008,510,746)</b>	<b>3,646,172,017</b>	<b>491,646,771</b>	<b>137,539,230</b>	<b>4,263,523,790</b>

#### Assets held for managing liquidity risk

The Company holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Company's assets held for managing liquidity risk comprise:

Cash and balances with central banks;

Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and

Secondary sources of liquidity in the form of highly liquid instruments in the Company's trading portfolios.

## NOTES TO THE FINANCIAL STATEMENTS

### 54.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The Company classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. Trading portfolio includes financial assets and liabilities that are managed on a fair value basis. Non trading portfolio is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on fair value basis.

### 54.5 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

To manage the interest rate risk, company has established limits on the non-trading interest rate gaps for stipulated periods. The Company's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits which is supplemented by monitoring the sensitivity of the company's financial assets and liabilities to various rate scenarios. Net interest yields are also calculated for each product to ensure adequate margins are kept.

#### Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's Income Statement & Equity. Impact on Net Interest Income due to a parallel rate shock of 100 basis points (bps) on the rate sensitive assets and liabilities is shown below.

Currency of Borrowings/ Advance	Increase (Decrease) in 100 basis points	Sensitivity of Net Interest Income			
		2023		2022	
		LKR ('000)		LKR ('000)	
Borrowing at floating rate	+100 / (-100)	(110,234)	110,234	(112,352)	112,352

#### 54.5.1 Interest rate risk exposure on financial assets & liabilities

The table below analyses the company's interest rate risk exposure on financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

As at 31st March 2023	Up to 03 Months	03-12 Months	01-05 Years	Over 05 Years	Non Interest Bearing	Total as at 31/03/2023
	LKR	LKR	LKR	LKR	LKR	LKR
<b>Financial Assets</b>						
Cash and cash equivalents	416,208,184	-	-	-	150,738,199	566,946,383
Repurchase agreements	250,154,110	-	-	-	-	250,154,110
Placements with banks & financial institutions	201,850,341	4,703,760,940	-	-	-	4,905,611,281
Financial assets recognised through profit or loss	3,130,690,272	-	-	-	-	3,130,690,272
Loans and advances - at amortised cost	10,374,138,278	4,587,582,245	2,485,819,997	2,327,303	-	17,449,867,823
Lease rentals receivable & stock out on hire - at amortised cost	2,945,024,298	5,641,943,609	12,965,335,539	122,393	-	21,552,425,838
Hire purchase rentals receivable & stock out on hire - at amortised cost	-	-	-	-	-	-

As at 31st March 2023	Up to 03 Months	03-12 Months	01-05 Years	Over 05 Years	Non Interest Bearing	Total as at 31/03/2023
	LKR	LKR	LKR	LKR	LKR	LKR
Financial assets- fair value through other comprehensive income	-	-	-	-	182,705,621	182,705,621
Other financial assets	136,020,184	130,134,841	149,299,102	-	-	415,454,128
<b>Total Financial Assets</b>	<b>17,454,085,667</b>	<b>15,063,421,635</b>	<b>15,600,454,638</b>	<b>2,449,696</b>	<b>333,443,820</b>	<b>48,453,855,456</b>
<b>Financial Liabilities</b>						
Due to banks	2,389,608,738	8,917,457,383	11,263,936,579	-	-	22,571,002,700
Due to depositors - at amortised cost	8,596,451,133	7,552,159,621	4,327,237,081	-	-	20,475,847,835
Other financial liabilities	432,280,383	98,302,232	298,712,458	54,703,780	-	883,998,853
Derivative financial liabilities	36,175,016	-	-	-	-	36,175,016
<b>Total Financial Liabilities</b>	<b>11,454,515,271</b>	<b>16,567,919,236</b>	<b>15,889,886,118</b>	<b>54,703,780</b>	<b>-</b>	<b>43,967,024,404</b>
<b>Interest Sensitivity Gap</b>	<b>5,999,570,396</b>	<b>(1,504,497,600)</b>	<b>(289,431,480)</b>	<b>(52,254,084)</b>	<b>333,443,820</b>	<b>4,486,831,052</b>
<b>As at 31st March 2022</b>						
	Up to 03 Months	03-12 Months	01-05 Years	Over 05 Years	Non Interest Bearing	Total as at 31/03/2022
	LKR	LKR	LKR	LKR	LKR	LKR
<b>Financial Assets</b>						
Cash and cash equivalents	663,424,138	-	-	-	131,836,806	795,260,944
Repurchase agreements	250,000,000	-	-	-	-	250,000,000
Placements with banks & financial institutions	48,659,053	239,266,155	-	-	-	287,925,208
Financial assets recognised through profit or loss	1,230,678,725	271,601,501	-	-	-	1,502,280,225
Loans and advances - at amortised cost	7,206,213,007	5,033,620,292	2,555,274,472	2,664,585	-	14,797,772,357
Lease rentals receivable & stock out on hire - at amortised cost	3,117,959,547	5,542,580,940	16,831,386,810	11,819,959	-	25,503,747,256
Hire purchase rentals receivable & stock out on hire - at amortised cost	-	-	-	-	-	-
Financial assets- fair value through other comprehensive income	-	-	-	-	184,720,884	184,720,884
Other financial assets	52,095,019	251,121,882	283,655,577	49,467,971	-	636,340,449
<b>Total Financial Assets</b>	<b>12,569,029,488</b>	<b>11,338,190,771</b>	<b>19,670,316,859</b>	<b>63,952,515</b>	<b>316,557,690</b>	<b>43,958,047,323</b>
<b>Financial Liabilities</b>						
Due to banks	4,862,028,250	5,427,605,948	13,136,187,336	-	-	23,425,821,534
Due to depositors - at amortised cost	5,706,799,590	6,850,204,987	2,124,371,105	-	-	14,681,375,682
Other financial liabilities	1,192,935,329	175,230,121	271,939,630	30,144,430	-	1,670,249,511
Derivative financial liabilities	-	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>11,761,763,170</b>	<b>12,453,041,056</b>	<b>15,532,498,072</b>	<b>30,144,430</b>	<b>-</b>	<b>39,777,446,727</b>
<b>Interest Sensitivity Gap</b>	<b>807,266,318</b>	<b>(1,114,850,285)</b>	<b>4,137,818,788</b>	<b>33,808,085</b>	<b>316,557,690</b>	<b>4,180,600,596</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 54.5.2 Exchange rate risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local exchange rate with other major currencies. The following significant exchange rates were applied during the year

	Average Rate	Reporting date spot rate	
	2023	2023	2022
USD/ LKR	358.17	327.14	299.00

The Company's exposure to foreign currency risk is as follows;

#### As at 31st March 2023

	LKR	USD / LKR	Total (USD)
Cash & Cash Equivalents / Placements with banks	4,618,783,450	327.14	14,118,675
Borrowings	6,189,611,846	335.88	18,428,152
Amounts due to Related Parties	-	-	-
	10,808,395,296		32,546,828

#### Foreign Currency Sensitivity

An estimation of the impact of the currency risk with respect of financial instruments with a 5% change in US Dollar exchange rate is given below. In calculation of risk it is assumed that all other variable factors are held constant. The calculation of sensitivity has been performed only on the assets and liabilities denominated in foreign currency of the Company as at 31st March 2023.

	Effect on Profit or Loss (LKR)	Effect on Equity (LKR)
USD depreciated against LKR by 5%	540,419,765	540,419,765
USD appreciated against LKR by 5%	(540,419,765)	(540,419,765)

### 54.5.3 Commodity price risk

Commodity price risk refers to the uncertainties of future market values and of the size of future income, caused by the fluctuation in the prices of commodities. Given the significance of the Gold Loans business to the Company's overall loan book, sharp fluctuations to the gold prices could have an adverse impact to earnings. Gold price fluctuations lead to market risk is the primary source of credit risk associated with this product. The company manage gold commodity risk bys concentranting short term products and revise LTV at routine intervals.

### 54.5.4 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

### 54.6 Operational Risk

An operational risk is the risk arising from execution of a company's business functions. The concept of operational risk is broad and focuses on the risks arising from the people, systems and processes through which a company operates. It also includes other categories such as fraud risks, regulatory and compliance risks, reputation and physical or environmental risks.

Business were stress tested with multiple operating scenarios to ascertain the impact on the ability to sustain its operations with liquidity reserves in place. With the assumptions and different levels of operations the company satisfied of the ability of the business manage its operations even an extreme tested scenarios.



## 54.7 Capital

The Company maintains an activity managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

### Capital Management

The primary objective of Company's capital management policy are to ensure that the company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- ◆ To comply with the capital requirements set by the regulators of the financing markets where the entities within the Company operate;
- ◆ To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- ◆ To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Company's management, employing techniques based on the guidelines developed by the Central Bank of Sri Lanka, for supervisory purposes. The required returns are filed on a monthly basis.

The Company maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the Authority which takes into account the risk profile of the Company.

The regulatory capital requirements are strictly observed when managing economic capital. The Company's regulatory capital is managed by each month by the Board of Directors and comprises two tiers:

### Capital Management

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses which asserts the Company's ability to continue operations in to the foreseeable future. The more capital the company has relative to the risks it takes, the more confident the stakeholders are that it will meet its obligations to them. Company's capital management process is steered with the aim of holding sufficient capital to support the Company's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

**Tier 1 Capital** is capital which is permanently and freely available to absorb losses without a finance company being obliged to cease trading. Tier 1 Capital consists of paid up ordinary share capital, free reserves, statutory reserve fund and audited retained earnings. Tier 1 Capital is important because it safeguards both the survival of a finance company and stability of the financial system.

**Tier 2 Capital** is capital which generally absorbs losses only in the event of a winding up of a finance company, and so provides a lower level of protection for depositors and other creditors. Tier - 2 Capital includes revaluation reserve, general provisions and hybrid capital instruments and approved subordinated term debts.

The primary objective of Company's capital management policy are to ensure that the company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

## NOTES TO THE FINANCIAL STATEMENTS

### Measures taken to consider capital adequacy requirements of the Company

- 1 The Company prepares the Corporate Plan and Budget on a rolling basis covering a period of 5 years which includes the computation of Capital Adequacy Ratios (CARs).
- 2 The Company carefully analyses the CARs against increases in risk-weighted assets underlying the budgeted expansion of business volumes.
- 3 The Company has set up an internal guideline on minimum CARs and ensures that appropriate measures are employed to improve the CARs are also built into the budget. Budgeting process of the Company encapsulates all future capital requirements and this process invariably captures estimated capital expenditure and the business growth in determining the optimum level of capital to be maintained.
- 4 The Company has addressed all material risk exposures when formulating strategic plan and has a well-diversified assets portfolio which is neither overly exposed to any counterparty nor to any sector. Ways and means of improving the CARs are being monitored on an ongoing basis.
- 5 The Company always strives to achieve a reasonable growth in profit and is also mindful to pay a consistent stream of dividends to the shareholders. Part of the profit generated is retained for future business expansion. Given the size of the Company, capital generated through retained profits over the years could be considered as one of the primary sources of internal capital to the Company.

### Capital management objectives

The objectives of the Company's Capital Management efforts include:

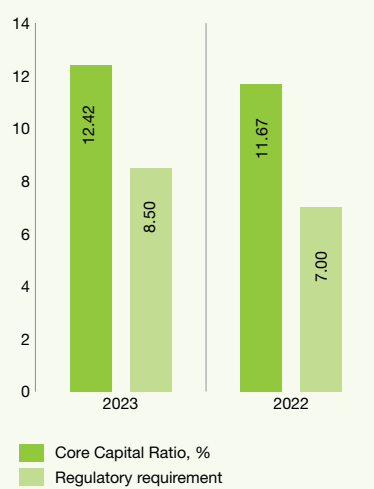
- ◆ Compliance with the regulatory requirements
- ◆ Maintaining internal capital targets which are more stringent than the regulatory requirements
- ◆ Optimum capital usage for maximum profitability (which meets investor expectations)
- ◆ To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- ◆ To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Company for the years ended 31 March 2023 and 2022. During those two years, the Company has complied with all of the externally imposed capital requirements to which they are subjected.

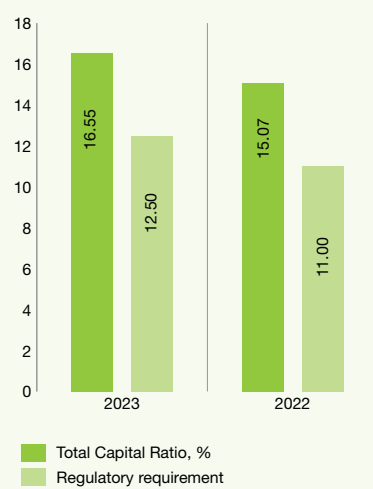
### Capital Adequacy Ratios

As at 31st March	2023	2022
	LKR	LKR
Tier 1 Capital	5,454,762	5,259,722
Total Capital	7,271,010	6,794,427
Total Risk Weighted Amount	43,933,821	45,074,737
Risk Weighted Amount for Credit Risk	37,838,331	38,457,868
Risk Weighted Amount for Operational Risk	6,095,490	6,616,869
Core Capital Ratio, %	12.42	11.67
Regulatory requirement	8.50	7.00
Total Capital Ratio, %	16.55	15.07
Regulatory requirement	12.50	11.00

#### Core Capital Ratio, %



#### Total Capital Ratio (%)

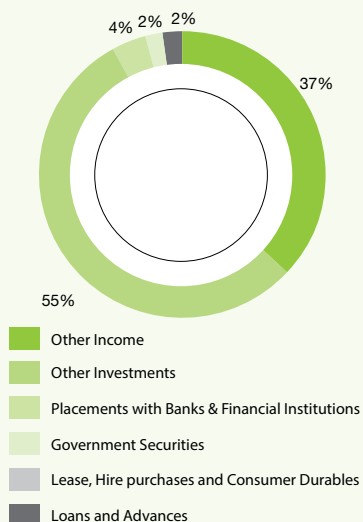


# CONTRIBUTION TO NATIONAL ECONOMY

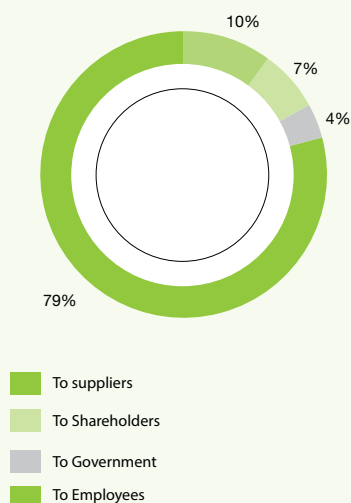
## Sources and Utilisation of Income - Company

For the year ended 31st March	2023	%	2022	%
	LKR		LKR	
<b>Sources of Income</b>				
Loans and Advances	4,543,166,668	37%	1,916,659,183	23%
Lease, Hire Purchases and Consumer Durables	6,667,277,795	55%	5,801,551,993	69%
Government Securities	494,272,411	4%	76,965,903	1%
Placements with Banks & Financial Institutions	185,728,942	2%	49,144,777	1%
Other Investments	56,397,818	0%	7,711,482	0%
Other Income	226,766,295	2%	590,272,065	7%
<b>Total Income</b>	<b>12,173,609,929</b>	<b>100%</b>	<b>8,442,305,403</b>	<b>100%</b>
<b>To Employees</b>				
Personnel Expenses	1,219,117,857	10%	1,193,004,228	14%
<b>To Suppliers</b>				
Interest paid	7,411,342,695	61%	2,651,181,039	31%
Other Expenses	1,757,351,521	14%	1,455,233,111	17%
Depreciation	162,069,603	1%	127,463,057	2%
Impairment for loans and other losses	274,638,036	2%	102,890,184	1%
	<b>9,605,401,855</b>	<b>79%</b>	<b>4,336,767,391</b>	<b>51%</b>
<b>To Government</b>				
Value added Tax & Other Taxes	419,432,886	3%	554,549,356	7%
Income Tax	445,801,882	4%	900,830,572	11%
	<b>865,234,768</b>	<b>7%</b>	<b>1,455,379,928</b>	<b>17%</b>
<b>To Shareholders</b>				
Dividends	269,568,000	2%	404,352,000	5%
Invested in the business	214,287,449	2%	1,052,801,856	12%
	<b>483,855,449</b>	<b>4%</b>	<b>1,457,153,856</b>	<b>17%</b>
	<b>12,173,609,929</b>	<b>100%</b>	<b>8,442,305,403</b>	<b>100%</b>

Sources of Income - 2022/23



Value Distribution- 2022/23



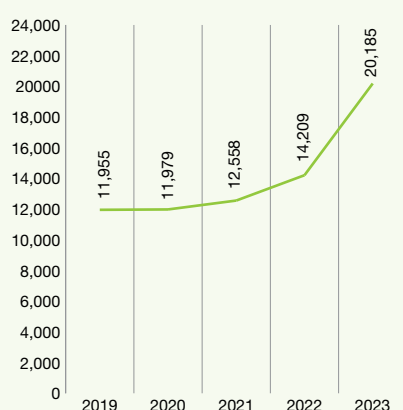
# DEPOSITORS INFORMATION

## Analysis of Deposit Base

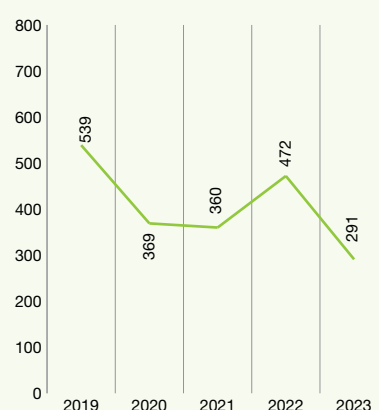
### a) Value of Deposit Base

Value of Deposits	2019	2020	2021	2022	2023
	LKR Mn	LKR Mn	LKR Mn	LKR Mn	LKR Mn
Value of Term Deposits	11,955	11,979	12,558	14,209	20,185
Value of Savings Deposits	539	369	360	472	291
	12,494	12,347	12,919	14,681	20,476

Value of Term Deposits (LKR Mn.)



Value of Savings Deposits (LKR Mn.)



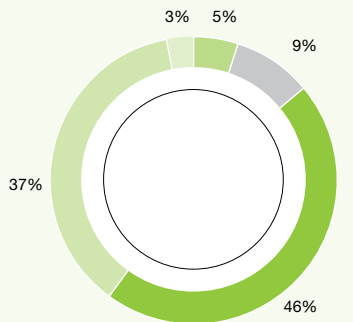
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### b) Rate of Interest Basis on Term Deposits

Value of Deposits	As at 31st March 2023			As at 31st March 2022		
	No. of Deposits	Value LKR Mn	% of Total	No. of Deposits	Value LKR Mn	% of Total
Less than 15%	914	916	5%	8884	13,359	94%
More than or equal to 15% and less than 20%	961	1,736	9%	247	851	6%
More than or equal to 20% and less than 25%	6586	9,366	46%	-	-	0%
More than or equal to 25% and less than 30%	5,227	7,462	37%	-	-	0%
More than or equal to 30%	382	705	3%	-	-	0%
<b>Total</b>	<b>14,070</b>	<b>20,185</b>	<b>100%</b>	<b>9,131</b>	<b>14,209</b>	<b>100%</b>

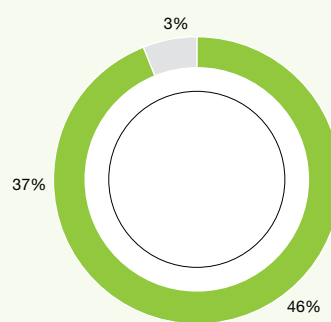
# DEPOSITORS INFORMATION

**Rate of Interest on Term Deposits 2022/23**



- More than or equal to 30%
- More than or equal to 25% and less than 30%
- More than or equal to 20% and less than 25%
- More than or equal to 15% and less than 20%
- Less than 15%

**Rate of Interest on Term Deposits 2021/22**

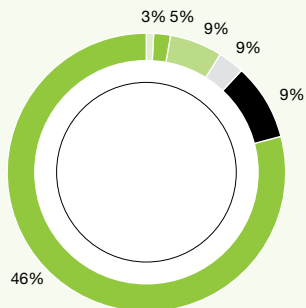


- More than or equal to 30%
- More than or equal to 25% and less than 30%
- More than or equal to 20% and less than 25%
- More than or equal to 15% and less than 20%
- Less than 15%

## c) Capital Range on Term Deposits

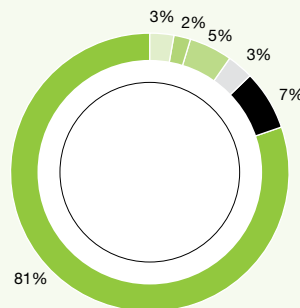
Value of Deposits	As at 31st March 2023			As at 31st March 2022		
	No. of Deposits	Value LKR Mn	% of Total	No. of Deposits	Value LKR Mn	% of Total
1 - 100,000	2,539	158	1%	1,873	380	3%
100,001 - 250,000	2,076	396	2%	1,383	250	2%
250,001 - 500,000	2,654	1,146	6%	1,618	656	5%
500,001 - 750,000	1,063	696	3%	648	404	3%
750,001 - 1,000,000	1,804	1,813	9%	1,041	993	7%
Over 1,000,000	3,934	15,975	79%	2,568	11,526	81%
	14,070	20,185	100%	9,131	14,209	100%

**Capital Range on Term Deposits 2022/23**



- 1 - 100,000
- 100,001 - 250,000
- 250,001 - 500,000
- 500,001 - 750,000
- 750,001 - 1,000,000
- Over 1,000,000

**Capital Range on Term Deposits 2021/22**

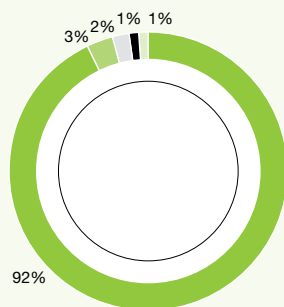


- 1 - 100,000
- 100,001 - 250,000
- 250,001 - 500,000
- 500,001 - 750,000
- 750,001 - 1,000,000
- Over 1,000,000

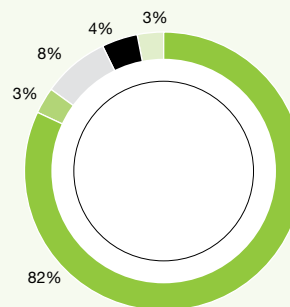
**d) Deposits Analysis**

Value of Deposits	As at 31st March 2023		As at 31st March 2022	
	LKR Mn	%	LKR Mn	%
Individuals	18,850	92%	11,774	82%
Shareholders	596	3%	417	3%
Subsidiaries / Associate Companies	44	0%	44	0%
Other Companies	506	2%	1,148	8%
Pensions, Provident Funds, Clubs etc.	189	1%	553	4%
Savings	291	1%	472	3%
	<b>20,476</b>	<b>100%</b>	<b>14,408</b>	<b>100%</b>

**Deposits Analysis  
2022/23**



**Deposits Analysis  
2021/22**







*(In Rupees Million)*

For Year Ended 31										
March	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>INDICATORS OF PERFORMANCE</b>										
Return on Shareholders										
Funds % (After Tax)	13.15	8.38	16.21	19.14	17.42	6.95	4.57	10.76	23.41	7.40
Return on Total Assets										
% (After Tax)	1.64	1.05	1.83	2.33	2.36	0.96	0.63	1.65	3.56	1.01
Earnings per Share LKR	122.01	83.50	172.51	19.85	21.62	9.09	6.19	16.65	43.42	14.98
Market Value per Share										
LKR	769.80	770.00	740.00	55.00	65.70	53.60	34.40	49.50	70.40	66.80
Price Earning Ratio %	6.31	9.22	4.29	2.77	3.04	5.90	5.56	2.97	1.62	4.46
Rate of Dividend %	200.00	230.00	530.00	32.38	35.12	5.49	-	30.18	65.86	27.44
Dividend per Share LKR	20.00	23.00	53.00	5.90	6.40	1.00	-	5.50	14.50	5.00
Gross Dividend LKR Mn	48.60	55.89	128.79	198.81	215.65	33.70	-	185.33	488.59	168.48
Dividend Cover (Times)	6.10	3.63	3.25	3.36	3.38	9.09	-	3.03	2.99	3.00
Dividend Payout %	16.39	27.55	30.72	29.73	29.60	11.01	-	33.04	33.39	33.38
Net Assets per Share										
LKR	984.08	1,007.96	1,120.19	120.63	127.58	133.85	136.90	172.61	198.28	206.50
<b>MARKET VALUE PER SHARE DURING THE YEAR</b>										
Highest Value Recorded										
During the Year LKR	820.00	929.00	1,000.00	1,300.00	79.40	72.50	54.50	59.00	116.50	92.00
Lowest Value Recorded										
During the Year LKR	730.00	810.00	732.00	52.30	53.00	50.00	30.00	30.00	59.10	42.00
Market Value as at 31st										
March LKR	769.80	770.00	740.00	55.00	65.70	53.60	34.40	49.50	70.40	66.80
<b>FINANCIAL HIGHLIGHTS</b>										
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Assets LKR Mn	18,726	19,910	25,845	30,022	31,781	32,132	33,945	34,122	48,140	52,248
Liabilities LKR Mn	16,335	17,460	23,123	25,957	27,482	27,621	29,332	28,306	41,459	45,290
Shareholders Funds										
LKR Mn	2,391	2,449	2,722	4,065	4,299	4,510	4,613	5,816	6,681	6,958

# SHAREHOLDER INFORMATION

## DISTRIBUTION OF SHARES

Holdings	31st March 2023			31st March 2021		
	No. of Holders	Total	%	No. of Holders	Total	%
1 - 1,000	1,240	321,710	1	975	235,590	1
1,001 - 10,000	571	1,871,004	6	420	1,415,953	4
10,001 - 100,000	146	4,032,053	12	151	4,516,971	13
100,001 - 1,000,000	26	6,018,087	18	25	6,074,340	18
Over 1,000,000	5	21,453,146	64	5	21,453,146	64
	<b>1,988</b>	<b>33,696,000</b>	<b>100</b>	<b>1,576</b>	<b>33,696,000</b>	<b>100</b>

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The shares in the hands of the public 31.3.2023 were 17,399,792 representing 51.64% of the Issued Share Capital of the Company and as at 31.3.2022 were 17,399,792 representing 51.64% of the Issued Share Capital of the Company.

### Float adjusted Market Capitalization

The float adjusted market capitalization as at 31st March 2023 was Rs.1,162,306,106/-, 31st March 2022 - Rs.1,225,003,254/- and the Company falls under the Option 5 Rule 7.13.1(a) of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

No. of Public Shareholders 1974

### 20 MAJOR SHAREHOLDERS

31.3.2023				31.3.2022			
No.	Name of Shareholder	No. of Shares	%	Name of Shareholder	No. of Shares	%	
1	Mr. R.K.E.P. de Silva	11,635,291	34.53	Mr. R.K.E.P. de Silva	11,635,291	34.53	
2	Motor Service Station (Pvt) Ltd.,	4,576,553	13.58	Motor Service Station (Pvt) Ltd.,	4,576,553	13.58	
3	Mrs D.M.E.P. Perera	2,501,443	7.42	Mrs D.M.E.P. Perera	2,501,443	7.42	
4	Mr. D.F.W.S.K. Perera & Mr.D.F.W. Perera	1,381,536	4.10	Mr. D.F.W.S.K. Perera & Mr.D.F.W. Perera	1,381,536	4.10	
5	Orient Hotels Ltd.,	1,358,323	4.03	Orient Hotels Ltd.,	1,358,323	4.03	
6	Mrs. S.E. Canekeratne	612,268	1.82	Hatton National Bank PLC/ Mr. K.R.E.M.Y.D.M.B. Jayasundara	631,672	1.87	
7	Mr. D.L.S.R. Perera	553,556	1.64	Mrs. S.E. Canekeratne	612,268	1.82	
8	Mrs. P.N. Weththasinghe	401,051	1.19	Mr. D.L.S.R. Perera	553,556	1.64	
9	Peoples Leasing Finance PLC/ Mr. K.R.E.M.D.M.B. Jayasundara	390,993	1.16	Mrs. C.R. de Silva	374,400	1.11	
10	Mrs. C.R. de Silva	374,400	1.11	Hatton National Bank PLC/Mr.K.K. Shujeevan	355,142	1.05	
11	Hatton National Bank PLC/ Mr. K.K. Shujeevan	335,204	0.99	Mr. D.F.W. Perera	310,560	0.92	
12	Mr. D.F.W. Perera	310,560	0.92	Ms. D.D.P.T. Perera	309,384	0.92	
13	Ms. D.D.P.T. Perera	309,384	0.92	Ms. D.C.M.A. Perera	303,634	0.90	
14	Ms. D.C.M.A. Perera	303,634	0.90	Mrs. P. Weththasinghe	299,975	0.89	
15	Mrs. A.S. Wijewardena	259,200	0.77	Mrs. A.S. Wijewardena	259,200	0.77	
16	Mr. G.P. Kapilasena	201,180	0.60	Mr. G.P. Kapilasena	201,180	0.60	
17	Mrs. K.G.G.S.L. Perera	201,066	0.60	Mrs. K.G.G.S.L. Perera	201,066	0.60	
18	Mrs. N.U. Silva	172,105	0.51	Mrs. N.U. Silva	172,105	0.51	
19	Mrs. C. Yogagopalakrishnan & Mrs.Y. Thirukumar	155,920	0.46	Mrs. C. Yogagopalakrishnan	155,920	0.46	
20	Est. of the late Mr.S.B.O. Illangakoon	145,560	0.43	Mr. A.J.M. Jinadasa	140,000	0.42	
		<b>26,179,227</b>	<b>77.69</b>		<b>26,333,208</b>	<b>78.15</b>	

	31.3.2023			31.3.2022		
	No of shareholders	No. of shares	%	No of shareholders	No. of shares	%
Institutions	34	6,330,496	18.79	32	6,329,845	18.79
Individuals	1,954	27,365,504	81.21	1,544	27,366,155	81.21
	1,988	33,696,000	100.00	1,576	33,696,000	100.00

# GRI INDEX TABLE

Statement of use	Alliance Finance has reported the information cited in this GRI content index for the period 1st April 2022 to 31st March 2023 with reference to the GRI Standards.
GRI 1 used	GRI 1: Foundation 2021

GRI Standard	Disclosure	Page	Location
<b>GRI 2 : General Disclosures 2021</b>			
GRI 2: General Disclosures 2021	2-1 Organizational details	Inner back cover	Corporate Information
	2-2 Entities included in the organization's sustainability reporting	4, 106	Welcome to our Integrated Annual Report, Corporate Governance
	2-3 Reporting period, frequency and contact point	4, 104	Welcome to our Integrated Annual Report, Corporate Governance
	2-4 Restatements of information	104	Corporate Governance
	2-5 External assurance	5, 274	Welcome to our Integrated Annual Report - Assurance, Independent Limited Assurance Report to Alliance Finance Company PLC
	2-6 Activities, value chain and other business relationships	30-31, 88	Our value creation model , Social and Relationship Capital
	2-7 Employees	78-83	Human Capital
	2-8 Workers who are not employees	88	Social and Relationship Capital
	2-9 Governance structure and composition	103	Corporate Governance - Corporate governance structure
	2-10 Nomination and selection of the highest governance body	103	Corporate Governance - Corporate governance structure
	2-11 Chair of the highest governance body	114	Corporate Governance
	2-12 Role of the highest governance body in overseeing the management of impacts	109-114	Corporate Governance
	2-13 Delegation of responsibility for managing impacts	102	Corporate Governance - Corporate governance framework
	2-14 Role of the highest governance body in sustainability reporting	109-114	Corporate Governance
	2-15 Conflicts of interest	108	Corporate Governance
	2-16 Communication of critical concerns	130	Corporate Governance - Provision of appropriate and timely information
	2-17 Collective knowledge of the highest governance body	103	Corporate Governance
	2-18 Evaluation of the performance of the highest governance body	108-109, 131	Corporate Governance Corporate Governance - Appraisal of Board and committee performance
	2-19 Remuneration policies	154	Remuneration Committee report
	2-20 Process to determine remuneration	81,154	Human Capital, Remuneration Committee report
	2-22 Statement on sustainable development strategy	6, 32	About Alliance Finance, Our focus on sustainability
	2-23 Policy commitments	78, 91,102-142, 159	Human Capital, Intellectual Capital, Corporate Governance, Risk Management Report
	2-24 Embedding policy commitments	159	Risk management Report
	2-25 Processes to remediate negative impacts	42-49,159	Engagement with Stakeholder, Risk Management Report
	2-26 Mechanisms for seeking advice and raising concerns	106, 159	Corporate governance, Risk Management report
	2-27 Compliance with laws and regulations	143	Annual Report of the Board of Directors on the affairs of the Company
	2-28 Membership associations	88	Social and relationship capital
	2-29 Approach to stakeholder engagement	35, 36-41	Our focus on sustainability, Engagement with Stakeholder

GRI Standard	Disclosure	Page	Location
<b>GRI 3 : Material Topics 2021</b>			
GRI 3: Material Topics 2021	3-1 Process to determine material topics	46	Materiality Assessment
	3-2 List of material topics	46-50	Materiality Assessment
	3-3 Management of material topics	46	Materiality Assessment
<b>GRI 200 : Economic Performance</b>			
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	8, 69	Value Added Statement, Financial Capital - Shareholder Value
	201-2 Financial implications and other risks and opportunities due to climate change	53, 98-99	Operating Context, Natural Capital
	201-3 Defined benefit plan obligations and other retirement plans	81	Human Capital
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	82, 232	Human Capital, Financial statement
	202-2 Proportion of senior management hired from the local community	83	Human Capital
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	89	Social and relationship Capital
	203-2 Significant indirect economic impacts	89	Social and relationship Capital
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	88	Social and relationship Capital
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	4,107	About our integrated annual report, Corporate Governance
	205-2 Communication and training about anti-corruption policies and procedures	80	Human Capital
GRI 207: Tax 2019	207-1 Approach to tax	180	Notes to the financial statement
	207-2 Tax governance, control, and risk management	180, 144	Notes to the financial statement, Annual report of the board of directors on the affairs of the company
	207-3 Stakeholder engagement and management of concerns related to tax	180-187	Notes to the financial statement
<b>GRI 300 : Environmental</b>			
GRI 301: Materials 2016	301-1 Materials used by weight or volume	96	Natural Capital
	302-1 Energy consumption within the organization	97	Natural Capital
	302-3 Energy intensity	97	Natural Capital
	302-4 Reduction of energy consumption	97	Natural Capital
	303-3 Water withdrawal	96	Natural Capital
GRI 303: Water and Effluents 2018	303-5 Water consumption	96-97	Natural Capital
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	99	Natural Capital
	304-2 Significant impacts of activities, products and services on biodiversity	98-101	Natural Capital
	304-3 Habitats protected or restored	99	Natural Capital
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	99	Natural Capital
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	38, 98	Our focus on sustainability, Natural Capital
	305-4 GHG emissions intensity	97	Natural Capital
	305-5 Reduction of GHG emissions	97	Natural Capital

## GRI INDEX TABLE

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GRI Standard	Disclosure	Page	Location
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	96	Natural capital
	306-2 Management of significant waste-related impacts	96	Natural capital
	306-3 Waste generated	96	Natural capital
<b>GRI 400 : Social</b>			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	79	Human capital
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	79	Human capital
	401-3 Parental leave	82	Human capital
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	82	Human Capital
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	82	Human capital
	403-2 Hazard identification, risk assessment, and incident investigation	82	Human capital
	403-3 Occupational health services	82	Human Capital
	403-4 Worker participation, consultation, and communication on occupational health and safety	82	Human capital
	403-5 Worker training on occupational health and safety	82	Human capital
	403-6 Promotion of worker health	82	Human capital
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	82	Human capital
	403-8 Workers covered by an occupational health and safety management system	82	Human capital
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	9, 10, 80	Our performance in 2022/23, Triple Bottom Line Value Creation, Human Capital
	404-2 Programs for upgrading employee skills and transition assistance programs	54, 80	Delivering our strategy, Human Capital
	404-3 Percentage of employees receiving regular performance and career development reviews	80	Human capital
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	103	Corporate governance
	405-2 Ratio of basic salary and remuneration of women to men	81	Human capital
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	82	Human capital
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	89	Social and relationship capital
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	88	Social and relationship capital
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	85-87	Social and relationship capital

# DISCLOSURE ON CA SRI LANKA GENDER PARITY REPORTING

Main section	Strategies and Goals for Gender Parity	Page number	Remarks
Enablers	Gender Parity Policies	82	
	Diversity & inclusion policies	82	
	Gender pay equity policy	82	
	Specific policies on sexual harassment in the workplace	82	
	Systems and Processes	79	
	Process to handle grievance mechanisms for sexual harassment at workplace	82	
	Workplace practices to promote gender parity	82	
Composition	Board of Directors/ Governing Body	24-26	
	Senior Leadership	24-26	
	Middle Management	24-26	
	The Major Employment Categories	81	
	<b>Composition of Male/Female under:</b>		
	Recruitment	79	
	Promotions	79	
	Key departments	81	
	Major geographic locations	81	
	Exists	79	
Gender Gap Indicators	Gender Analysis in Each Pay Quartile	82	
	Raw Mean Gender Pay Gap	82	
	Raw Median Gender Pay Gap	82	
	Proportion of Women Who Received Training	80	
	Training Hours Analyzed by Gender	80	
	Retention of Women at Work 12 Months After Maternity Leave	82	
	Proportion of Females who Received a Performance Bonus	81	
	Proportion of Women in IT, Engineering and Production Related Activities	-	"We have two female employee in the IT department. Engineering and production related activities are not applicable to our company."
Responsible Brand	Evaluation of gender bias in advertising and communications	-	We do not undertake gender bias advertising.
	Activities that Support Gender Parity in the Supply Chain	-	"There are no specific activities carried out during the year addressing gender parity. However, at the screening, selection or in any part of the engagement process, we do not discriminate based on gender."

# INDEPENDENT LIMITED ASSURANCE REPORT

GRI 2-5



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## To The Board of Directors of Alliance Finance Company PLC

### On the Global Reporting Initiative Index (GRI Index)

#### Introduction

We were engaged by the board of directors of Alliance Finance Company PLC (“the Company”) to provide assurance in respect of the Global Reporting Initiative Index Table presented on pages 274 to 276 (“GRI Index”) and the connected information disclosed throughout the annual report for the year ended 31 March 2023 “the Annual Report”.

#### Board of Directors and Management's responsibility

Alliance Finance PLC's management is responsible for the preparation and presentation of the GRI Index on their impact on the economy, the environment, and/or society in accordance with the GRI Sustainability Reporting Standards GRI-101, GRI-102, GRI-103; and the selection of material topics relating to the Company's business operations in line with GRI Content Index with reference; 200 series – Economics, 300 series – Environmental, 400 series – Social, and

disclosure of relevant, accurate and complete information relating to those selected topics.

The management is also responsible for the information and assertions contained in the GRI Index; for determining its objectives in respect of the selection and presentation of sustainable development performance; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

#### Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented

policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### Our responsibility

Our responsibility is to carry out a limited assurance engagement in relation to the GRI Index and to express a conclusion based on the work performed.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka. In accordance with the Standard, we have:

- ◆ Used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Company's GRI Index, whether due to fraud or error;

Partners: P.P. Edirisinghe FCA ACIM MBA Ms. M.K.K. Karunaratne FCA ACMA P.K.A.M. Alahakoon ACA MAAT  
S.A. Harischandra FCA ACMA CGMA MBA Bcom (Sp.)

Consultants: A.T.P. Edirisinghe FCA FCMA (UK) A.D. Jayasena FCA

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## EDIRISINGHE & CO.

Chartered Accountants

- ◆ Considered relevant internal controls when designing our assurance procedures, however, we do not express a conclusion on their effectiveness; and
- ◆ Ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

### Limited assurance on the GRI Index

Our limited assurance engagement on the GRI Index Table consisted of making enquiries, primarily of persons responsible for the preparation of the GRI Index Table, and applying analytical and other procedures, as appropriate. These procedures included:

- ◆ Enquiries of management to gain an understanding of the Company's process for determining material GRI issues for the Company's key stakeholder groups;
- ◆ Enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance GRI Index, including the aggregation of the reported information;
- ◆ Interviews with relevant staff responsible for developing the content (text and data) within the Company's GRI Index to understand the approach for management, monitoring, collation, and reporting of such information; and the reasonableness of reported text and data within the Company's GRI Index;

- ◆ Comparing the GRI Index to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Annual Report;
- ◆ Reading the Limited Assurance GRI Index presented in the Annual Report to determine whether they are in line with our overall knowledge of, and experience with, the GRI Index performance of the Company;
- ◆ Reading the remainder of the Annual Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.
- ◆ Reviewing Board minutes to ensure consistency with the content of the GRI Index.
- ◆ Obtaining a letter of representation from management dated 29 August 2023 on the content of the Company's GRI Index.

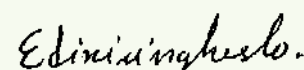
The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the GRI Index.

### Our Conclusion

Based on the procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that GRI Index included in the Annual Report, as defined above, for the year ended 31 March 2023, is not presented, in all material respects, in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Sustainability Reporting Standards).

### Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Board of Directors of Alliance Finance Company PLC in determining whether the Company's annual report is prepared in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.



**Edirisinghe & Co.,**  
Chartered Accountants

Colombo 02  
27th June 2023

# ABBREVIATIONS

<b>AADFI</b>	Association of African Development Finance Institutions	<b>GDP</b>	Gross Domestic Product
<b>ACCA</b>	Association of Chartered Certified Accountants	<b>GRI</b>	Global Reporting Initiative
<b>ADFIAP</b>	Association of Development Finance Institutions in Asian and the Pacific	<b>H/Os</b>	Head Office
<b>AFC</b>	Alliance Finance Company	<b>HP</b>	Hire Purchase
<b>AGM</b>	Assistant General Manager	<b>HR</b>	Human Resource
<b>BCMS</b>	Business Continuity Management System	<b>HRIS</b>	Human Resource Information System
<b>CA</b>	Chartered Accountants	<b>ICASL</b>	Institute of Chartered Accountants of Sri Lanka
<b>CBSL</b>	Central Bank of Sri Lanka	<b>IFC</b>	International Finance Corporation
<b>CCA</b>	Customer Care Agents	<b>IIRC</b>	International Integrated Reporting council
<b>CCPI</b>	Colombo Consumer Price Index	<b>IUCN</b>	International Union for Conservation of Nature
<b>CMA</b>	Chartered Management Accountants	<b>KMP</b>	Key Management Personnel
<b>CRM</b>	Customer Relationship Management	<b>KPI</b>	Key Performance Indicator
<b>CSE</b>	Colombo Stock Exchange	<b>LINN</b>	Lanka Impact Investing Network
<b>CSR</b>	Corporate Social Responsibility	<b>MSME</b>	Micro, Small and Medium Enterprises
<b>CXO</b>	Chief Executive Officer	<b>NBFI</b>	Non Banking Financial Institutions
<b>DF</b>	Development Finance	<b>NPL</b>	Non Performing Loan
<b>DR</b>	Disaster Recovery Site	<b>PCB</b>	Polychlorinated biphenyl
<b>DWM</b>	Developing World Markets	<b>RAC</b>	Risk-Acceptance-Criteria
<b>EA</b>	Enterprise Asia	<b>RFS</b>	Regional Financial Services
<b>EDS</b>	Entrepreneur Development Services	<b>SDG</b>	Sustainable Development Goals
<b>EOSD</b>	European Organisation for Sustainable Development	<b>SLICM</b>	Sri Lanka Institute of Credit Management
<b>EPS</b>	Earnings Per Share	<b>SME</b>	Small and Medium Enterprises
<b>ESMS</b>	Environmental and Social Management System	<b>SSCI</b>	Sustainability Standards and certification Initiative
<b>ESG</b>	Environmental, Social, and Governance	<b>RDA</b>	Road Development Authority
<b>EVP</b>	Employee Value Proposition	<b>ROE</b>	Return on Investment
<b>PHASL</b>	Finance Houses Association of Sri Lanka	<b>USP</b>	Unique Selling Proposition
<b>FMO</b>	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	<b>COVID-19</b>	Corona Virus Disease 2019

# GLOSSARY

## A

### ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by a company in preparing and presenting Financial Statements

### ACCOUNTING

The profit or loss for a period before deducting tax expense

### ACCUAL BASIS OF ACCOUNTING

The effects of transactions and other events are recognised when they are occurred (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the Financial Statements of the periods to which they relate.

### AMORTISATION (DEPRECIATION)

The systematic allocation of the depreciable amount of an asset over its useful life

### ALLOWANCE FOR IMPAIRMENT

A provision held on the Statement of Financial Position as a result of a raising of a charge against profit for the incurred loss.

## C

### CARRYING AMOUNT

The amount at which an asset is recognized in balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses

### CASH EQUIVALENTS

Short-term, highly-liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

### CONTINGENCIES

Conditions or situation at the balance sheet date and the financial effects of which are to be determined by the future events that may or may not occur

### COLLECTIVE IMPAIRMENT

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at a reporting date.

### CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability of owners and others.

### COST TO INCOME RATIO

Personal and Other Non-Interest Expenses divided by the sum of Net Interest Income & Non-Interest Income

### CURRENT TAX

The amount of tax payable in respect of taxable income for the period

## D

### DEALING SECURITIES

Marketable securities that are acquired and held with the intention of reselling them in the short-term

### DEFERRED TAX LIABILITIES

The amounts of income tax payable in future periods in respect of taxable temporary differences

### DEFINED BENEFIT PLANS

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' remuneration and completed years of service

### DISBURSEMENTS

Another term for investments

### DISCRETIONARY PROVISION

This includes provision for bonuses and incentives

### DIVIDENDS

Distribution of profits to holders of equity investments, in proportion to their holdings of a particular class of capital

### DIVIDEND COVER

Profit after tax divided by gross dividend. The ratio measures the number of times dividend is covered by current years' distributable profits

### DIVIDEND PER SHARE (DPS)

Gross dividend divided by the number of shares in issues

## E

### EARNINGS PER SHARE (EPS)

Profit for the period attributable to ordinary shareholders (the numerator) divided by the weighted average number of ordinary shares in issue during the period (the denominator)

## G

### GENERAL RESERVES

Reserves set aside for future

### GROSS NPA (NPL) RATIO

Total non-performing accommodations (loans) after deducting for initial rentals received and unearned income, divided by gross accommodations (loans) after deducting for initial rentals received and unearned income.

### GROSS DIVIDEND

The portion of profits distributed to the shareholders including the tax withheld

## I

### IMPAIRMENT

This occurs when recoverable amount of asset declines below its carrying amount

### INDIVIDUAL IMPAIRMENT

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

## GLOSSARY

### INVESTMENTS

Value of facilities granted during a specific period

### INVESTMENTS SECURITIES

Securities acquired and held for yield or capital growth purposes; usually held to maturity

## L

### LIQUIDITY

The availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due

### LIQUID ASSETS

Cash and cash equivalents, repurchase agreements, placements in banks and other financial institutions and treasury bills

### LIQUID ASSETS RATIO

Liquid assets as a percentage of total deposits

## M

### MATERIALITY

Information is material if its non-disclosure could influence the economic decisions of users taken on the Financial Statements

### MARKET VALUE PER SHARE

Market capitalization divided by the number of ordinary shares in issue

## N

### NON - BANKING FINANCIAL INSTITUTIONS (NBFI)

An institution that does not have the full banking license and undertakes banking services permitted by the license.

### NON - PERFORMING LOANS (NPL)

Loans and advances which are 180 days or more in arrears of due principal and/or interest payments

### NET ASSETS VALUE PER SHARE

Shareholders' funds excluding preference shares if any, divided by the weighted average number of ordinary shares in issue

### NET NPA RATIO

Total non-performing accommodations excluding initial rentals received, unearned income and provision for loan losses, divided by gross loans after deducting for initial rentals received, unearned income and provision for loan losses

### NET INTEREST INCOME

The difference between income earned from interest bearing assets and cost incurred on financial instrument/ facilities used for funding the interest bearing assets

### NET INTEREST MARGIN

Net interest income divided by total average assets

## O

### OFF BALANCE SHEET TRANSACTIONS

Transactions that are not recognized as assets or liabilities in the balance sheet but which may give rise to contingencies and commitments

## P

### PORTFOLIO

Total rentals and other receivables on loans and advances after deducting for unearned interest in suspense and initial rentals paid

### PRICE EARNING (P/E) RATIO

The market price of an ordinary share divided by the Earnings per Share

### PROVISION FOR LOAN LOSSES

Amounts set aside against possible losses on net receivable of facilities granted to customer as a result of them becoming party or wholly uncollectible

## R

### RETURN ON ASSETS (ROA)

Profit before tax expressed as a percentage of average total assets; used along with ROE as a measure of profitability and as a basis of intra-industry performance comparison

### RETURN ON SHAREHOLDERS' FUND/ EQUITY (ROE)

Profit before tax expressed as a percentage of average total assets; used as a measure of profitability and as a basis of intra- industry performance comparison

### REVALUATION

Restatement of assets and liabilities

### RATE OF DIVIDEND

Gross dividend as a percentage of total par value of shares

## S

### SBU

Strategic Business Unit

### SEGMENT REVENUE

Revenue reported in the Company's income statement that is directly attributable to a segment and the relevant portion of the Company's revenue that can be allocated on a reasonable basis to a segment

### SHAREHOLDERS' FUNDS

Shareholders' Funds consist of issued and fully-paid ordinary share capital plus capital and revenue reserves

### SOCIAL PERFORMANCE MANAGEMENT SYSTEM (SPMS)

SPMS is a set of policies, procedures, tools and internal capacity to identify and manage the institution's exposure to the environmental and social risks of its clients/ investees and the impact of the institution on society and environment.

### SUSTAINABILITY DEVELOPMENT GOALS

A collection of 17 global goals set by the United Nations that covers a broad range of social and economic development issues. These include poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, urbanization, environment and social justice.

## T

### TAXABLE PROFIT/ (TAX LOSS)

The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which the income tax is payable/ (recoverable)

### 'TIER 1' CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriation of retained earnings or other surplus

### 'TIER 2' CAPITAL

Supplementary capital representing revaluation reserve, general provisions and other capital instruments which combine certain characteristics of equity debt such as hybrid capital instruments and subordinated term debts

## V

### VALUE ADDED

Value Added is the wealth created by providing services less cost of providing such services. The value added is allocated amongst the employees, the providers of capital and to the Government by way of taxes and retained for expansion and growth

# NOTICE OF MEETING

## ALLIANCE FINANCE COMPANY PLC

Notice is hereby given that the Sixty Seventh Annual General Meeting of Alliance Finance Company PLC, will be held on Tuesday, 26th September 2023 at 9.30 a.m. at Alliance Finance Company PLC, No.722, Kotte Road, Rajagiriya.

The business to be brought before the Meeting will be:-

1. To receive and consider the Annual Report and the Financial Statements for the Financial year ended 31st March 2023, with the Report of the Auditors thereon.
2. To declare a Dividend.
3. To re-elect a Director.  
Mrs.Gopa Sarojini Tamara Dharmakirti-Herath retires under Articles numbered 130 and 131.
4. To appoint Auditors to hold office until the next Annual General Meeting and to fix their remuneration.
5. To authorize the Directors to determine and make donations.

By Order of the Board of Directors  
**ALLIANCE FINANCE COMPANY PLC**

Sgd.

**Alliance Management Services (Private) Limited**  
Secretaries

4th September 2023

### Note:

- (i) A member is entitled to appoint a proxy to attend and vote in his/her place.
- (ii) A proxy need not be a member of the Company.
- (iii) A member wishing to vote by proxy at the meeting may use the Form of Proxy enclosed and interpolate the words "right to speak".
- (iv) To be valid, the completed Form of Proxy must be lodged at Alliance Management Services (Pvt) Ltd No.84, Ward Place, Colombo 7, not less than 48 hours before the meeting.
- (v) Physical participation will be limited to those who register on a first come first served basis.
- (vi) Shareholders/Proxy holders are requested when attending the Annual General Meeting to bring with them their National Identity Cards or any other form of valid identification.
- (vii) Shareholders appointing proxies (other than Directors) to attend the Meeting are requested to indicate the number of the National Identity Card of the Proxy holders on the Form of Proxy. Only registered proxy holders will be permitted to attend the Annual General Meeting.

### Attending the Meeting

Should a Member wish to attend the Meeting in person or through a proxy (who is not a Director of the Company), such Member or their Proxy is requested to complete and return the registration Form

# FORM OF PROXY

## ALLIANCE FINANCE COMPANY PLC

I / We .....

(in block letters)

of .....

being a member/members of the above-named Company hereby appoint Gopa Sarojini Tamara Dharmakirti-Herath or failing her, Romani Kumar Eardley Patrick de Silva or failing him, Wickremasinghe Pathiranage Kusal Jayawardana or failing him, Priyanthi de Silva or failing her Lloyd John Hiran de Silva or failing him Don Lasantha Ivers Hettiarachchi .....

.....of.....

NIC No. .... as my/our proxy to represent me/us and to vote for me/us on my/our behalf at the Sixty Seventh Annual General Meeting of the Company to be held on 26th September 2023 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

		For	Against
1.	Resolution No.1 The Ordinary Resolution No.1 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
2.	Resolution No.2 The Ordinary Resolution No.2 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
3.	Resolution No.3 The Ordinary Resolution No.3 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
4.	Resolution No.4 The Ordinary Resolution No.4 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
5.	Resolution No.5 The Ordinary Resolution No.5 set out in the Notice convening the aforesaid Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of .....2023.

.....  
Shareholder N.I.C. No./Co. Reg. No./P.P. No.

.....  
Signature

Instructions as to completion of Form of Proxy given overleaf

### INSTRUCTIONS AS TO COMPLETION OF THE FORM OF PROXY

1. A Proxy holder need not be a member of the Company.
2. The Full Name and the Address of the Proxy holder and of the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy. Please perfect the Form of Proxy, by signing in the space provided and filling in the date.
3. To be valid, the completed Form of Proxy should be deposited at the Office of the Company Secretaries, No.84, Ward Place, Colombo 7, 48 hours before the time appointed for the holding of the meeting.
4. In the case of a Company or a Corporate Body, the Form of Proxy should be executed under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
5. If the Form of Proxy has been signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
6. If there is any doubt as to how the vote is to be exercised by reason of the manner in which the Form of Proxy has been completed, the Proxy holder will vote as thought fit.







# CORPORATE INFORMATIONS

## Name of the Company

Alliance Finance Company PLC

## Statutory Status

Quoted Public Limited Liability Company, incorporated under the Companies Ordinance No.51 of 1938  
Reregistered under the Companies Act No.7 of 2007

## Approved and registered under the

- ◆ Finance Business Act No. 42 of 2011
- ◆ Finance Leasing Act No. 56 of 2000
- ◆ An approved Credit Agency under the Mortgage Act No.6 of 1949
- ◆ Trust Receipt Ordinance No.12 of 1947

## Date of Incorporation

18th July 1956

## Company Registration Number

PQ 93

## Principal Activities

Providing finance lease, gold loans, Vehicle Trade-In, acceptance of fixed deposits, savings mobilization, other credit facilities and services.

## Registered Office

### Alliance House

No.84, Ward Place, Colombo 07, Sri Lanka.  
Tel: (+94) 11 2673673  
Fax: (+94) 11 2697205  
E-mail: info@alliancefinance.lk

## Website

www.alliancefinance.lk

## Credit Rating

[SL]BBB- with a Stable outlook rating, assigned by Lanka Rating Agency Limited (LRA)

## Board of Directors

Mrs. G. S. Tamara Dharmakirti-Herath - Chairperson  
Mr. Romani de Silva - Deputy Chairman & Managing Director  
Mr. W. P. K. Jayawardana - Deputy Managing Director  
Mr. J.M. Gunasekera - Executive Director Sustainability  
(Retired on 15th July 2023)

Mr. R. E. Rambukwelle - Executive Director Credit Marketing and Operations  
(Retired on 06th April 2023)  
Mrs. Priyanthi de Silva - Independent Non Executive Director  
Mr. L. J. H de Silva - Independent Non Executive Director  
Mr. D. L. I. Hettiarachchi - Independent Non-Executive Director

## Board Audit Committee

Mrs. Priyanthi de Silva - Chairperson  
Mrs. G. S.Tamara Dharmakirti-Herath - Member  
Mr. L. J. H. de Silva - Member

## Board Integrated Risk Management Committee

Mrs. G. S. Tamara Dharmakirti-Herath - Chairperson  
Mrs. Priyanthi de Silva - Member  
Mr. Romani de Silva - Member  
Mr. J. M. Gunasekera - Member  
(Retired on 15th July 2023)  
Mr. W. P. K. Jayawardana - Member  
Mr. R. E. Rambukwelle - Member  
(Retired on 06th April 2023)

## Related Party Transactions Review Committee

Mrs. G. S. Tamara Dharmakirti-Herath - Chairperson  
Mr. L. J. H. de Silva - Member  
Mr. D. L. I. Hettiarachchi - Member

## Remuneration Committee

Mr. L. J. H. de Silva - Chairman  
Mrs. G. S. Tamara Dharmakirti-Herath - Member  
Mr. D. L. I. Hettiarachchi - Member

## Subsidiaries

Alfinco Insurance Brokers (Pvt) Ltd.

## Auditors

M/s. Baker Tilly Edirisinghe & Co.  
Chartered Accountants  
No.45, 2nd Floor, Braybrooke Street,  
Colombo 02.

## Advisory Council

Mr. B. Ponnambalam  
Mrs. K. S. K. de Silva  
Mr. K. Kanag Isvaran LLB (London)  
Inn Barrister - (President's Counsel)

## Legal Consultants

Gunawardena & Ranasinghe Associates

## Secretaries

Alliance Management Services (Pvt) Ltd  
No. 84 Ward Place, Colombo 07.

## Bankers

Sampath Bank PLC  
Seylan Bank PLC  
Public Bank Berhad  
People's Bank  
Hatton National Bank PLC  
Commercial Bank of Ceylon PLC  
Bank of Ceylon  
Nations Trust Bank PLC  
NDB Bank PLC  
Cargills Bank  
DFCC Bank PLC  
National Savings Bank

## Corporate memberships and associations

- ◆ The Finance Houses Association of Sri Lanka
- ◆ Leasing Association of Sri Lanka
- ◆ Credit Information Bureau of Sri Lanka
- ◆ Financial Ombudsman-Sri Lanka
- ◆ Biodiversity Sri Lanka (Patron Member) {Business and Bio diversity platform}
- ◆ CSR Sri Lanka
- ◆ Association for Development Finance Institutions in Asia and the Pacific (ADFIAP), The Philippines

This Annual Report is conceptualised, designed and produced by Redworks.



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[www.alliancefinance.lk](http://www.alliancefinance.lk)