

# REIMAGINE



SARVODAYA DEVELOPMENT FINANCE PLC  
ANNUAL REPORT 2022/23



# REIMAGINE

When we work on development, we essentially help people reimagine their lives in new ways. It can mean the growth of one's skills, the collective aspirations of a community that comes together to support entrepreneurship, the expansion of one's aspirations and confidence and enhancing living standards through knowledge and resource allocation.

At Sarvodaya Development Finance PLC, this year we reimaged and actioned our progress through our advanced ESG framework that keeps us accountable in all we do. This strengthened our belief in progress that is not merely measured through profit but through impact and the creation of long term goals that not only uplifts the lives of the SME's but also strengthens the economy of which they are a valid part. This year was also a remarkable one as we made great strides in supporting diverse segments, through innovation and expansive accessibility, and we are positive and optimistic about our prospects in the year ahead as we reimagine the present and the future.

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### Chairman's Message

*We achieved a 35% year-on-year increase in income for the financial year 2022-23,....*

Read More...  **Page 17**



### CEO's Review

*We closed the financial year 2022-23 with a revenue growth of .....*

Read More...  **Page 21**

## ABOUT US



### Our Profile

Incorporated in 2010, Sarvodaya Development Finance PLC (SDF/Company) has evolved from a deep rooted commitment to nation building and development along with the 'grass roots upwards' model of the Sarvodaya Movement. Over its short span of existence, SDF has carved out a niche for itself as a leading financial institute offering tech-savvy financial services via a diverse product range to fulfil the financial needs of the customers.

The Sarvodaya movement having started in 1958 is one of the oldest Non-Governmental Organisations in Sri Lanka and has been uplifting and empowering rural masses for over six decades. SDF has evolved by capitalising on the unique Sarvodaya brand recognition and widespread network of solid relationships to cater to the needs of the Micro, Small and Medium Enterprises (MSMEs) in Sri Lanka. The linkages with Sarvodaya Societies, together with the strategic investments in modern ICT, enabled SDF to reach out to rural entrepreneurs. SDF's business focus is to fuel economic growth by channelling credit, and other support services, for environmentally friendly, sustainable business models across the country that contribute

towards environmental conservation, while also facilitating quality of life improvements for communities as a whole.

In its role as a financial services provider, SDF's values for sustainable businesses are essential for the growth and prosperity of Sri Lanka's economy. SDF has developed and delivered value-added services in tandem with its specialised financial products, to assist MSMEs to develop markets and business opportunities, including technical training programs and special market development events. SDF has been recognised for its relentless endeavour by being named as the "fastest growing development finance company in Sri Lanka", at the UK based Global Banking and Finance Review Awards in 2021.

The Company issued 45,454,546 shares during the financial year 2021/22 as an IPO and was listed on the Colombo Stock Exchange with effect from 14 December 2021. Pursuant to the listing of the Company's shares on the Main Board of the Colombo Stock Exchange the status of the Company has changed, with effect from 6 January 2022, to Sarvodaya Development Finance PLC.

### Our Vision

To be a Catalyst in Creating an Economically Progressive Society, Living in Dignity

### Our Mission

To Foster Sustainable Development Through the Provision of Ethical Financial Services and Fulfil Expectations of all Stakeholders

### Our Values

- Purity in Service
- Diligent and Caring
- Transparent and Honest
- Passionately Committed



## ABOUT THIS REPORT

### Proviso on Futuristic Disclosures

Please note that all forward-looking plans and activities outlined in this report are contingent on macro environmental conditions within & without Sri Lanka & may be subject to change without prior notice.



This is Sarvodaya Development Finance PLC’s (SDF) 2nd annual report as a public quoted company listed on the Colombo Stock Exchange.

In the first financial year as a public company (2021-22), SDF made the decision to facilitate greater transparency by reporting on its non-financial performance, extending to ESG impacts, in addition to its annual financial performance. This report continues this practice by aligning with the integrated reporting framework and GRI Standards.

The objectives of the SDF Annual Report 2022-23, are:

1. To disclose the wider impacts of our business operations by voluntarily adopting Environmental Social Governance (ESG) reporting. The GRI Standards 2021 have been used to guide us in this respect.
2. To disclose material information regarding our capitals. The Integrated Reporting (IR) Framework 2021 has been used for this purpose.
3. To assist the Company to enhance positive impacts of its activities, while identifying and minimising any negative impacts.

### THE COMPLIANCE FRAMEWORK OF THIS REPORT

#### Financial Reporting

- Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) of the Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011



#### Corporate Governance Reporting

- Finance Business Act Directions No.05 of 2021 - Corporate Governance, issued by the Monetary Board of the Central Bank of Sri Lanka
- Listing rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance 2017, issued by the Institute of Chartered Accountants of Sri Lanka
- Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 and subsequent amendments thereto
- GRI Standards 2021



#### Assurance

- Sri Lanka Auditing Standards (SLAuSs)
- Sri Lanka Standard on Assurance Engagements (SLSAE) 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka

#### UN SDGs



We have voluntarily adopted ESG reporting guidelines, in addition to the above statutory reporting guidelines.

GRI disclosure	Response
<b>GRI 2-2</b> Entities included in this report	All entities in this report are included in the audited financial statements presented in this report. SDF has no subsidiaries or minority shareholdings to report on.
<b>GRI 2-3</b> Reporting period and frequency	This report covers the 12-month period April 1 2022 to March 31 2023 and will be continued as an annual reporting activity.
<b>GRI 2-4</b> Restatement of information	There has been no requirement for restatement of any information from our previous annual report.
<b>GRI 2-5</b> External assurance	The sustainability reporting component of this report have received external assurance from Messrs. Ernst & Young (Chartered Accountants).
<b>GRI 2-5 (i)</b> Reference to the external assurance report(s)	External assurance report for sustainability reporting is given in page 181 of this report
<b>GRI 2-5 (ii)</b> What has been assured and on what basis, and assurance standards used, the level of assurance obtained, and any limitations of the assurance process;	Assurance is provided for the information for the period April 1 2022 to March 31 2023 with reference to the GRI Standards 2021, with: Reasonable assurance on the information on financial performance Limited assurance on other information, prepared in accordance with the GRI Standards 2021.
<b>GRI 2-5 (iii)</b> Relationship between the organization and the assurance provider.	An independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements

### Statement of Responsibility

The Board of Directors of Sarvodaya Development Finance PLC (SDF) takes full responsibility for the integrity and completeness of this integrated annual report for the FY 2022-23. In addition to describing our value creation process and the status of our capitals during the reporting period, we have also used the GRI Standards 2021 to guide us in identifying the most material topics for disclosure and to describe our stakeholder engagement process, and our plans and strategies. To the best of our knowledge this report complies with the IR Framework 2021.

In addition, we provide the following statements:

1. Directors' Responsibility for Financial Reporting in page 178.
2. Directors' Statement on Internal Control over Financial Reporting in page 182.
3. Chief Executive Officer's and Chief Financial Officer's Responsibility Statement in page 180.
4. Independent Assurance Report to the Board of Directors of Sarvodaya Development Finance PLC in page 181.

In addition, the financial statements presented in this report have received assurance from our external auditors, Messrs. Ernst & Young (Chartered Accountants). The auditors report is provided on page 190 of this report.



**Channa de Silva**  
Chairman



**Dammika Ganegama**  
Senior Director

29 May 2023

### GRI 2-3

#### Accessing this report and feedback



Please send your feedback on this report to:

#### Head of Strategic Planning

Sarvodaya Development Finance PLC  
No: 155/ A, Dr. Danister De Silva  
Mawatha, Colombo 08, Sri Lanka.  
Tel: +94 115 444 666



This report can be downloaded from our website <http://www.sarvodayafinance.lk>, which is also mobile phone enabled, or please scan the QR code to be directed to the page.

# REIMAGINE



SDF built a strong customer relationship with Chandra Bakery and Hotel, now a family-owned establishment, with a 7 years history. This partnership was crucial in helping the business not only survive but also achieve remarkable growth during the challenging post-COVID period.

Chandra Bakery

Dehiattakandiya, Ampara District

**GRI 2-1**

**ORGANIZATIONAL DETAILS**

(a) Legal name	Sarvodaya Development Finance PLC
(b) Nature of ownership and legal form	Public Quoted Company Incorporated in Sri Lanka under the Companies Act No. 7 of 2007. A Licensed Finance Company under the Finance Business Act No. 42 of 2011. A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000. The Company was admitted to the official List of the Colombo Stock Exchange on 14 December 2021.
(c) Location of its headquarters	No 155/A, Dr. Danister De Silva Mawatha, Colombo 08, Sri Lanka
(d) Countries of operation	Sri Lanka

**GRI 2-6**

**(a) Activities, value chain and other business relationships**

**i. Sector(s) in which the company is active**

SDF is active in the non-bank financial services sector as a licenced finance company. The principal activities of the Company consist of lending and accepting deposits. Our lending activities extend to granting:

- Micro Finance Loans
- SME Loans
- Leasing
- Housing Loans
- Business Loans
- Gold Loans
- Other Credit Facilities and related services.



Please refer the Social Capital chapter for a full list of our products.

**ii. Relevant business relationships**

- SDF works with Sarvodaya Shramadana Societies as a lending channel to rural communities, and to attract customer deposits.
- We have agreements with the below companies to supply agricultural equipment for our customers under lease agreements.
  - ▶ DIMO
  - ▶ Hayleys Agriculture
  - ▶ Browns Agri Solutions



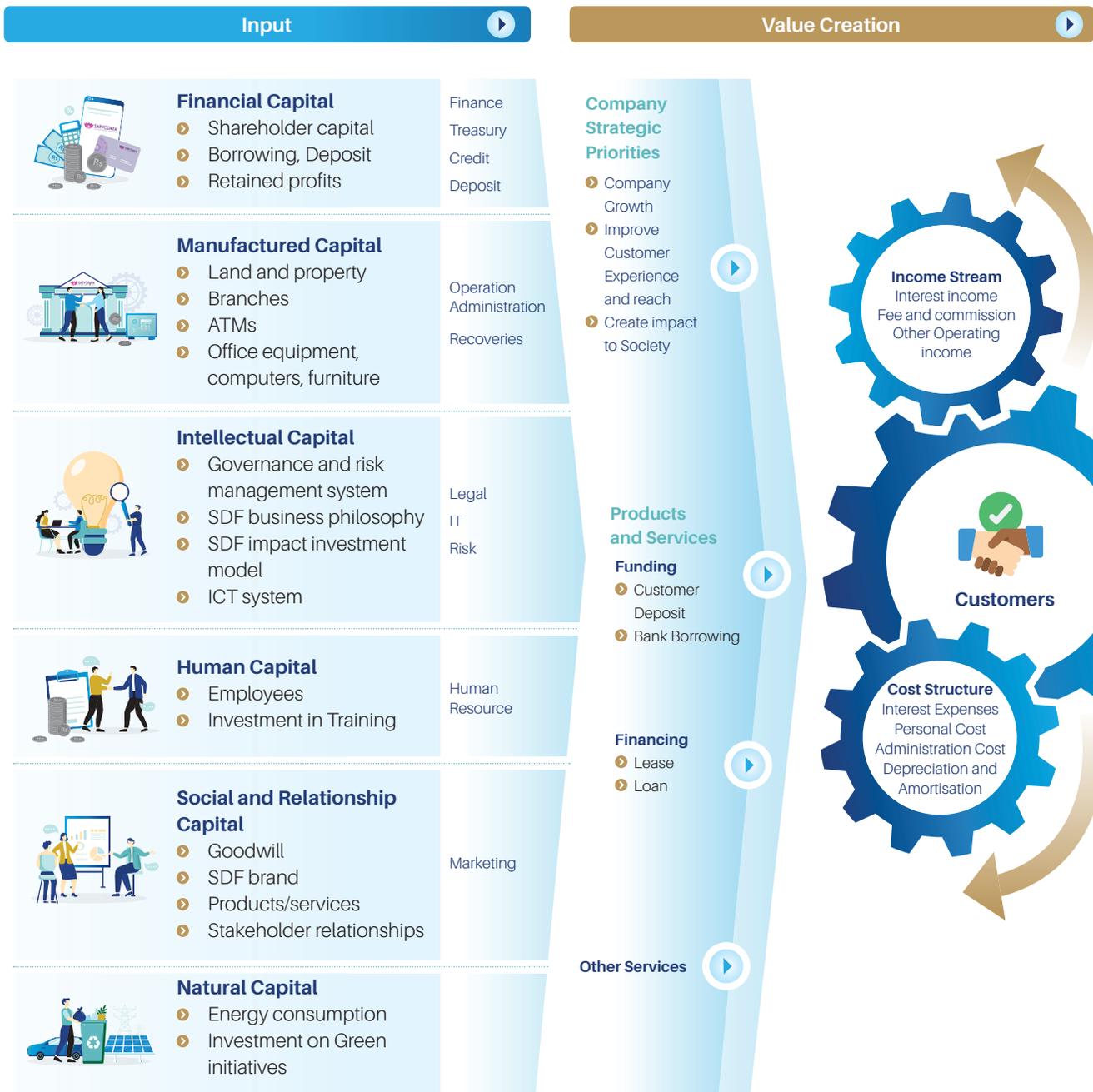
**(iii) significant changes compared to the previous reporting period**

There are no significant changes to SDF's business activities and business relationships compared to the previous financial year.

# VALUE CREATION MODEL

SDF is the first impact investment company to be listed on the Colombo Stock Exchange. With the foundation set by Sarvodaya, we have developed a unique value creation model - which is a sustainable mechanism to channel funds into Sri Lanka's under-developed rural interior.

- Our impact investment model utilises our capitals to design and deliver formal financial services (lending and deposit products) to the public, and small and micro entrepreneurs, most of whom live outside the Western Province.
- A large share of the profits from our business activities are distributed among our shareholders as dividends. Sarvodaya entities, including over 1,000 Sarvodaya Shramadana Societies, represent a majority 54% of our shareholder base.
- Consequently, over half of our dividend is redirected into rural communities and to rural entrepreneurs, through Sarvodaya Societies and other Sarvodaya entities. Our business model is founded on the apolitical and non-discriminatory Sarvodaya vision of creating a 'Grama Swaraj,' which is a Common State of autonomous, empowered villages.



Vision, Mission and Values

Macro Environment

Business Ethics, Code of Conduct

Micro Environment

Risk Management

Internal Environment

Corporate Governance, Internal Audit

How added value

Financial Capital

Expanded funding base through bank borrowings and deposit mobilisation

Manufactured Capital

- Established two own ATMs
- Acquired additional office equipment
- Strategically relocated certain branches

Intellectual Capital

- Strengthened governance and risk systems
- Improved core banking system
- New ICT applications
- Digital connectivity for rural customers through SSS

Human Capital

- New recruitments
- Training
- Incentives and welfare measures

Social and Relationship Capital

- Investor road shows
- Marketing and promotions
- Training and market development activities
- Extended moratorium
- Expanded business partner networks
- Bulk loans to Sarvodaya Societies
- Engaged with other key stakeholders

Natural Capital

- Started tree planting project
- Continued to monitor natural resource consumption

Outputs

Financial Capital

- Grew the number of loans
- Increased deposits
- Increased asset base
- Increased revenues
- Increased profits

Manufactured Capital

- Commenced upgrading facilities at branches
- Improved brand equity

Intellectual Capital

- Real time market data
- Better management decision making
- Enhanced system capacity
- Increased internal productivity

Human Capital

- Employee satisfaction
- Efficiency improvement
- Business growth

Social and Relationship Capital

- Acquired new customers
- Helped customers grow their businesses
- Business partners increased
- Raised investor awareness about impact investment opportunities

Natural Capital

- Reduced energy costs
- Reduced paper wastage costs

Outcomes

- Created Sri Lanka's 1st listed, impact investment company with potential to attract global investments

- Improve access to formal financial services

- Helped bridge rural urban digital divide
- Improved risk management and internal controls

- Employment creation

- Dividends for investors
- Customer satisfaction
- Business partner relationships
- Strengthen Society network
- Built a youth customer base

- Reduced environmental impact

Impact

Economic impact

- Grow and develop rural economies
- Develop export industries
- Enhance national GDP

Social impact

- Narrow the urban-rural divide
- Unify communities (Through trade networks)
- Improve health and sanitation and other social services

Governance

- Create a self-governing, Grama Swaraj



## OUR JOURNEY

**2010**

Registered as a Public Limited Company by the name of

**Deshodaya Development Finance Company Limited**

**2016**

Introduced a fully-integrated, centralised and a real-time core-banking system for all our business operations

**2017**

Introduced **Western Union** for money transfers

Introduced **mCash** for loan collection

Diversified business strategy from micro finance, to assets-backed lending by introducing leasing and SME loans

Rationalised the branch network by **re-branding and relocating branches**

**2013**

Received the **finance licence from the Central Bank** to commence finance business

**2014**

Acquired the assets and liabilities of the Micro Finance Division of the Parent Company

**2018**

Joined LankaClear and connected to over **4,000 ATMs** through LankaPay platform

Introduced Business Intelligence (BI) technology

Received a **Silver Award** (under LKR. 20 Bn assets category) from **CA Sri Lanka for our Annual Report**

**2015**

Commenced finance business with a range of new lending and deposit products

Acquired 75.54% of George Stuart Finance PLC under the Central Bank's Consolidation Programme

Changed the Company's name to **Sarvodaya Development Finance Limited**

Enhanced the share capital by **LKR 340 Mn** Received a certificate of compliance from **CA Sri Lanka for our Annual Report 2015**

## 2019

Shifted the Head Office to **Colombo** for greater visibility, customer acceptance and brand positioning

Installed our first ATM

Commenced digital content marketing and penetration into social media

## 2020

Received the **Gold Award** (under LKR 20 Bn assets category) from **CA Sri Lanka for our Annual Report**

Achieved a milestone profit target of **LKR 100 Mn**

Introduced smart POS machines to facilitate customers loan instalment and utility bill payments

Introduced new integrated workflow management system

Embarked on digital marketing

## 2021

**Awarded the Fastest Growing Development Finance Company in Sri Lanka 2021** by the Global Banking and Finance Review - UK.

Raised new share capital of LKR 806 Mn from private placement

## 2022

Raised **LKR 1 Bn** from IPO on 23 November 2021 and listed on the Main Board of the Colombo Stock Exchange on 14 December 2021

Converted 21 customer service centres in to branches

Staff strengths over **500**

Introduced ESG (GRI Standards) to the Annual Report

Introduced Common Electronic Fund Transfer Switch

## 2023

Received a **Gold Award** (under LKR 20 Bn assets category) from CA Sri Lanka TAGS Awards 2022

Opened village based own ATMs

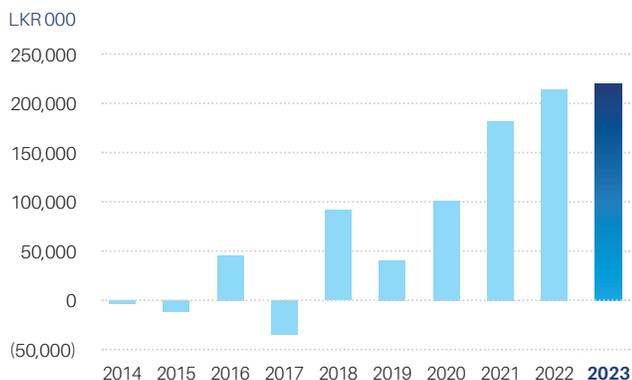
Enter into international impact funding

Upgrade credit rating to **BB stable**

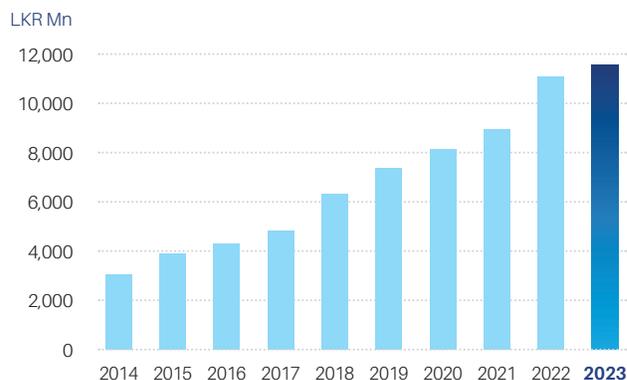
## FINANCIAL HIGHLIGHTS

	2023	2022	Change %
<b>Profitability (LKR '000)</b>			
Income	2,597,492	1,930,409	34.6%
Interest Income	2,461,331	1,822,315	35.1%
Net Interest Income	1,239,717	1,260,199	-1.6%
Operating Expenses	866,708	800,411	8.3%
Impairment Losses	63,092	192,619	-67.2%
Profit Before Taxation	300,132	268,711	11.7%
Profit for the Year	221,649	215,466	2.9%
<b>Assets &amp; Liabilities (LKR '000)</b>			
Loans and Receivables	5,105,311	5,110,595	-0.1%
Lease Rentals Receivables	4,674,862	4,768,167	-2.0%
Total Assets	11,670,294	11,174,484	4.4%
Due to Customers	6,193,431	4,729,097	31.0%
Total Shareholders' Funds	3,449,488	3,304,795	4.4%
<b>Investor Information (LKR)</b>			
Net Assets Value per Share	23.06	22.09	4.4%
Earnings per Share - Basic	1.48	1.86	-20.2%
Market Price per share	11.00	12.50	-12.0%
Market Capitalisation	842,015	807,179	4.3%
Price Earning Ratio (P/E)	7.42	6.74	10.2%
<b>Financial Indicators (%)</b>			
Return on Assets (after tax)	1.94%	2.13%	-9.0%
Return on Equity (after tax)	6.56%	7.85%	-16.4%
Cost to Income	73.60%	66.28%	11.0%
Gross NPA Ratio	14.39%	8.93%	61.1%
Net NPA Ratio	8.98%	3.31%	171.1%
Growth in Total Assets	4.44%	23.66%	-81.2%
<b>Capital Adequacy Ratios (%)</b>			
Core Capital to Risk Weighted Assets Ratio (Tier I) (Minimum 8.5%)	32.75%	29.17%	12.3%
Total Risk Weighted Capital Ratio (Tier I&II) (Minimum 12.5%)	34.01%	30.42%	11.8%
Equity to Deposits (Minimum 10%)	55.70%	69.88%	-20.3%
Liquidity Ratio	17.64%	10.51%	67.8%

Profit/ (Loss) for the year



Total Assets





\* Figures are included in five years back.

## NON-FINANCIAL HIGHLIGHTS

## Finance Capital



Economic Value Distributed

		2023	2022
<b>Deposit &amp; Lenders</b>	(LKR Mn)	1,222	562
<b>Employees</b>	(LKR Mn)	464	440
<b>Government</b>	(LKR Mn)	224	160
<b>Suppliers</b>	(LKR Mn)	468	521
<b>Retained</b>	(LKR Mn)	219	247

## Manufacture Capital



<b>Branches</b>	(Nos)	51	51
<b>Branches Upgrade</b>	(Nos)	2	2
<b>Branch Relocated</b>	(Nos)	3	2
<b>Invest in Fixed Assets</b>	(LKR Mn)	41	14
<b>Invest in ROU Assets</b>	(LKR Mn)	364	321

## Social &amp; Relationship Capital



<b>Customer Base</b>	(Nos)	159,393	153,238
<b>Revenue to Government</b>	(LKR Mn)	224	160
<b>Payment to Suppliers</b>	(LKR Mn)	2,416	2,972
<b>Product Disbursement</b>	(LKR Mn)	7,235	8,074
<b>Marketing Initiatives</b>	(LKR Mn)	86	78

## Human Capital



<b>Total workforce</b>	(Nos)	453	508
<b>New Recruitments</b>	(Nos)	118	221
<b>Employees promoted</b>	(Nos)	81	59
<b>Employees Trainings</b>	(Hrs)	9,037	6,711
<b>Employees Rewarded</b>	(LKR 000)	332	469

## Natural Capital



<b>Electricity Usage</b>	(Kwh)	516,860	539,881
<b>Electricity per Rs. 1Mn of Revenue</b>		199	280
<b>Fuel Usage</b>	(Ltr)	107,653	250,884
<b>Fuel per Rs. 1Mn Revenue</b>	(Ltr)	41	130
<b>Energy cost per employee</b>	(LKR)	92,449	95,283

2021	2020
623	750
382	363
99	125
471	467
168	97
30	30
2	1
2	5
34	24
271	234
148,700	140,057
173	130
1,961	1,930
3,784	3,684
35	24
480	471
167	136
10	14
7,119	320
1,500	500
562,668	546,648
323	303
175,114	127,458
100	71
77,578	67,417



Received the **Gold Award** (under LKR 20 Bn assets category) from **CA Sri Lanka TAGS Awards 2022**

Received a **BB** (stable) Credit Rating **Lanka Rating Agency**



## CHAIRMAN'S MESSAGE

**34.6%**

**REVENUE  
GROWTH**

**11.7%**

**INCREASE  
IN PROFIT  
BEFORE TAX**

“

*We achieved a 35% year-on-year increase in income for the financial year 2022-23, and a 12% increase in profit before tax. The profit after tax is only a small growth, following the tax increase from 12% in the previous financial year, to 30% in the current year.*

”



**Channa de Silva**  
Chairman

29 May 2023

The financial year 2022-23 marked one of the toughest periods ever witnessed in the post-independence history of our country. The economic landscape was engulfed by an almost 100% depreciation of the currency, YoY inflation running up to 73.6% per annum, and prime interest rates (AWPLR) reaching 29.67% per annum. All this, was the outcome of the overburdened debt portfolio of the country, which as we all know, resulted in non-payment of debt instalments, leading to a virtual bankruptcy status for the first time in our country's history. The resulting extraordinarily high interest rates crippled the financial sector, whilst overburdening the borrowers with extremely high repayments that led to the virtual collapse of the country's Micro and Small and Medium Enterprises (MSME) sector. Supporting this sector, has been SDF's biggest contribution during the year.

### WE KEPT OUR PROMISE

When we went public in November 2021, we were the first company in Sri Lanka to offer investors an impact investment opportunity, where we made a commitment to deploy our expertise as a finance company, to channel development finance into the regional economy. In spite of the gloomy macro environment, we have kept our word. While the rest of the financial services industry reduced exposure to the agriculture sector, we continued to invest in our rural farmers, and also women entrepreneurs, especially in our regional outreach. Given that over 50% of our clients are women, the performance of these facilities was extremely satisfactory.

As a SME and micro financing development company, SDF, was able to outperform the financials reported in 2021-22. We achieved a 35% year-on-year increase in income for the financial year 2022-23, and a 12% increase in profit before tax. The profit after tax is only a small growth, following the tax increase from 12% in the previous financial year, to 30% in the current year. However, we still exceeded the previous financial year's net profit, at Rs 216 Mn, the highest profit ever recorded in the history of the Company. This achievement demonstrates the great commitment and passion of the management and all our employees, who worked tirelessly throughout the year.

In agricultural areas of the country, we financed purchases of combined harvesters, tractors and other agricultural equipment, along with working capital for farmers. We also made significant progress in negotiating international credit lines that are committed to support agriculture and women empowerment.

With regards to expanding our outreach, have now leveraged the strength of Sarvodaya to a great extent, and we work very closely with Sarvodaya Shramadana Societies to identify and deploy financial facilities to entrepreneurial segments of the community. This has anchored our presence in the agriculture

## Chairman's Message

sector across rural Sri Lanka. We deal with well over 1,000 Sarvodaya societies and look forward to reaching 5,000 societies in the future. A clear roadmap has been developed to achieve this expansion in the foreseeable future.

### WAY FORWARD

Looking ahead, we want to further strengthen our presence in the agriculture sector and in women empowerment services. Together with the Sarvodaya Movement, we have a unique position of brand loyalty that has been consolidated with over 60 years of committed social engagement and village empowerment. With this background, we will be able to create a unique and advantageous position for our organisation as we move forward.

As the world is now turning to regenerative agriculture, our organisation is determined to lead this initiative in Sri Lanka by connecting with this global movement. Sri Lankan farmers can exchange knowledge with their regional peers regarding soil restoration, grounding carbon, using organic fertiliser and moving towards more productive and scientific deployment of planned agricultural development. Modernisation of the agriculture sector will also make it more attractive to young people, compared to less productive employments, while contributing directly towards national food security. In the new financial year, we are committed to organise a global summit on regenerative agriculture, hosting an international audience of agricultural specialists, who will be invited to Sri Lanka to further this global discussion.

In order to speed up economic revival, Sri Lanka needs to re-evaluate traditional lending models, in favour of more innovative and beneficial modes for the borrower. Therefore, SDF will consider avenues to support venture capital and other hybrid mechanisms to support a new segment of entrepreneurs, who can pursue their passion through less debt driven funding structures. Towards this objective, we will engage with other partners to develop new programmes, which will shape a new generation of entrepreneurs, as well as possibly influence the country's financial sector architecture. We will select dynamic, entrepreneurs from our rural base, and provide the requisite training to set up their own organisations. We will include training in critical aspects of modern business development, including leveraging IT and social media, internet based marketing and high-end packaging, to supplement their knowledge and learning.

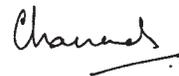
*Together with the Sarvodaya Movement, we have a unique position of brand loyalty that has been consolidated with over 60 years of committed social engagement and village empowerment.*

Despite cost of funding being so excessive in Sri Lanka, we will continue to provide value added services to our customers in a better designed and streamlined manner, as affordable funding will be critical for their success. Our decision to link-up with more impact driven credit lines globally, will be an important aspect in our journey. We will continue to scan the globe for such credit lines with technical capabilities that also provide relatively low cost funding, with long-horizons and grace periods, to channel funds to rural entrepreneurs in Sri Lanka. This is in fact, the spirit of SDF, which is to empower rural entrepreneurs in Sri Lanka.

### THANK YOU FOR YOUR SUPPORT

As we face a new year that will bring with it as many opportunities as challenges, I would like to thank my colleagues on the Board, the CEO and the management, and all our employees for their dedication during the year. I am especially grateful to Dr A T Ariyaratne, who has been a pillar of strength for us, and also Dr Vinya Ariyaratne and his team, and the Sarvodaya District Coordinators and Societies for all the support they have provided. Our depositors and borrowers are our strength and I thank all of them for their commitment and confidence in us. I also thank our shareholders and regulators, including the Central Bank of Sri Lanka and other government bodies, for their cooperation and continued support. I invite all of you most graciously and warmly, to join us in creating a new era of a reinvigorated micro finance and SME industry that will uplift Sri Lanka to a different trajectory of growth and development.

Sincerely,



**Channa de Silva**  
Chairman

29 May 2023

# REIMAGINE

A man with a friendly expression, wearing a brown polo shirt with blue trim, is leaning on a large wooden structure. The structure appears to be part of a coir processing machine, with a large wheel and a belt visible. The background is filled with green foliage and stacks of coir, suggesting an outdoor industrial or agricultural setting.

SDF empowered significantly wounded and disabled army officer Mr. Premakumara to establish and expand his coir production business, overcoming challenges. This support had a significant impact on his life, and as a result, he now oversees and provides employment for more than 15 people.

B H L Premakumara  
Poddala, Galle District



## CEO'S REVIEW

**BB**  
Stable

**CREDIT RATING  
UPGRADED FROM B-**

**21** %

**AGRI-LENDING  
GROWTH**

**50** %

**GROWTH IN FIXED  
DEPOSITS**

“

*We closed the financial year 2022-23 with a revenue growth of Rs. 667.1 Mn, reaching Rs. 2.6 Bn, and a net profit of Rs. 221.6 Mn.*

”



**Nilantha Jayanetti**  
Chief Executive Officer

29 May 2023

### OPERATING ENVIRONMENT

The financial year 2022-23 was one of the most turbulent years in the history of our country. Despite this unprecedented backdrop of volatility, it gives me great pleasure to report that SDF has emerged strongly in terms of financial, operational and reputational, which enabled us to position SDF securely on a growth trajectory for the future.

### STRATEGIC ALIGNMENT

#### Trust Network Strategy

At the start of the financial year on 1 April 2022, SDF had just concluded its first quarter as a public listed company, and was gearing to unleash a new growth strategy. However, we were suddenly faced with a dramatic shift for the worse in our operating environment. Navigating the Company through this escalating and unpredictable risk environment required a change in the management mindset and approach to ensure continued financial stability and public trust. We responded to a volatile, uncertain, complex, and ambiguous environment by deploying our 'Trust Network Strategy', which targeted the key stakeholder groups of customers, shareholders, employees, regulator bodies, local banks and international lending agencies, to consolidate the Company's social and financial stability.

Performance management and monitoring were strategically refocused towards a 'Balance Sheet Approach', from the traditional Profit & Loss approach. This change in focus enabled tighter controls and greater sensitivity towards market dynamics, facilitating earlier responses to threats and opportunities. Our objective was to maintain a strong financial position at all times to ensure the resilience of the Company. The effectiveness of our approach has been reflected through our financial statements by the end of the financial year.

As an immediate defense against the escalating risk environment, we have strengthened our risk management function by carrying out risk assessments covering the entirety of our operations and business portfolios through reviewing and realigning our processes. As a responsible finance company our priority was given to maintaining adequate liquidity throughout the year to meet customers' fund demand which was essential to maintain public confidence. We ensured that at any given time the Company maintained a healthy liquidity position throughout the year while a high focus was given to loan recoveries.

Consequently, we enjoyed unprecedented confidence from depositors and customers which includes the Sarvodaya Shramadana Societies as well as the general public. This public trust placed on SDF despite the extreme macroeconomic instability that prevailed during the year, is demonstrated by the 50% growth in our fixed deposit base.

## CEO's Review

During the year, we obtained the Central Bank approval for the Annual Business Expansion Plan through which we are to expand our footprint around the country and the majority of these new branches will be located outside the Western Province to support the rural economy which is in line with our rural development philosophy. These new branches will make our services more accessible to rural communities to enhance financial inclusion protecting them from costly illegal money borrowings and unscrupulous fund investment systems.

As the first development finance company registered in Sri Lanka, our lending objectives are not limited to business targets. Our research into the Sri Lankan agriculture sector has identified three primary obstacles to growth which are the low levels of modernisation continued dependence on traditional agricultural methods, and poor resource management. Even though 27% of the country's population is engaged in agriculture sector, the value added to the economy is only 7%. Therefore, one of the primary objectives of the SDF is to facilitate modernisation of agriculture through financial assistance for modern agricultural equipment, and educating farmers. During the year we entered into agreements with Hayleys Agri and Browns Agro to facilitate access to modern agricultural machinery that will enhance productivity. These agreements are in addition to our existing agreement with DIMO for tractors, harvesters and other equipment. Through the collaboration with the Sarvodaya Movement we provided organic liquid fertiliser which has been developed with patented Japanese technology in order to promote sustainable agriculture. SDF was mindful of not overburdening our farming customers with debt we aligned their loan repayments in par with the harvesting seasons and provide advice on financial management. During the year under review our lending to the agriculture sector was grew by 68%

During the year we also initiated discussions with a few international funds, and we are hopeful of receiving the first tranche of funding year 2023. These comparatively lower cost funds will make it possible to help more farmers and entrepreneurs in developing their livelihoods.

Relationships with local banks are also vital for our business sustainability. Therefore, we built trust by accommodating all our financial obligations on time. Throughout the year any moratoriums or reschedulements for loans or extensions of payments were not requested by the Company. As a result, we were able to slowly lessen our debt portfolio over banks.

The prevailing economic circumstances have promoted brain drain across the country, and we too experienced a higher rate of attrition. However, on our end as a responsible employer we did not lay off staff or reduce salaries, allowances, or bonuses. We also continued to provide employment opportunities by

recruiting new talent for our branch network while ensuring the job security of our staff.

We engaged directly with rating agencies to facilitate financial and governance transparency with the outcome of becoming the only finance company to be bestowed with a rating upgrade in 2022. Our credit rating was upgraded from B Negative Watch in April 2022 to BB Stable in September 2022 which contributed towards brand credibility and depositor trust.

### OUR PERFORMANCE

Our multi-pronged Trust Network Strategy has generated extremely satisfactory financial results in an environment of exponential cost increases. Our balance sheet maintained steady growth during the year with asset growth of 4.4% year on year reaching Rs 11.67Bn.

In spite of the import ban on vehicles and the rapidly shrinking domestic vehicle retail market we achieved marginal growth in our leasing portfolio mainly in the agricultural sector. Our quick pawning services to facilitate growing public demand for funds have fuelled double digit growth in the pawning portfolio.

While the country continued to experience high non-performing asset levels despite our increased lending to the rural agriculture sector we have contained our NPL ratio at 14.40% compared to the 16.01% national average. This is mainly due to our unique and highly effective 'Know Your Customer' model, as we work through Sarvodaya Village Societies in selecting our lending customers. Due to the extremely low default rates our agriculture machinery suppliers have also agreed to buy back any assets in default which provides an additional risk safeguard to SDF, and demonstrates supplier confidence in our customer screening process.

We concluded the financial year 2022/23 with a net operating income growth of Rs 137.1Mn reaching Rs. 1,312Mn, and a net profit of Rs.221.6Mn.

### OUTLOOK FOR THE NEW FINANCIAL YEAR

SDF has once more proved its potential within highly unfavourable market conditions. Therefore, we are confident of a stronger performance in the new financial year. Growth will be fuelled by international funding and our expanding footprint.

I believe the domino effect of economic recovery will work in our favour. The steady economic stabilisation, and IMF funding will also boost investor confidence in the Sri Lankan economy. The controlled inflation and gradually declining interest rates can be expected to contribute towards a steady recovery in demand for credit in the new financial year. The improvement of the reserve position will also break the vicious cycle of inflation and

shortages, and create a beneficial cycle that will boost consumer demand leading to more economic activities.

As a unique player in the Sri Lankan financial services sector SDF has significant potential for rapid growth within a conducive environment due to our island wide social network through the Sarvodaya Movement and high brand credibility. Over the medium term we plan to grow our market share and asset base significantly through organic growth while looking into other avenues for faster growth.

Starting in 2023 we are also looking forward to initiating an agricultural transformation by introducing regenerative agricultural techniques. We believe regenerative agriculture can revive our agricultural systems by replenishing our soil, improving watersheds, returning biodiversity and improving ecosystems services. These holistic benefits will contribute not only towards sustainable agriculture but also to mitigating climate warming effects on the country.

#### APPRECIATIONS

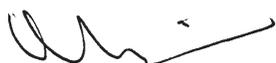
I would like to thank our customers for their direct contributions towards our success by standing by us through this very difficult time. I am also thankful to our shareholders for giving us the strength of their confidence to navigate the year.

I must extend a very special thank you to the Chairman and the Board of Directors for their continuous guidance, and I thank the Sarvodaya founder Dr. AT Ariyaratne, the present Sarvodaya President Dr. Vinya Ariyaratne, and other Sarvodaya related parties for partnering us during the year.

I fully acknowledge the contributions of my able team including the management team regional and branch managers and the rest of the SDF staff. It has been a privilege to work with you. I also extend my appreciation to our regulator the Central Bank of Sri Lanka and Colombo Stock Exchange.

I wish all our stakeholders and well-wishers success in the new financial year and look forward to continuing our journey together.

Sincerely,



**Nilantha Jayanetti**  
Chief Executive Officer

29 May 2023

## BOARD OF DIRECTORS



Left to Right

**Mr. Channa de Silva** Chairman – Non-Executive / Non-Independent

**Mr. Dammika Ganegama** - Senior Director-Non-Executive / Independent

**Mr. Masayoshi Yamashita** - Non-Executive / Non-Independent

### GRI 2-9 (c)

#### MR. CHANNA DE SILVA

*Chairman - Non-Executive / Non-Independent*

Mr. Channa de Silva was appointed to the Board in April 2011, and thereafter appointed as Deputy Chairman in November 2014 and assumed office as the Chairman of the SDF in October 2016.

He previously served as Managing Director of Summit Finance PLC as well as Managing Director of George Steuart Finance PLC. Formerly, he served as a Director of Pan Asia Bank PLC. He also served as Group Managing Director of Delmege Group Limited. He has served the government sector previously as Director General of the Securities and Exchange Commission (SEC) and the Executive Director of the Board of Investments (BOI) Sri Lanka. He is the Chairman/Co-founder of Capital media, publisher of Echelon business magazine and business news portal EconomyNext.

He holds a Bachelor's Degree from the University of Colombo and Master's Degrees from Harvard University and Melbourne University. Fellow of the Chartered Institute of Management Accountants (FCMA – UK) and Fellow of the Chartered Certified Accountants (FCCA – UK).

He is the vice president of Sarvodaya Movement. Also serves as a Governing Council Member of the University of Colombo. Also serves as board member of University of Colombo Investment Committee as well as Finance Committee. Also serves as faculty board member of institute of graduate studies, institute of Biotechnology and molecular biology. He serves as a Sri Lankan council member of the Chartered Institute for Securities & Investments (CISI- UK). He is an Edward Mason Fellow of Harvard University and served as a Teaching Fellow in Public Finance at the Harvard Kennedy School.



Left to Right

- Mr. Ramesh Schaffter** - Non-Executive / Non-Independent
- Mr. Senthil Nandhanan Senthilverl** - Non-Executive / Non-Independent
- Ms. Shehara De Silva** - Non-Executive / Independent
- Mr. C. Amrit CanagaRetna** - Non-Executive / Independent

### **MR. DAMMIKA GANEGAMA**

*Senior Director-Non Executive / Independent*

Mr. Dammika Ganegama joined the Sarvodaya Finance Board of Directors in July 2020. Having more than 25 years of experience in the IT industry, Mr. Ganegama started his professional IT career when he joined a small startup in 1999. He program managed many of the strategic accounts, helping increase their valuation and later to be part of its listing in 2007 with NASDAQ (VRTU). He is currently a Founding Partner and Executive Vice President of the Mitra Group.

The Mitra Group is headquartered in the UK with offices across Australia, Sri Lanka, Singapore and the US serving clients across 50+ countries. Mr. Ganegama owns and operates multiple ventures and businesses across many geographies and has also been appointed as a trusted advisor for several Not For

Profit Organisations. He has developed a wealth of experience in consulting and implementing Digital Transformation programs for global clients ranging from SMEs, public sector, large scale enterprises and multi-nationals including Siemens, Aetna, BT, Staples, Axiata, IBM and other Fortune 500 clients. His experience and passion extend to Program management, Setting up technology lead new businesses, Ventures and Partnerships across various industry verticals.

## Board of Directors

### MR. MASAYOSHI YAMASHITA

*Non-Executive / Non-Independent*

Born in Tokyo in 1973, Mr. Masayoshi Yamashita holds a degree from the Department of Political Science at Hosei University (Japan) and currently serves as the President and CEO of Gentosha Total Asset Consulting Inc. Mr. Yamashita began his career at the Sanwa Bank (now MUFG Bank, Ltd.), as a coverage banker for corporate clients at the bank's Iidabashi Branch, Hibiya Branch and Corporate Banking Division of Tokyo Headquarters. There, his duties included providing support for corporate funding, overseas expansion, and management finance strategies, offering settlement solutions, and making proposals to company owners looking to establish business succession frameworks. At the Sanwa Bank Headquarters, Mr. Yamashita not only gained experience as a credit inspector and president's secretary but also developed expertise in crisis management support. After joining Gentosha Inc. (a Japanese publishing firm) in 2006, Mr. Yamashita served as a business management specialist in the Business Management Department, utilising the experience he had gained in IR, stockholder relations, internal control development, IPO preparation, MBO and other initiatives for listed companies from a corporate perspective. In 2012, Mr. Yamashita helped found Gentosha Total Asset Consulting Inc. and now also holds several concurrent positions, including Executive Officer of Gentosha Inc.

### MR. RAMESH SCHAFFTER

*Non-Executive / Non-Independent*

Mr. Schaffter appointed to the SDF board on 20th April 2022. Ramesh Schaffter serves as Managing Director/Group Chief Executive Officer of Janashakthi Group. Counting over three decades of experience in Finance and Marketing, he is a Fellow Member and former Council Member of the Chartered Institute of Management Accountants, Sri Lanka, and an Associate Member of the Chartered Institute of Marketing. He has served on the Boards of several public listed and unlisted companies.

A social entrepreneur and life coach, he is an accomplished public speaker and a multiple award winner at national and international level Toastmasters' contests. He is the former President of Habitat for Humanity Sri Lanka and a former Board Member of World Vision for Sri Lanka. He is a Co-Founder of cable television channel Swarga TV.

Mr. Schaffter has served on the Council of the Colombo Theological Seminary, a graduate and postgraduate educational institute, and is the former Chairman of the Incorporated Trustees of the Church of Ceylon.

### MR. SENTHI NANDHANAN SENTHILVERL

*Non-Executive / Non-Independent*

Mr. Senthil Nandhanan Senthilverl was appointed to SDF Board on July 15, 2021. He counts 20 years of corporate experience. He was on the board of Pan Asian Power PLC and currently the CEO at Dollar Corporation, total solution provider for cosmetics, confectionery, beverages, toiletries, detergent, incense stick and allied Industries since 1945. He is also an Executive Director at Senthilverl Holdings (Pvt) Ltd, Investment Company specialized in equity investments founded by Dr. Thirugnanasambandar Senthilverl.

He has exposure in several areas such as sales, marketing, purchasing, logistics and equity trading. He is a Member of Association of Business Executives and holds an MBA from the University of Southern Queensland, Australia

### MS. SHEHARA DE SILVA

*Non-Executive / Independent*

Shehara De Silva was appointed to the Director board of SDF on 27th June 2019. An experienced international communication and marketing expert, Shehara has been behind the success of several local, regional and Fortune 500 multinational brands.

Shehara has worked over a decade in Malaysia with Omnicom companies beginning as Director Planning of Naga DDB and later Managing Director of Interbrand Malaysia one of the world's leading brand consultancies.

She is on the Board of Keells Foods PLC, The Neelan Tiruchelvan Trust, Informatics Institute of Technology and Ex-Pack, Corrugated Cartons PLC, Amana Takaful Life Insurance and Optima design Pvt Ltd. She has been previously on the boards of Environment Foundation Ltd, Arthur C Clark Centre for Science and Technology, and Eagle Fund Management. She has also worked in the development sector with ILO, Internews, USAID, NORAD, GIZ, and Plan International.

She was Deputy Director General of the Board of Investment (BOI-SL), trained on attracting FDI at the IDA in Ireland. She facilitated in the transformation of three Sri Lankan groups - Singer in retail, NDB in banking and Janashakthi in Insurance.

She has sat on several think tanks, judged Innovation awards from the Eisenhower fellowship and Ray awards, to MIT global start-ups and the Roger Herschel creativity awards. She has spoken extensively at international conferences on branding, strategy and Gender issues and won several local and International marketing and women leadership awards.

**MR. C. AMRIT CANAGARETNA**

*Non-Executive / Independent*

Experienced and a qualified ex banker with over 35 years of international and local experience specializing in retail and corporate conventional & sharia based financing, with the last seven years ending 2017 heading Corporate & SME Business Banking areas of Islamic Financing at Amana Bank Plc as its Vice President - Business Banking.

Previously he has been the Deputy General Manager of Pan Asia Bank PLC.

Skilled at financial advisory services relating to working capital funding to financial institutions, corporates, small & medium sized Industries, start-ups including foreign trade financing and construction finance. Having commenced his career at European Asian Bank in 1981, he has since worked for over 8 banks both locally and internationally. Apart from his banking experience, he was the CEO / Director of a Central Bank approved Finance Company and has been a Financial Consultant to both private / government entities.

Currently Amrit is pursuing his passions in representing luxury brands in Sri Lanka in his capacity as Director - Strategic Investments of Royal Lanka Agencies (Pvt) Ltd. Sole Agents for MontBlanc, Baume & Mercier, Raymond Weil, Frederique Constant & Alpina Swiss brands.

He is a Associate member of the Chartered Institute of Bankers, UK and of the Institute of Credit Management, UK.

## MANAGEMENT TEAM

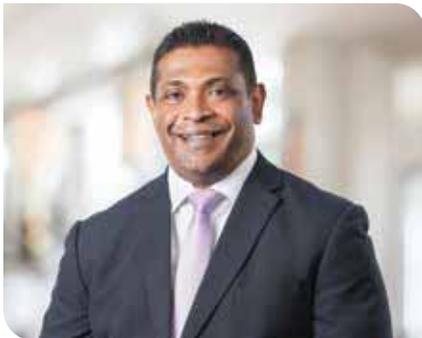


**Nilantha Jayanetti**  
*Chief Executive Officer*

Mr. Jayanetti has a wealth of experience in the sphere of banking and finance, having served in senior management positions in reputed financial institutions with proven skills in marketing, business transformation, team building, operations management and proactive leader in adopting technology and finance and risk management.

Before joining SDF, he served as the Senior Assistant General Manager at Orient Finance PLC for seven years, where his initiatives that led to change in the business drive has positioned the Company as a top brand in the industry, prior to which he has worked as the Marketing Manager at Merchant Bank of Sri Lanka and Finance PLC (formerly known as Merchant Credit of Sri Lanka).

Holder of a degree in Business Management with a specialisation in Accountancy from the University of Kelaniya, Mr. Jayanetti went on to obtain an MBA (Banking and Finance) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He has followed a programme on Strategic Leadership from Cornell University - Johnson Graduate School of Management, USA.



**Mr. Ruwan Jayasuriya**  
*Chief Operating Officer*



**Mr. Ranapriya Fernando**  
*Head of Credit*



**Mr. Mahesh Jayasanka**  
*Head of Strategic Planning*



**Ms. Kalani Dharmadasa**  
*Head of Finance*



**Mr. Kularuwan Gamage**  
*Head of Operations & Administration*



**Mrs. Niranjani Rajaratnam**  
*Head of Human Resources*



**Mr. Kelum Thilakerathne**  
*Head of National Sales*



**Mr. Prabath Rangajeewa**  
*Head of Gold Loan*



**Mr. Darshana Perera**  
*Head of Recovery*



**Ms. Piyumi Ranadheera**  
*Head of Risk Management*



**Ms. Sharonie Robert**  
*Compliance Officer*



**Mr. Kumuditha Aparakka**  
*Senior Manager - Treasury*



**Mr. Manjula Kumarasinghe**  
*Senior Manager - Credit Administration*



**Mr. Nipuna Fernando**  
*Senior Manager - IT Operations*



**Mr. Chaminda Niroshana**  
*Senior Manager - Operations*



**Mr. Nihal Ekanayake**  
*Senior Manager - Finance*



**Mr. Sujith Asanka**  
*Senior Manager - Credit*

## Management Team

### MR. RUWAN JAYASURIYA

*Chief Operating Officer*

#### *Skills and Experience*

Mr. Jayasuriya holds an MBA from Cardiff Metropolitan University (Wales) and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka. He is a member of Sri Lanka Institute of Marketing and an associate member of the Chartered Institute of Marketing UK. In addition to the above, he is a passed finalist of the Certified Management Accountants of Australia.

He has been with the Singer Group for over 24 years, of which eight years were with the parent company of the Singer Group managing sales, administration and hire purchase of consumer durables.

He joined Singer Finance at the inception of the Company in 2004. Mr. Jayasuriya was heading Credit, Recoveries and Operations divisions of the Company from the inception till 2021. Prior to joining SDF, he served at Richard Pieris Finance as the Chief Operating Officer.

### MR. RANAPRIYA FERNANDO

*Head of Credit*

#### *Skills and Experience*

Mr. Fernando has been Awarded Associate Life Membership from the Institute of Bankers of Sri Lanka. Currently reading for an Executive MBA at the University of West London.

He has 28 Years of experience in the Banking and Finance sector. Consisting of local and overseas experience, mainly in the field of Credit, Relationship Management, Mortgage Finance and Real Estate Development Projects - Commercial, Residential and Mixed Development.

### MR. MAHESH JAYASANKA

*Head of Strategic Planning*

#### *Skills and Experience*

Mr. Jayasanka holds MAAT and CA Qualification. 18 years of experience in Auditing, Accounting, Taxation, Process Development, and MIS through BI within banking, financial services, manufacturing, healthcare, retail, and engineering sectors.

Before joining SDF, he served in Ernst & Young for a 7 year period.

### MS. KALANI DHARMADASA

*Head of Finance*

#### *Skills and Experience*

Ms. Kalani Dharmadasa is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science (Accountancy) Special degree from the University of Sri Jayewardenepura.

She has over 16 years of experience in the Development Finance, Manufacturing, Trading, and Textile Industries.

Prior to joining SDF, she served as Chief Financial Officer of Lak Jaya Micro Finance Limited. She began her career at PricewaterhouseCoopers as an audit associate, where she gained valuable experience in auditing and assurance services.

### MR. KULARUWAN GAMAGE

*Head of Operations & Administration*

#### *Skills and Experience*

Mr. Gamage reading for MBA at the University of Brittany. Eighteen (18) years of corporate experience in the finance industry. Fully certified trainer of Micro Finance (ADBI) & business development (CEFE).

He served in BURO-Bangladesh, one of the leading Microfinance institutes in Bangladesh as a program accompanier.

### MRS. NIRANJANI RAJARATNAM

*Head of Human Resources*

#### *Skills and Experience*

Mrs. Niranjani Rajaratnam holds a specialised MBA in Human Resource Management from the University of Bedfordshire, UK, affiliated with the Oxford College of Business. She also holds a Pearson Assured Executive Diploma in HR from the University of Northampton, UK, affiliated with HRMI.

With over 12 years of extensive experience in the HR field, Mrs. Rajaratnam is well-equipped to handle the diverse challenges of the profession.

### MR. KELUM THILAKERATHNE

*Head of Leasing*

#### *Skills and Experience*

Mr. Thilakerathne holds a Diploma in Credit Management - Institute of Credit Management. Have introduced diversified leasing products in line with Sarvodaya Philosophy including Agro-based leasing in remote areas.

He has 18 Years of corporate experience in the Leasing Industry specialising in sales and marketing.

### MR. PRABATH RANGAJEEWA

*Head of Gold Loan*

#### *Skills and Experience*

Mr. Rangajeewa has 26 years of corporate experience in the finance sector specializing in gold loans, pawning, and gold mortgages. Provided the leadership to have a fully equipped gold loan division where more than Rs.2 Bn worth of gold loan portfolio is established.

He has 25 Years of corporate experience in the Gold Loan Industry specialising in sales and marketing.

### **MR. DARSHANA PERERA**

*Head of Recovery*

#### *Skills and Experience*

Mr. Perera has 19 years of corporate experience in the finance sector specialised in recovery in terms of both front-office and back-office functions. He has contributed to streamlining the procedures of the Recovery division and setting up the high-tech call center in SDF.

He has 19 years of experience in the Finance sector.

### **MS. PIYUMI RANADHEERA**

*Head of Risk Management*

#### *Skills and Experience*

Ms. Ranadheera is an Associate Member of the Institute of Certified Management Accountants (CMA) of Sri Lanka and holds CGMA Adv Dip in Management Accounting from the Chartered Institute of Management Accountants, (CIMA-UK). She also holds an MBA from the University of Colombo and Bachelor of Business Administration (BBA) in Finance (Sp) from the University of Colombo.

Ms. Ranadheera holds Diploma in Bank Integrated Risk Management (Institute of Bankers of Sri Lanka) with a merit pass and Certificate in Treasury and Foreign Exchange Operations conducted by the Centre for Banking Studies, Central Bank of Sri Lanka. She is currently reading the Diploma in Compliance at the Institute of Bankers of Sri Lanka.

She is counting 9 years of experience in the field of risk management in the NBFi sector.

### **MS. SHARONIE ROBERT**

*Compliance Officer*

#### *Skills and Experience*

Ms. Robert is an Associate Member of the Institute of Chartered Corporate Secretaries in Sri Lanka and a registered Company Secretary in Sri Lanka. She holds BA(Hons) International Business and Finance from the University of West of Scotland, UK and CGMA Adv Dip in Management Accounting from the Institute of Chartered Management Accountants, CIMA, UK. She also holds Certificate in Global Financial Compliance from the Chartered Institute of Securities and Investment, UK, and Certificate in Banking and Finance from The Institute of Bankers of Sri Lanka.

She has 10 years of experience in the non-bank financial sector in Compliance, Company Secretarial, and Corporate Governance.

### **MR. KUMUDITHA APARAKKA**

*Senior Manager- Treasury*

#### *Skills and Experience*

Mr. Aparakka holds a Bachelor's Degree in Commerce (special) from University of Kelaniya Sri Lanka and Masters in Business Administration from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He holds Diploma in Treasury and Risk Management from IBSL, Diploma in International Relations from BCIS and Associate Member of the Association of Accounting Technicians of Sri Lanka (MAAT). Mr. Aparakka is currently reading finals in Chartered Accountants of Sri Lanka and LLB degree in Open University of Sri Lanka.

He counts over 12 years of experience in the fields of Treasury operations, Financial Management and Auditing in NBFi Sector.

### **MR. MANJULA KUMARASINGHE**

*Senior Manager - Credit Administration*

#### *Skills and Experience*

Mr. Kumarasinghe holds B.B.Mgt. Accountancy (Special) - from the University of Kelaniya and Higher National Diploma in Accountancy. As the Head of Credit Administration, he contributes in many aspects towards the improvement of the quality of the lending portfolio by formulating Credit Administration Procedure Manuals, implementing good checks and controls in security documentation, etc.

He counts over 24 years of overall experience in a variety of industries including manufacturing, shipping, tourism as an Accountant and in the NBFi sector.

### **MR. NIPUNA FERNANDO**

*Senior Manager - IT Operations*

#### *Skills and Experience*

Mr. Fernando holds an MBA in the Finance University of Colombo, BSc. Physical Science at the University of Colombo, Diploma in Computer System Design at NIBM.

He has 13 years of experience in the Finance Sector as an IT Profession.

## Management Team

### **MR. CHAMINDA NIROSHANA**

*Senior Manager – Operations*

#### *Skills and Experience*

Mr. Niroskana holds a Diploma in Banking at IBSL.

He has 29 years of experience in the Banking and Finance sector. He is in charge of the security documents in SDF.

### **MR.NIHAL EKANAYAKE**

*Senior Manager- Finance*

#### *Skills and Experience*

Mr.Ekanayake holds a degree in Business Administration with a specialization in Accountancy from the University of Ruhuna and an MBA from the University of Kelaniya. He has completed the executive level of Institute of Chartered Accountant of Sri Lanka. Mr.Ekanayake holds a diploma in computerized accounting from the E-soft.

He counts over ten years (10) of experience in the field of financial reporting, accounting and auditing. He started his career at Ernst & Young.

### **MR. SUJITH ASANKA**

*Senior Manager- Credit*

#### *Skills and Experience*

Mr.Sujith Asanka holds a B.B.Mgt. Marketing (Special) from the University of Kelaniya and is reading for a Master in Business Management (Marketing) at the University of Kelaniya. He has won a merit award in the territory manager category from SLIM NASCO in 2020.

He has seventeen (17) years of corporate experience in the leasing industry, specializing in sales and marketing and credit management.

## REGIONAL MANAGERS



**Mr. Jude Dharmasena**  
*Western Region*



**Mr. Amila Rajapaksha**  
*Southern Region*



**Mr. Thushantha Pathirana**  
*Uva Region*



**Mr. Amalas Fernando**  
*North Region*



**Mr. Lakmal Munasinghe**  
*Sabaragamuwa Region*



**Mr. Chathura Kodippili**  
*Rajarata Region*



**Mr. Buddhika Sanjeewa**  
*Central Region*



**Mr. Darshana Nuwan**  
*Eastern Region*



**Mr. Manoj Fernando**  
*North Western Region*



**Mr. Chaturanga Fernando**  
*North Central Region*

## BRANCH MANAGERS

Region	Branch	Full Name	Contact Numbers	Office Mobile	Office E-mail
Region 01	Delgoda	C U Speering	0112190686	0762937248	mgrdelgoda@sdf.lk
	Pasyala	H S J S Dharmasena (Acting Manager)	0332216273	0768720670	juded@sdf.lk
	Panadura	H S J S Dharmasena (Acting Manager)	0382239963	0768720670	juded@sdf.lk
	Homagama	R B R Thushara	0112892966	0761882861	managergampaha@sdf.lk
	Piliyandala	K D R P Weerasinghe	0112183616	0761524613	mgrpiliyandala@sdf.lk
Region 02	Galle	B H G P C Jayalath	0912230226	0777521173	managergalle@sdf.lk
	Ambalantota	H A D Kumara	0472225414	0769422454	managerambalantota@sdf.lk
	Matara	R S Koswatta	0412050166	0771571282	managematara@sdf.lk
	Akuressa	T A Nawarathna	0412050056	0764081916	mgrakuressa@sdf.lk
	Karandeniya	M W P Kumuduni	0912262270	0768693068	mgrkarandeniya@sdf.lk
Region 03	Kamburupitiya	M A Laksiri	0412050666	0774803861	mgrkamburupitiya@sdf.lk
	Monaragala	P P A P Jayasinghe (Acting Manager)	0552055561	0742723253	managerbuttala@sdf.lk
	Ampara	D G L L Dehigampala	0632050166	0742133747	managerampara@sdf.lk
	Badulla	W M J Bandara (Acting Manager)	0552051196	0777525179	managerbadulla@sdf.lk
	Kataragama	H A S W Hettiarachchi	0475112666	0776723380	mgrkataragama@sdf.lk
Region 04	Medagama	M T H F Maulana	0555113666	0762937177	mgrmedagama@sdf.lk
	Mahiyanganaya	K M D P B Kulasekara	0555112666	0760305873	mgrmahiyangana@sdf.lk
	Vavuniya	R Vimalraj	0242050066	0778661831	managervavuniya@sdf.lk
	Jaffna	F Amalas (Acting Manager)	0215111666	0778513766	amalas@sdf.lk
	Mannar	F Amalas (Acting Manager)	0232050166	0778513766	amalas@sdf.lk
Region 05	Godakawela	B G N Jayathilake	0452121656	0777548398	managergodakawela@sdf.lk
	Balangoda	K V S Dhanapala	0452121676	0763167288	managerbalangoda@sdf.lk
	Ratnapura	M M E L Munasinghe (Acting Manager)	0452121636	0742735267	lakmalm@sdf.lk
	Kegalle	M M E L Munasinghe (Acting Manager)	0352050272	0742735267	lakmalm@sdf.lk
	Ruwanwella	M M E L Munasinghe (Acting Manager)	0362269006	0742735267	lakmalm@sdf.lk
Region 06	Kebithigollewa	H M D A Senevirathna	0252220966	0742528504	managerkebithigollewa@sdf.lk
	Thambuttegama	P W D Samantha	0252221660	0777540253	mgrtambuttegama@sdf.lk
	Parakkramapura	M A Premalal	0252221161	0763167352	mgrparakkramapura@sdf.lk
	Anuradhapura	H Liyanage	0252121966	0768388683	managieranuradhapura@sdf.lk
	Kekirawa	M G S P Herath	0252220906	0740999165	mgrkekirawa@sdf.lk
Region 07	Matale	R M R S B Ranaraja	0662121066	0767427785	managermatale@sdf.lk
	Kandy	M S Premarathne	0815113666	0740384634	managerkandy@sdf.lk
	Nawalapitiya	H B Sanjeewa (Acting Manager)	0542050556	0769976624	buddhikas@sdf.lk
	Digana	G G I N Kumari (Acting Manager)	0812063366	0762929079	mgrdigana@sdf.lk
	Nuwaraeliya	M G P A B Wickramasinghe - (Acting Manager)	0525111666	0763167406	managemuwaraeliya@sdf.lk
Region 08	Hatton	H B Sanjeewa (Acting Manager)	0512050666	0769976624	buddhikas@sdf.lk
	Trincomalee	P J Niroshan	0265111666	0778232279	managertrinco@sdf.lk
	Batticaloa	A Jeevakanth	0652050766	0741913695	managerbatticaloa@sdf.lk
	Kalmunei	B H M Mubeen	0672050766	0771277562	mgrkalmunai@sdf.lk
	Region 09	Kuliyapitiya	D M I Dayaratna	0372052153	0777540588
Puttalam		W S P S Rodrigo	0322050653	0761652452	managerchilaw@sdf.lk
Chilaw		S M N S Bandara	0322050626	0740017029	managerchilaw@sdf.lk
Gampaha		A H T Salgado (Acting Manager)	0332060973	0769082306	managergampaha@sdf.lk
Nattandiya		R D T L Kumara	0322050676	0771960463	mgrnattandiya@sdf.lk
Region 10	Minuwangoda	K S Silva	0112284966	0762857084	mgrminuwangoda@sdf.lk
	Dehiattakandiya	S A J Chaminda	0272053686	0764447838	mgrdehiattakandiya@sdf.lk
	Kurunegala	A M H M B Jayaweera	0372051966	0764783556	managerkurunegala@sdf.lk
	Medirigiriya	A E Weerakkody	0272053326	0764868419	medirigiriya@sdf.lk
	Polonnaruwa	M P Sooriyaarachchi	0272053661	0771462489	managerpolonnaruwa@sdf.lk
Head Office	Dambulla	A M C M Samarakon	0662121166	0740573981	managerdambulla@sdf.lk
	Borella	G G S Shyamalee	0115444666	0777547503	managerborella@sdf.lk

# REIMAGINE

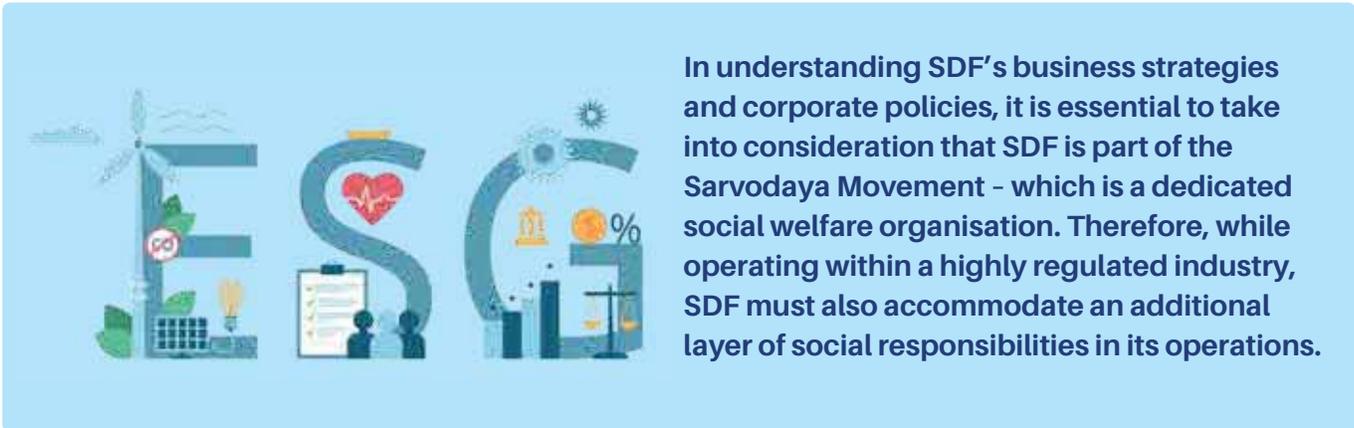
A man with short dark hair, wearing a white short-sleeved button-down shirt and dark trousers, is sitting on a wooden bench. He is wearing a watch on his left wrist and sandals. The setting is a traditional building with a wooden roof and blue accents. In the background, there is a palm tree and a blue door.

SDF's assistance enabled a small hotel owner to successfully navigate and overcome the adverse impacts of the post-COVID tourism downturn. He now runs a successful business mainly earning foreign exchange.

L H C Niroshana

Hikkaduwa, Galle District

## OUR STRATEGIES POLICIES AND PRACTICES



**In understanding SDF's business strategies and corporate policies, it is essential to take into consideration that SDF is part of the Sarvodaya Movement - which is a dedicated social welfare organisation. Therefore, while operating within a highly regulated industry, SDF must also accommodate an additional layer of social responsibilities in its operations.**

### GRI 2-22

#### STATEMENT ON SUSTAINABLE DEVELOPMENT STRATEGY

In line with the Sarvodaya Movement's philosophy of wellness for all people and the natural environment, SDF does not support assistance to industries that are deemed anti-social and inhumane and does not lend to sectors such as butchery, alcohol, drugs and casinos. SDF also practices non-discrimination (subject to its list of exclusions of anti-social and inhumane activities) in its engagements with stakeholders and its internal recruitment and business partner policies.

As the first impact investment company to be listed in the Colombo Stock Exchange, SDF has adopted a unique strategy which integrates business growth strategies with national and rural development. As such, SDF is committed to channel

funds into the micro and SME sector, and rural economies through its financial services, its island wide branch network, and Sarvodaya Sharamadana Societies. A share of dividends will also be re-channelled into community development through community welfare activities of shareholders, such as entities of the Sarvodaya Movement. During the current financial year, SDF remained committed to its sustainable development strategy by continuing to support the country's rural farming community, and small and micro enterprises.

Please refer the Chairman's Message for an update on SDF's sustainability strategy. The CEO's review of operations explains how SDF adapted its strategy in response to the high risk macro environment that prevailed during the year.

#### SDF'S STRATEGIC APPROACH ON ESG

SDF is committed to integrating Environmental, Social, and Governance (ESG) principles into its core business practices and aligning them with the national road map. The following strategic plan has been developed to address key aspects of the road map:

1. **Financial Inclusion:** The company will work towards promoting financial inclusion by designing and delivering products and services that cater to underserved segments of society. This approach will help create a more inclusive financial system and support the growth of SMEs, driving socioeconomic development.
2. **Capacity Building:** The company will focus on capacity building by providing training and development programs for its staff and clients. This will ensure that employees have the necessary skills and knowledge to implement ESG principles effectively and that clients are well-equipped to manage their businesses sustainably.
3. **International Cooperation:** The company will engage in international cooperation by partnering with global institutions and organizations to share best practices and learn from successful ESG implementation experiences. This will help the Company remain at the forefront of sustainability and promote responsible business practices.

4. **Measurement and Reporting:** The company has invested in an ESG monitoring application to systematically track and evaluate its performance on key ESG indicators. This tool will ensure that the Company's financial products and services are in line with ESG principles and contribute to the development of a sustainable financial market. The company has already started measuring staff wellbeing and energy consumption and plans to expand its measurement scope to cover other ESG aspects. The company will also establish transparent reporting mechanisms to communicate its progress on ESG objectives and promote accountability.
5. **Monitoring Impact on Loans:** The company will assess the ESG impact of loans granted to customers, ensuring that the financial assistance provided aligns with its sustainability objectives and contributes to the national road map goals. By monitoring this aspect, the Company aims to promote responsible and sustainable growth for both its clients and the wider community. By implementing these strategic initiatives in line with the national road map, the Company will strengthen its commitment to ESG principles and contribute to the long-term value creation and sustainable development of the financial market.

### SDF 3- YEAR STRATEGY AND RESOURCE ALLOCATION

Growth Strategy 2023 - 2026	Resource allocation
 <p>Financial Growth</p>	<ul style="list-style-type: none"> <li>➤ Double total assets by FY 2025/26.</li> <li>➤ Boost EPS from Rs. 1.5 in 2022/23 to Rs. 3.9 by FY 2025/26</li> <li>➤ Improve portfolio quality and reduce the 90 Days Non-Performing Loan (NPL) ratio from 20.6% in 2022/23 to 10.8% by 2025/26</li> <li>➤ Improv the cost-to-income ratio from 73.9% in 2022/23 to 61.4% by FY 2025/26.</li> <li>➤ Expand low cost funding through international credit lines and deposits</li> <li>➤ Improve the current credit rating of BB Stable to investment grade rating of BBB</li> </ul>
 <p>Improve Customer experience and Reach</p>	<ul style="list-style-type: none"> <li>➤ Improve customer accessibility and convenience</li> <li>➤ Strengthen relationships with Sarvodaya Shramadana Societies and key stakeholders</li> <li>➤ Enhance brand Image and Visibility</li> </ul>
 <p>Make an impact on society</p>	<ul style="list-style-type: none"> <li>➤ Strengthen current 57% of women contribution of the Company customer base</li> <li>➤ Support regenerative agriculture</li> <li>➤ Integrate ESG and SDGs</li> </ul>

# Our Strategies Policies and Practices

## SDF POLICIES AND PRACTICES

### GRI 2-23 Policy commitments for responsible business conduct

Within our business scope, we are committed to the 8 United Nations Sustainable Development Goals



#### SDG 1 : No Poverty

This goal aims to end poverty in all its forms everywhere.

Company Strategy: This goal strives to eradicate poverty in every form across the globe. Our company is dedicated to providing accessible and affordable financial services to low-income individuals and communities, especially those in village-based, unbanked customer segments. We aim to empower these communities by supporting the establishment of new income-generating activities and enhancing existing ones, ultimately fostering economic growth and alleviating poverty.



#### SDG2: Zero hunger

This goal seeks to end hunger, achieve food security, improve nutrition, and promote sustainable agriculture.

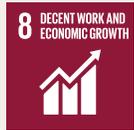
Company Strategy: Concentrate on providing financial support to the agricultural sector, promoting sustainable farming practices, and implementing an e-commerce platform for the efficient exchange of agricultural products. This approach will contribute to enhanced food security and improved nutrition for communities.



#### SDG 5 : Gender Equality

This goal seeks to achieve gender equality and empower all women and girls.

Company Strategy: Develop specialised financial products and services tailored for women entrepreneurs, and encourage gender diversity within our organisation. By doing so, we will ensure equal opportunities for everyone, regardless of gender.



#### SDG 8 : Decent Work and Economic Growth

This goal aims to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

Company Strategy: Concentrate on assisting SMEs with loans and various financial support measures, encouraging job creation and advancing inclusive economic growth. By providing agri equipment, we aim to create a decent work environment for farmers as well. Simultaneously, we will maintain fair labor practices within our organisation's operations.



#### SDG 9: Industry, Innovation, and Infrastructure

This goal aims to build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation.

Direct financing towards projects in sectors like renewable energy, clean technology, and sustainable infrastructure, which will contribute to the growth of resilient industries and stimulate innovation. The company has designed financial solutions specifically to support the achievement of this goal.



#### SDG 10: Reduced Inequalities

This goal seeks to reduce inequality within and among countries.

Emphasise financial inclusion by offering services to underserved communities, aiming to reduce income inequalities and foster social and economic development. Sarvodaya's objective is not to create a wealthy few, but rather to promote equal income levels, particularly for village populations



#### SDG 12: Responsible Consumption and Production

This goal aims to ensure sustainable consumption and production patterns.

Company Strategy: Incorporate ESG principles into lending criteria and promote sustainable business practices among clients, encouraging responsible consumption and production patterns.



#### SDG 13: Climate Action

This goal seeks to take urgent action to combat climate change and its impacts.

Company Strategy: Support projects that mitigate climate change by financing in renewable energy, energy efficiency, and climate-resilient infrastructure, promoting climate action and environmental sustainability.

**GRI 2-23 EMBEDDING POLICY COMMITMENTS**

<p><b>GRI 2-24</b> <b>Embedding policy commitments</b></p>	<ul style="list-style-type: none"> <li>➤ The primary method of embedding policy commitments and business practices is by example, where the Board and leadership attempt to practice compliance, non-discrimination and cooperation.</li> <li>➤ A formal Code of Conduct is made available to all employees and is included in the induction/ orientation of new recruits.</li> <li>➤ We invest in continuous employee training and monitoring performance as well as behaviour of employees.</li> </ul>
<p><b>GRI 2-25</b> <b>Processes to remediate negative impacts (Grievance mechanisms)</b></p>	<ul style="list-style-type: none"> <li>➤ We maintain an open-door policy to address employee grievances and all employees have direct access to the CEO and Chairman.</li> <li>➤ In addition, we have a formal Whistle-Blower Policy that safeguards employees from retaliation in reporting concerns</li> <li>➤ SDF has implemented the Central Bank’s Financial Customer Protection Framework and provides multiple channels for customers to raise concerns and make complaints. These include the SDF website, SDF social media platforms, SDF hotline which can redirect customers to the correct officials and contact information provided in all marketing and promotional material.</li> <li>➤ We have an informal mechanism for communities to raise their concerns. This includes the Sarvodaya Societies and publicly available contact information for SDF managers.</li> </ul>
<p><b>GRI 2-26</b> <b>Mechanisms for individuals to seek advice and raise concerns</b></p>	<ul style="list-style-type: none"> <li>➤ The Board of Directors are authorised to call for external consultants and expertise whenever required.</li> <li>➤ The SDF Whistle-Blower Policy provides for any employee or external party to raise concerns confidentially, and with no threat of retaliation.</li> <li>➤ Performance evaluations are a regular platform for individuals to seek advice on personal development and career progress</li> <li>➤ The open-door policy makes it possible for any individual, to discuss any matter, with the management or Head of Human Resources.</li> </ul>
<p><b>GRI 2-27</b> <b>Compliance with laws and regulations</b></p>	<p><b>Compliance statement</b> To the best of our knowledge, SDF is fully compliant with all applicable laws and regulations and did not face any fines or penalties for non-compliance with any regulation during the year under review.</p>
<p><b>GRI 2-28</b> <b>Membership in associations</b></p>	<p>As at end March 2023, SDF held membership in the following trade organisations and national bodies.</p> <p><b>Industry bodies</b></p> <ul style="list-style-type: none"> <li>➤ Lanka Microfinance Practitioners’ Association</li> <li>➤ The Leasing Association of Sri Lanka</li> <li>➤ The Finance House Association of Sri Lanka</li> </ul> <p><b>National bodies</b></p> <ul style="list-style-type: none"> <li>➤ The Financial Ombudsman Sri Lanka</li> <li>➤ The Credit Information Bureau of Sri Lanka</li> </ul>

# MATERIALITY

Material topics for the year under review were unavoidably shaped by the increased macro environmental volatility experienced during the year. Topics related to compliance and economic value creation have remained top priorities for both SDF and its stakeholders, particularly given the economic hardships faced by Sri Lankans during the year. Customer retention and customised service delivery has also become a top priority.

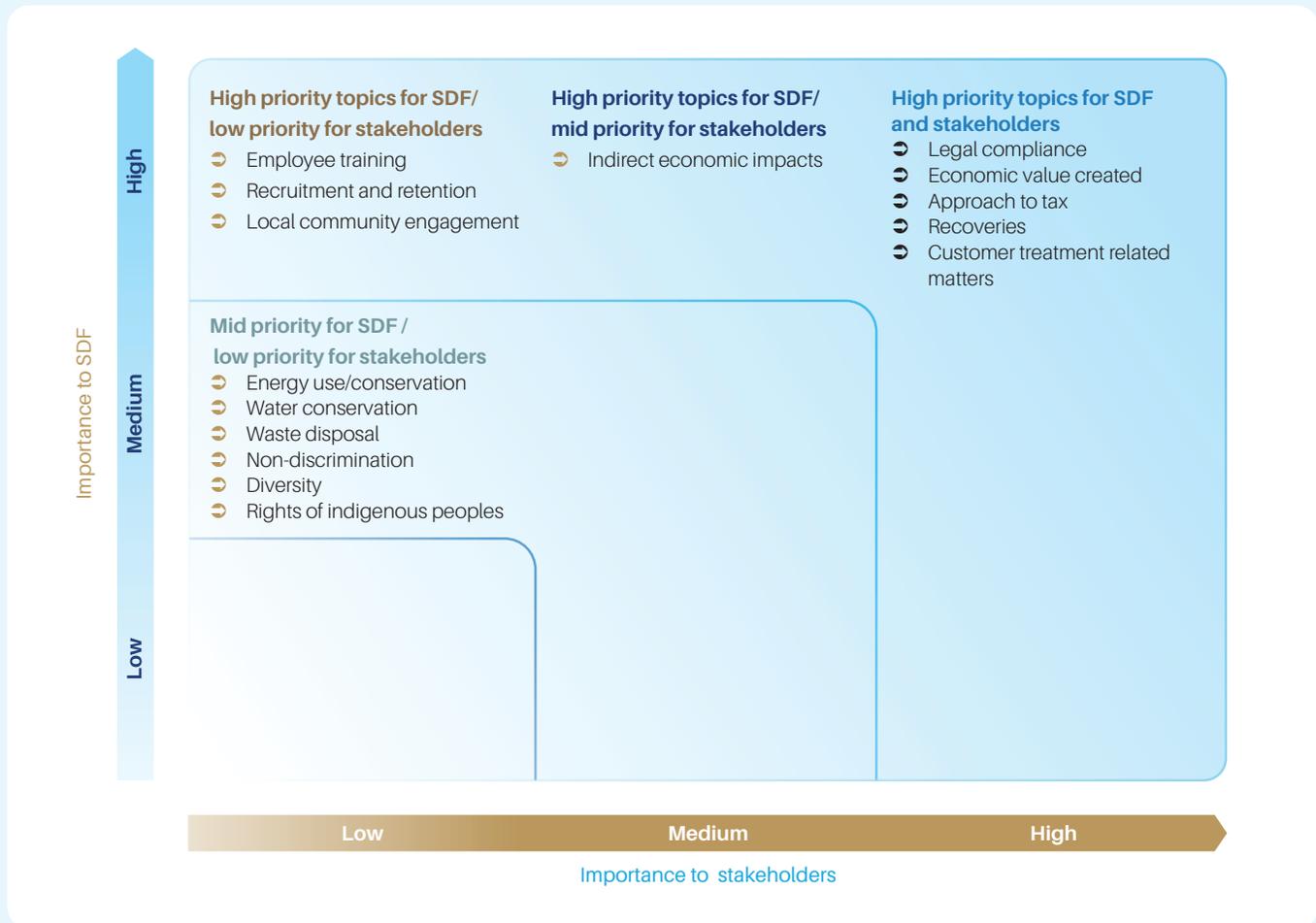
In compiling this report, we reviewed our previous year’s materiality matrix and re-examined our priorities and also what our key stakeholders expected from us. We have taken into consideration that our stakeholders expect more than profits from us, expecting us to contribute positively to the overall social and economic wellbeing of the entire country.

## MATERIALITY ASSESSMENT AND MATERIAL TOPICS

The material topics discussed within this report have been selected using the GRI’s prioritisation approach, where material topics were identified by the senior management and a ‘filtering’ approach was used to select the most material and impactful topics, based on each topic’s importance to stakeholders and the Company.

While SDF did not conduct a stakeholder survey specifically for the purpose of this report, the long-term relationships with key stakeholders were deemed adequate to understand stakeholder expectations and concerns in prioritising the material topics for disclosure.

Please refer disclosure table 3-2 & 3-3 below, for further clarifications on how we manage our material topics.



**GRI 3-2 LIST OF MATERIAL TOPICS &  
GRI 3-3 MANAGEMENT OF MATERIAL TOPICS**

Management of material topics discussed under the Financial Capital chapter of this report

GRI 3-3	MATERIAL TOPICS		
	GRI 201	GRI 203	GRI 207
	Direct economic value generated and distributed	Significant indirect economic impacts	Approach to tax
<b>Impacts on the economy, environment and people, and human rights</b>	The impacts of our economic value generation are felt by our key stakeholders who benefit from our value creation.	Our main indirect economic impact is by redirecting funds to rural communities through dividend payments to Sarvodaya Economic Enterprises Development Services (Gte) limited, (SEEDS).  The impact of this action is on our parent Sarvodaya, and rural and underserved communities	The impact is mainly on the Company itself due to the high level of taxation
<b>Whether negative impacts are from company activities or business relationships</b>	To date, there have been no negative impacts through our economic value generation.	To date the impacts have been positive	No negative impacts
<b>Policies or commitments regarding the material topic</b>	We are committed to ➤ SDG 1 : No Poverty ➤ SDG 8 : Decent Work and Economic Growth	We are committed to enhance our indirect impacts by complying with ➤ SDG2: Zero hunger ➤ SDG 9: Industry, Innovation and Infrastructure	Our policy is full compliance with all applicable tax regulations
<b>Actions to manage the topic and impacts</b>	Internal controls are in place to prevent misappropriation to ensure economic value accrues to our stakeholders.	We hope to maintain an above average dividend payout ratio to support social welfare	Internal controls
<b>Tracking effectiveness the actions taken</b>	Internal audits and external audits are conducted regularly to prevent loss or misappropriation of economic value we create.	Continuous involvement with Sarvodaya activities	Internal audits and external audits
<b>How stakeholders influenced the actions taken and effectiveness</b>	Our stakeholders stay with us because of the value we create for them.	SEEDS and other impact investors encourage us to have positive indirect economic impacts	All our stakeholders appreciate our policy

## Materiality

## Management of material topics discussed under the Natural Capital chapter of this report

GRI 3-3	MATERIAL TOPICS			
	GRI 302 Energy consumption within the organisation	GRI 302 Reduction of energy consumption	GRI 303 Water consumption	GRI 306 Waste generated Disclosure
<b>Impacts on the economy, environment, and people, and human rights</b>	The impact is primarily in the form of a very limited environmental impact in the form of our comparatively small carbon footprint.  This impact maybe offset by economic benefits we generate for people through our operations.	SDF benefits from the reduction in energy consumption through lower energy expenditure. In addition, the negative environmental impacts from fossil fuel energy consumption are reduced	SDF water consumption is limited to drinking and sanitation. We do not extract ground water. Therefore, the environmental impact is minimum	Our waste products are mainly paper, which is biodegradable and some e-waste due to replacement of equipment. The impact, if any, is from e-waste on the environment.
<b>Whether negative impacts are from company activities or business relationships</b>	Negative impacts are mainly due to the Company's activities which contribute to the Company's carbon footprint as we expand our operations	There are no negative impacts from reducing our energy consumption	There are no significant negative impacts.	Any negative impacts are due to company activities.
<b>Policies or commitments regarding the material topic</b>	SDF has commenced monitoring energy consumption to support ➔ SDG 13: Climate Action ➔ SDG 12: Responsible Consumption and Production	We are committed to reduce energy wastage and reduce energy consumption under ➔ SDG 12: Responsible Consumption and Production	We are conscious of the need to minimise water wastage.  However, we are also conscious of adequate access to water for health and sanitation needs for customers and staff.	We are conscious of the need to reduce, recycle and reuse paper.  We are conscious of environmental impacts from e-waste and have adopted proper disposal procedures

	MATERIAL TOPICS			
	GRI 302 Energy consumption within the organisation	GRI 302 Reduction of energy consumption	GRI 303 Water consumption	GRI 306 Waste generated Disclosure
<b>Actions to manage the topic and impacts</b>	<p>We are monitoring fuel and electricity consumption at head office and branches</p>	<p>We are identifying potential points of wastage.</p> <p>Raising awareness among employees to conserve energy.</p> <p>We are investing in energy conservation such as LED bulbs, energy efficient equipment.</p>	<p>We have commenced monitoring water consumption and reporting to head office</p> <p>We conduct routine maintenance to minimise wastage from leakages.</p>	<p>We have digitised 80% of our back office functions, which has significantly reduced paper use.</p> <p>We also recycle paper and we encourage employees to reduce waste.</p> <p>e-waste is not dumped in landfill, instead we dispose through collectors.</p>
<b>Tracking effectiveness the actions taken</b>	<p>We commenced environmental impact assessment monitoring. SDF branch managers monitor consumption at each branch and report to head office.</p> <p>Head office consumption is monitored by the Finance Department</p>	<p>We commenced environmental impact assessment monitoring.</p> <p>We started monitoring consumption at branch and head office to encourage conservation</p>	<p>Water consumption reports are collected by each branch and sent to head office</p>	<p>We will introduce a formal mechanism to track the recycling and e-waste disposal</p>
<b>How stakeholders influenced the actions taken and effectiveness</b>	<p>SDF's shareholders are impact investors interested in conservation. Therefore, we attempt to meet this shareholder requirement through conservation</p>	<p>SDF shareholders have influenced the Company to conserve energy and reduce the carbon footprint</p>	<p>Our investors are interested in conservation</p>	<p>Our investors are interested in reducing environmental impacts</p>

## Materiality

## Management of material topics discussed under the Human Capital chapter of this report

GRI 3-3	MATERIAL TOPICS			
	GRI 401 New employee hires and employee turnover	GRI 404 Average hours of training per year per employee	GRI 405 Diversity of governance bodies and employees	GRI 406 Incidents of discrimination and corrective actions taken
<b>Impacts on the economy, environment, and people, and human rights</b>	Employee turnover negatively impacts the Company.  However, our recruitments benefit local communities through formal employment opportunities	Training results on positive impacts on our employees and also customers as our employees can provide a better service.	There is a positive impact on society by facilitating cultural and educational diversity.	There were no instances of negative impacts or of discrimination during the year.  We practice a policy of inclusivity to avoid discrimination.
<b>Whether negative impacts are from company activities or business relationships</b>	There are no negative impacts reported during the year	There are no negative impacts reported during the year	There are no negative impacts reported during the year	We want to actively avoid negative impacts due to discrimination
<b>Policies or commitments regarding the material topic</b>	We are an equal opportunity employer and we support ➔ SDG 5 : Gender Equality ➔ SDG 10: Reduced Inequalities	We are committed to the development of our employees	We maintain a non discrimination policy that results in an inclusive organisation. We are committed to ➔ SDG 5 : Gender Equality	We maintain a non discrimination policy in all matters and we uphold ➔ SDG 5 : Gender Equality ➔ SDG 10: Reduced Inequalities
<b>Actions to manage the topic and impacts</b>	Formal recruitment procedures are practiced at all times	Formal training needs assessments, including performance evaluations, are in place	Nominations to the board are governed by best practices.  Recruitments are controlled through formal procedures	Control mechanisms are available to prevent discrimination
<b>Tracking effectiveness the actions taken</b>	The recruitment process has multiple layers to prevent bias and irregularities	Employee feedback is obtained after training events	Multilayer approach to prevent bias and irregularities	Customer feedback and employee grievance mechanisms are operational to bring any discrimination to the notice of the senior management
<b>How stakeholders influenced the actions taken and effectiveness</b>	All our stakeholders appreciate our structured recruitment process	All our stakeholders appreciate our efforts to develop our employees	All our stakeholders appreciate our diversity concept	All our stakeholders appreciate our non discrimination policy

Management of material topics discussed under the Social Capital chapter of this report

GRI 3-3	MATERIAL TOPICS		
	GRI 411 Incidents of violations involving rights of indigenous peoples	GRI 413 Operations with local community engagement, impact assessments, and development programs	GRI 417 Incidents of non-compliance concerning products and service information and labeling
<b>Impacts on the economy, environment, and people, and human rights</b>	Any violations would impact the Vedda community in Mahiyanganaya	Impacts are mainly on people and the rural economy as we frequently engage with different local communities directly and through Sarvodaya Societies.  These are for social welfare projects and for business related activities, such as training events and to create market linkages for micro and small business communities.	Negative impacts will be felt by SDF customers in the form of financial losses due to misinformation.
<b>Whether negative impacts are from company activities or business relationships</b>	There have been no known negative impacts to date.	Impacts are from our activities	To date, there have been no reports of any negative impacts
<b>Policies or commitments regarding the material topic</b>	We have a policy of no-harm to anyone and equal treatment. We uphold <ul style="list-style-type: none"> <li>➔ SDG 1 : No Poverty</li> <li>➔ SDG 10: Reduced Inequalities</li> <li>➔ SDG 8 : Decent Work and Economic Growth</li> </ul>	We are committed to the welfare of all communities and we have committed under <ul style="list-style-type: none"> <li>➔ SDG 1 : No Poverty</li> <li>➔ SDG2: Zero Hunger</li> <li>➔ SDG 8 : Decent Work and Economic Growth</li> </ul>	We are fully compliant with all applicable regulations by the Central Bank and under the Finance Act.  We are also guided by our business ethics
<b>Actions to manage the topic and impacts</b>	Staff are trained on non-discriminatory, ethical services and to observe all applicable regulations	The senior management are directly involved in most community activities.	All marketing and promotional material are reviewed by relevant managers for regulatory compliance
<b>Tracking effectiveness the actions taken</b>	Branch and regional management meetings	Feedback/complaint opportunities are provided to anyone.	We provide multiple channels for customer complaints, including a hotline, a contact number for customer complaints, social media and website
<b>How stakeholders influenced the actions taken and effectiveness</b>	SEEDS, Sarvodaya insists on equitable, non-exploitative treatment of all communities	SEEDS, through Sarvodaya entities, is actively involved in community welfare projects.	We are guided by the Sarvodaya ethics

## OPERATING ENVIRONMENT

### GLOBAL ECONOMY

According to the World Economic Outlook (WEO) of the IMF released in January 2023, global economic growth is forecast at 3.4% in 2022 a significant decline, compared to the 6.2% growth estimated for 2021. Economic conditions deteriorated substantially in advanced economies in 2022 as high inflation eroded household incomes.

The Russia-Ukraine war resulted in severe energy supply disruptions in the EURO area, pushing up energy prices and prices of some food items, thereby hampering production and consumption and fuelling uncertainty. Economic activity in China slowed in 2022 amidst large and repeated COVID-19 outbreaks and accompanying lockdowns. Furthermore, activity in emerging market and developing economies decelerated sharply in 2022, due to tight global financial conditions, reduced consumer spending amidst high inflation, dampened external demand, and spillovers from the Russia-Ukraine conflict.

### SRI LANKAN ECONOMY

The external sector of Sri Lanka experienced heightened vulnerabilities with the decline in foreign exchange inflows and the current account deficit widened due to the increased imports led by the normalisation of economic activities, moderation in tourism earnings and slowdown in workers' remittances. Downgrading of the sovereign credit ratings of the country constrained the access to global capital markets despite high debt servicing requirements, further aggravating the situation.

The Central Bank's Annual Report 2022 stated that the Sri Lankan economy contracted by 7.8% in 2022 on a year-on-year basis, recording its highest contraction in the backdrop of the worst ever economic crisis experienced by the post-independence economy with all three major economic activities, namely, industry, services and agriculture, declining.

Agriculture activities contracted by 4.6%, compared to the growth of 0.9% recorded in 2021, while industry activities fell by 16.0% compared to the 5.7% growth recorded in 2021 and services activities, declined by 2.0%, compared to the growth of 3.5% in 2021.

Wholesale and retail trade activities were dampened by import restrictions and subdued demand conditions resulting in a marginal contraction of 0.2% in 2022 from the 1.5% growth recorded in 2021. Import volumes contracted, including consumer goods imports, and disruptions to fuel supply adversely affected trade activities during most periods of the year. Consumption expenditure, the largest expenditure component of the economy, grew by a higher rate of 34.3% at current prices in 2022, compared to the 8.4% growth recorded in

2021, mainly due to the surge in consumer prices. Overall market demand was dampened during the year, amidst the surge in inflation and the decreasing real value of disposable income.

### INFLATION

Annual average inflation, based on the CCPI (2013=100), soared to 46.4% in 2022, from 6.0% in 2021. Year-on-year headline inflation, based on the National Consumer Price Index (NCPI, 2013=100), peaked at 73.7% in September 2022, compared to 14.0% at end 2021, before moderating to 59.2% by end 2022. Annual average inflation, based on the NCPI (2013=100), was recorded at 50.4% in 2022, compared to 7.0% in 2021.



Source: Central Bank Annual Report 2022

### EXTERNAL SECTOR

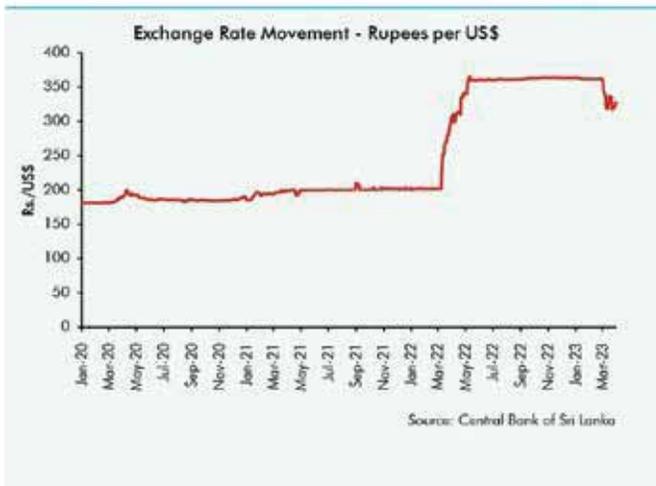
In April 2022, gross official reserves declined to historical lows, with the liquid reserves falling to almost zero levels and the exchange rate underwent a large overshooting in early March 2022. Against this backdrop, the Government announced a debt standstill in April 2022 for an interim period, pending a debt restructuring process while commencing negotiations with the International Monetary Fund (IMF) for a financing arrangement. Once debt restructuring perimeters are negotiated and agreed upon with Sri Lanka's official and private creditors, the country will resume debt servicing, but on a smaller scale, with extended maturities.

### EXCHANGE RATE

Reflecting cross currency exchange rate movements, the Sri Lanka rupee depreciated against the euro by 41.4%, the pound sterling by 38.1%, Japanese yen by 36.4% and the Indian rupee by 38.6% and by 44.8% against the US dollar during 2022. The US dollar appreciated from Rs. 200.43 as at end 2021 to Rs. 363.11 as at end 2022.

The average US dollar buying and selling exchange rates of commercial banks for telegraphic transfers as at end 2022 were Rs. 360.41 and Rs. 371.61, whilst comparative figures as at end 2021 were Rs. 198.50 and Rs. 203.00.

Figure 5.14  
Exchange Rate Movements



**INTEREST RATES**

Market interest rates continued to increase with the Average Weighted Lending Rate (AWLR) increased by around 9 percentage points to 18.70% by end 2022, while the Average Weighted New Lending Rate (AWNLR) recorded the historically highest value of 26.20 % in December 2022.

The Average Weighted New Deposit Rate (AWNDR) and the Average Weighted New Fixed Deposit Rate (AWNFRD) rose to their highest levels on record, peaking at 23.63 % and 24.05 %, respectively, in November 2022.

Figure 7.9  
Movement of Selected Market Interest Rates

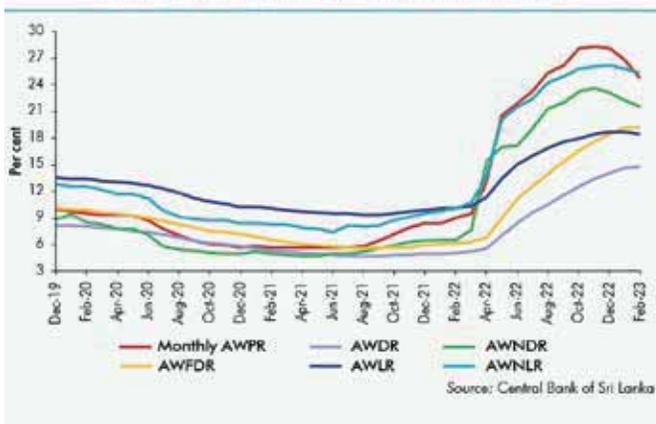


Figure 7.10  
Average Weighted Lending Rates by Type of Securities (%)



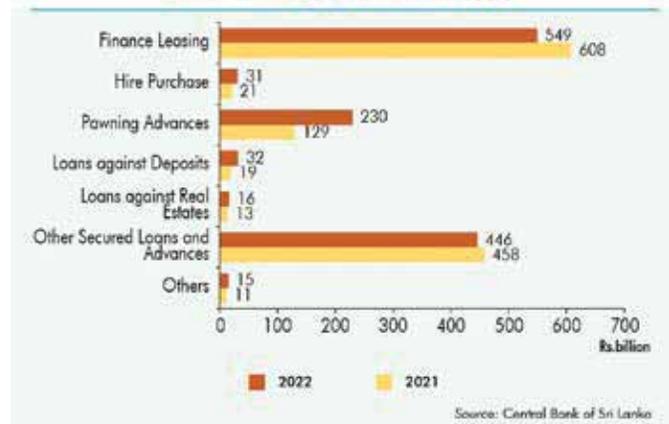
**NON-BANK FINANCIAL SECTOR DEVELOPMENTS**

By end 2022, the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector comprised of 36 LFCs 3 and 1 SLC.

**ASSET BASE**

The asset base of the sector expanded by Rs. 123 billion recording a growth of 8.3 % and stood at Rs. 1,611.2 billion by end 2022, compared to the 6.1 % growth recorded in 2021.

Figure 8.9  
Total Loans and Advances (Gross) by Productwise for 2021 and 2022



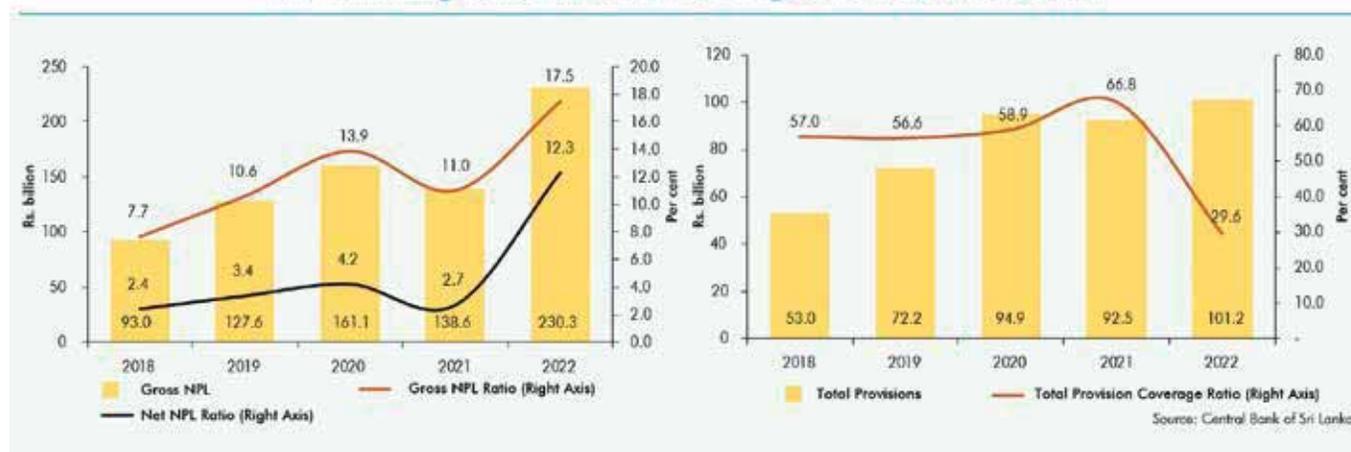
## Operating Environment

### CREDIT QUALITY

The time based classification of NPLs was replaced with SLFRS 9 based Stage 3 Loans on 01 April 2022, where LFCs were required to adopt 120 days past the due date for classification of Stage 3 loans instead of the earlier classification of 180 days. As a result of changing the loan classification methodology, the sector's Gross Stage 3 Loans Ratio substantially increased to 17.5 % as at end 2022 from 11.0 % reported as at end 2021.

The net impaired Stage 3 Loans Ratio increased to 12.3 % as at end 2022 from 2.7 % reported as at end 2021. The impairment coverage ratio for Stage 3 loans was reported at 29.6 % as at end 2022.

Figure 8.10  
Non Performing Loans and Provision Coverage of the LFCs and SLCs Sector



### CAPITAL AND LIQUIDITY

The sector had a liquidity surplus of Rs. 86.9 billion as at end 2022, compared to Rs. 66.0 billion recorded as at end 2021.

Profitability of the sector declined in 2022 compared to the previous year. The sector's Profit After Tax (PAT) reduced by 21.0 % from Rs. 55.6 billion in 2021 to Rs. 43.9 billion in 2022, mainly due to substantial increase in interest expenses.

The capital base improved to Rs. 317.5 billion as at end 2022 compared to Rs. 251.6 billion recorded as at end 2021

### OUTLOOK

Tightening financial conditions amidst the global fight against inflation and the continuation of the Russia-Ukraine war are expected to impact global economic activity in 2023, while reopening of China is expected to partially offset this impact. As per the WEO update of January 2023, global growth is projected to fall to 2.9% in 2023 and thereafter record an upturn of 3.1% in 2024. Subdued economic activity in advanced economies could have an impact on Sri Lanka's exports, but the expected pick-up in economic activity in China and India could be beneficial to Sri Lanka.

# REIMAGINE



SDF has supported a rural family to foster the development of their home gardening initiative. The aim was to produce nutritious food for both personal consumption and retail sales, promoting healthier lifestyles and empowering the family economically.

K. Chandra Kumara and his wife

Bihirisorrowwa, Mahawanawela, Ampara District

# FINANCIAL CAPITAL

As a financial services provider, our financial capital is our most material capital and represents the long term sustainability of the Company. Therefore, managing our financial capital and financial risks is a fundamental aspect of our operations. The status of our financial capital as at end March 2023, is described in this chapter.

We request our stakeholders to refer the Risk Management report for further details on how we manage our financial risks.

Highest ever PAT

**LKR 222 Mn** ↓

Total Assets

**LKR 11,670 Mn** ↑

Income Growth

**35%** ↑

Deposits Growth

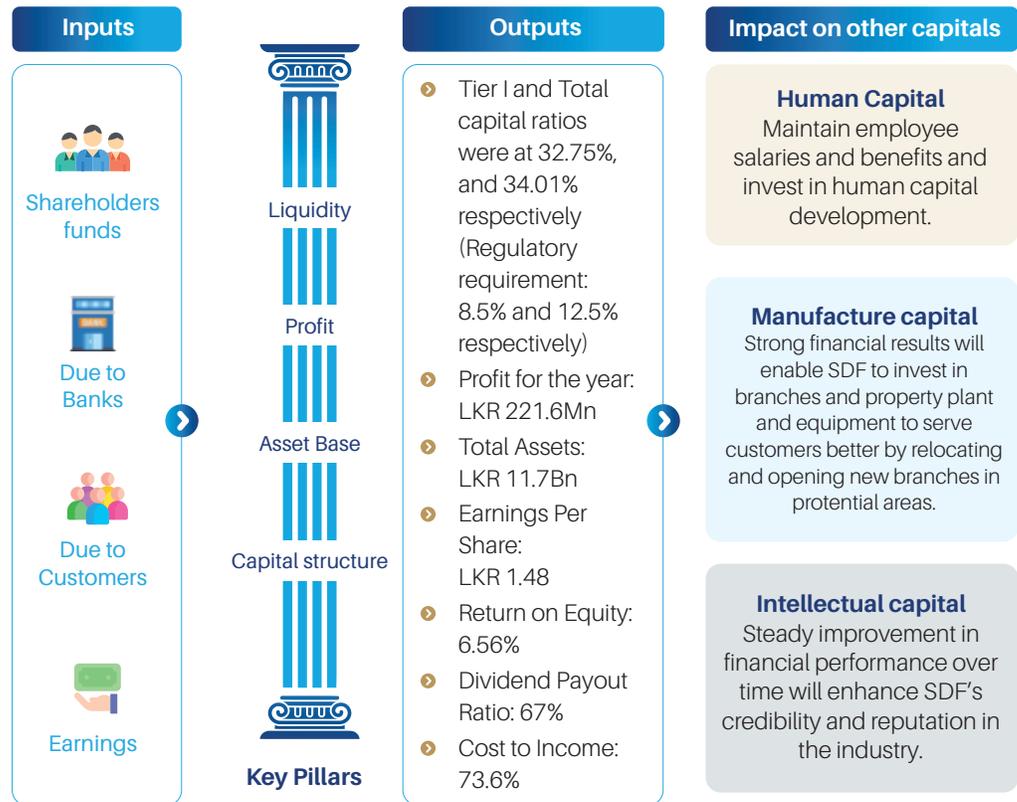
**31%** ↑



### SDF FINANCIAL VALUE CREATION MODEL

The current financial year presented one of the most challenging operating environments in the Company's history with regards to financial sustainability. However, as a financial services provider, we are aware that financial sustainability is vital for overall sustainability and therefore, we emphasised the management of financial capital during the year.

We focused on prudent and far-sighted management of our financial capital for long-term stability and sustainability of the Company, and for the welfare of our customers and shareholders. Our governance and internal control systems continually monitored the financial status of the Company.



### CHANGES TO OUR FINANCIAL CAPITAL

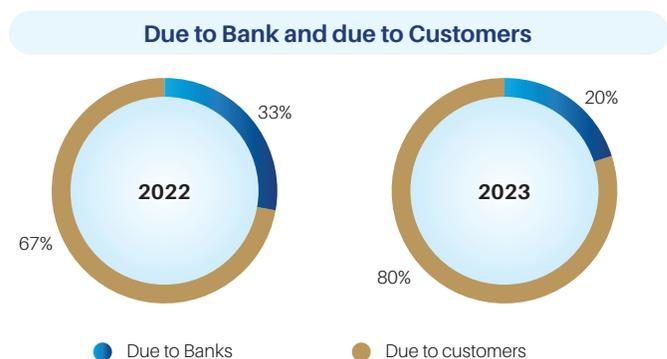
SDF's financial capital comprises only of the two components of equity and debt.

- During the financial year 2021-22, their composition experienced significant changes from acquisition of new equity capital through an Initial Public Offering (IPO).
- During the current financial year, the Company did not obtain new equity but experienced changes to the debt base.

#### Equity capital

In November 2021, SDF's IPO raised LKR 1 Bn in equity capital. The primary purpose of the new capital was to enhance the capital base to comply with core capital requirements for nonbank financial companies, as directed by the Central Bank of Sri Lanka. The secondary objective was to finance business expansion. Following the IPO, SDF's total equity increased to LKR 3.35 Bn, from LKR 2.18 Bn.

This equity profile remained unchanged in 2022-23.



#### Debt Capital

During the economic crisis, the Non-Banking Financial Institutions (NBIFs) sector and the financial market experienced significant changes in priorities. One of the key concerns that emerges is the management of cash flow. This shift in focus is primarily driven by the unavailability of local bank borrowing, as bankers face adverse economic impacts.

## Financial Capital

As a result, our company did not seek new funds through the local banking network during the financial year, except for pre-approved facilities. However, we remained committed to fulfilling all agreed debt repayments, which led to a reduction in total borrowings by LKR 812.07 Mn. Accordingly our borrowings decreased from LKR 2,320.18 Mn to LKR 1,508.11 Mn.

To ensure a healthy level of liquidity, we proactively raised funds through Public deposits, which proved to be a reliable source of funding. The Public deposits significantly increased by 30.96% to LKR 6,193.43 Mn compared to LKR 4,729.10 Mn in the previous year. This strategic measure helped us maintain a strong liquidity position during the challenging economic climate.

### Capital Ratios

After receiving a new capital injection in 2021 through IPO, SDF's capital base surpassed the minimum statutory capital requirement of LKR 2.5 Bn. Additionally, the Core Capital Ratio experienced an improvement to 32.75%, exceeding the minimum statutory requirement of 8.5%. Furthermore, the Total Risk Weighted Capital Ratio reached 34.01%, surpassing the Minimum Statutory Ratio of 12.5%. These positive developments demonstrate SDF's strengthened financial position and compliance with regulatory capital adequacy standards.

The Company has the capacity to expand its total assets up to LKR 25 Bn within the framework of its core capital structure.

### BUSINESS PERFORMANCE

SDF's business can be broadly categorised as lending and deposits, marketed as a range of different lending products and savings products designed to meet different customer requirements. During the 2021-22 financial year, SDF recorded a strong growth in business volumes as the funds from the IPO were invested into the lending portfolio.

### Financial priorities for the year

Within the environment of sharp economic deterioration and rising interest rates, our strategic priorities for the year were focused towards financial stability and managing asset quality.

Financial Priorities	Strategies
Grow bottom-line	<ul style="list-style-type: none"> <li>Push top-line and sustain Net Interest Margin</li> <li>Contain cost and increase operational efficiencies through integration of technology and process reengineering</li> </ul>
Mobilise deposits	<ul style="list-style-type: none"> <li>Mobilise deposits</li> <li>Improve relationship with high-net-worth individuals through personalised service to attract larger deposits</li> <li>Optimise the use of social media platform and direct marketing to reach target markets for product promotions</li> <li>Digital content marketing campaigns to identified customer segments</li> <li>Collaborate with Sarvodaya Societies to increase village level penetration through joint promotional campaigns</li> <li>Collaborate with Sarvodaya Societies to increase village level penetration through joint promotional campaigns</li> <li>Introduce new products</li> <li>Incentivise top performers</li> </ul>
Improve portfolio quality	<ul style="list-style-type: none"> <li>Improve credit evaluation</li> <li>Harness technology for improved credit supervision and improve recoveries</li> </ul>
Rebalance credit portfolio	<ul style="list-style-type: none"> <li>Expand the collateral-backed lending portfolio for improved credit quality</li> <li>Move into larger-ticket size lending backed by collateral</li> <li>Increase average loan size of lending</li> <li>Expand gold loans through expansion and aggressive marketing</li> </ul>

Financial Priorities	Strategies
Optimise funding sources	Optimise the mix of long-term and short-term funds to eliminate maturity mismatch. Explore opportunities for off-shore funding. Improve monitoring and allocate appropriate resources to prioritise savings deposits build-up.
Balance product mix	Change products concentration to suit the current interest rate environment and economic condition. Develop new products giving a balance between risks and returns, develop markets and profitable niche markets.

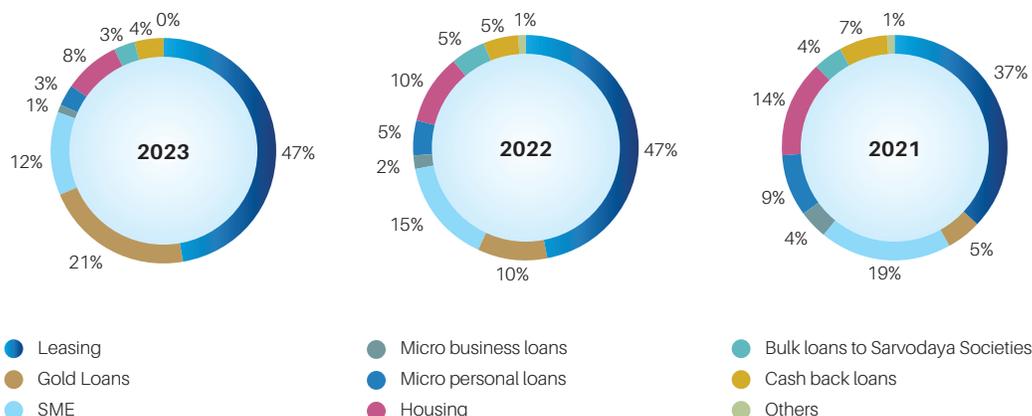
## PERFORMANCE OF BUSINESS LINES

### Lending products

During the current financial year, the Company experienced a slight decrease of 1% in its total lease and loan portfolio, amounting to LKR 10,366.64 Mn. This decline contrasts with the significant growth of 25.03% observed in the previous year (2021-22). The decrease in lending activity can be primarily attributed to the prevailed adverse economic crisis that has affected the entire nation. The economic crisis has mainly been characterized by high policy interest rates and inflation, which have had a significant impact on the Company's new lending business. In response, the Company had to adjust its lending priorities towards low-risk sectors and manage its lending portfolio accordingly. Consequently, the Company has made changes to its product offerings in line with the prevailing market dynamics.

Product	Gross Portfolio As at 31 March 2023 (LKR)	Gross Portfolio As at 31 March 2022 (LKR)	Portfolio Growth (%)	% of total lending
Leasing	4,921,853,757	4,938,537,124	0%	47%
Gold loans	2,170,424,108	1,047,191,832	107%	21%
SME	1,215,420,794	1,585,936,735	-23%	12%
Micro business loans	115,137,346	224,839,447	-49%	1%
Micro personal loans	307,816,332	536,439,102	-43%	3%
Housing	819,523,421	1,102,586,962	-26%	8%
Bulk loans to Sarvodaya Societies	361,648,052	488,109,645	-26%	3%
Cash back loans	422,151,402	512,461,047	-18%	4%
Others	32,662,479	58,598,852	-44%	0%
<b>Total</b>	<b>10,366,637,692</b>	<b>10,494,700,746</b>	<b>-1%</b>	

### Lending products



## Financial Capital

### Leasing

Since entering the leasing market in 2017, SDF has experienced consistent growth. In the previous financial year, leasing became the largest and fastest-growing component of the Company's lending portfolio. This growth was primarily driven by the revival of the leasing sector during the low-interest rate environment that prevailed throughout most of the 2021-22 financial year. Notably, there was a high demand for agri-equipment leases from the agriculture sector, which represents SDF's primary leasing market.

Although the commercial leasing business within the Non-Banking Financial Institutions (NBFI) sector declined due to restrictions on vehicle importation, this restriction did not significantly impact the agriculture equipment and vehicles market, which is a focus area for SDF as a village-based development finance company. Furthermore, the Company established partnerships with three major agricultural vehicle importers in Sri Lanka.

Through these strategic approaches, the Company was able to maintain its leasing portfolio even during the crisis period. Moreover, the portfolio of agri-related leasing witnessed an increase from LKR 691 Mn to LKR 837 Mn, highlighting the success of SDF's efforts in the agriculture leasing sector.

### Gold Loans

There was high demand for gold loans (pawning facilities) during the year by individuals as well as businesses, for quick cash requirements. However, the major portion of SDF's gold loan portfolio is directed towards businesses in the form of short-term working capital support, instead of consumption lending for individuals. In this extremely competitive market segment, SDF's gold loan portfolio grew by 107% in 2022-23 compared to the 169% year-on-year growth of 2021-22. The strong growth of SDF's gold loan business demonstrates a high level of trust in SDF by the public to give them a fair interest rate, as well as good value and security for their gold.

### Bulk Loans to Sarvodaya Societies

Sarvodaya Shramadana Societies (SSS) play a crucial role as intermediaries for SDF in channeling credit to village businesses. SDF provides bulk loans to the Societies, which are then redistributed among society members at a very low margin. The lending activities conducted by the Societies are characterized by high repayment rates, largely due to the strong community relationships that exist within these villages.

The portfolio managed by the Societies has consistently demonstrated a lower non-performing loan (NPL) ratio compared to other products offered by the Company. This can

be attributed to the inherent strength of village-based societies and their conceptual stability. The SSS model highlights the power of community-driven financial systems in promoting financial inclusivity and ensuring the successful repayment of loans.

SSS have the authority to distribute loans directly to their members up to a value of LKR 500,000. However, if there is a request for a larger loan amount, it is redirected to SDF branches for further processing. In the financial year 2022-23, the amount of loans disbursed to Societies experienced a decrease of 26% compared to the substantial growth of 44% observed in the previous financial year (2021-22).

### SME and Micro Loans

The lending to small and medium-sized enterprises (SMEs) and micro enterprises has been on a declining trend since the COVID-19 pandemic and has not recovered in the financial years 2021-22 and 2022-23. This has resulted in many small businesses and micro enterprises struggling to regain lost markets and facing difficulties in repaying their existing loans. In response, the Company has provided support to existing customers through deferments and advisory services.

SME lending refers to loans above the value of LKR 1 Mn disbursed by SDF branches. The SME portfolio contracted by 2% in 2021-22 compared to the previous financial year and further declined by 23% in 2022-23.

Micro Lending refers to loans disbursed by SDF branches between the value of LKR 500,000 and LKR 1 Mn. This category includes micro business loans and micro individual loans. Over the years, SDF has increased the average loan amount for micro loans and acquired new customers, leading to an expansion of the micro customer base. The majority of micro loan recipients are women, accounting for 45% of total Micro loan recipients in 2021-22 and 47% in 2022-23. However, the microfinance portfolio experienced a significant decline of 31% in 2021-22 and a further drop of 49% in 2022-23. One of the primary reasons for the decrease in lending to SMEs and micro enterprises is the sale of high-value loans granted in previous years. Currently, the Company is focusing on promoting facilities below LKR 5 Mn under this segment.

The gross Non-Performing Loan (NPL) ratio for the SME sector increased from 26.05% at the end of March 2022 to 41.92% by the end of March 2023. Similarly, the gross NPL for the micro portfolio rose from 12.57% to 37.34% during the same period. The increase primarily serves as a compensation for the decline in the gross outstanding portfolio.

## DEPOSITS

The total deposit base grew by 30.96% year on year, reaching LKR 6,193.43Mn by end March 2023.

The Sarvodaya Societies' savings base decreased by 9.33% year on year, totalling to LKR 295.15 Mn as at end March 2023, and represented 28% of the total deposit base.

The savings to deposits ratio stood at 17.19% compared to 27.51% as at end March 2022 and 27.36% as at end March 2021.

### Deposits (%)



## ANALYSIS OF STATEMENT OF PROFIT OR LOSS

### Profitability of the Company

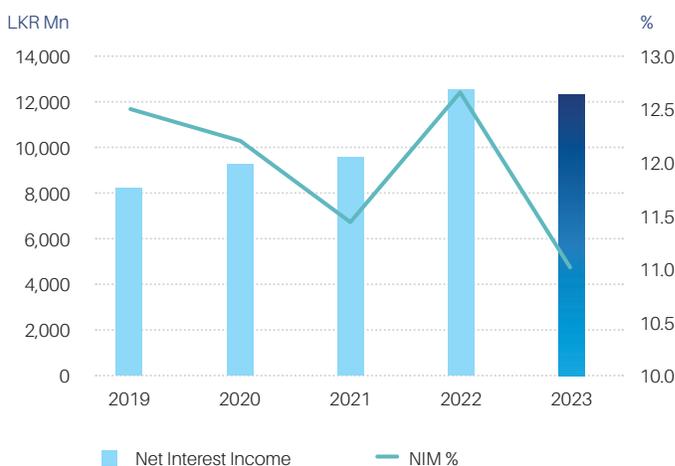
Despite the prevailing economic crisis, the Company achieved its highest-ever profit after tax of LKR 221.65 Mn for the financial year 2022-23, marking a growth of 2.9% compared to LKR 215.47 Mn in 2021-22.

For the year ended 31 March	2023 LKR Mn	2022 LKR Mn	Increase/ (Decrease) LKR Mn	Change %
Net interest income	1,239.72	1,260.20	(20.48)	-1.63%
Non-interest income	136.16	108.09	28.07	25.97%
Operational expenses	866.71	800.41	66.30	8.28%
Impairment	63.09	192.62	(129.53)	-67.25%
Tax	145.95	106.55	39.40	36.98%
PAT	221.65	215.47	6.19	2.87%

## NET INTEREST INCOME

During the financial year, the Company's net interest income declined by 1.63% to LKR 20.48 Mn compared to the previous year's figure of LKR 1,260.20 Mn. This decrease can be attributed to the sudden increase in policy interest rates and the higher bill market rates caused by the high inflation experienced during the crisis period.

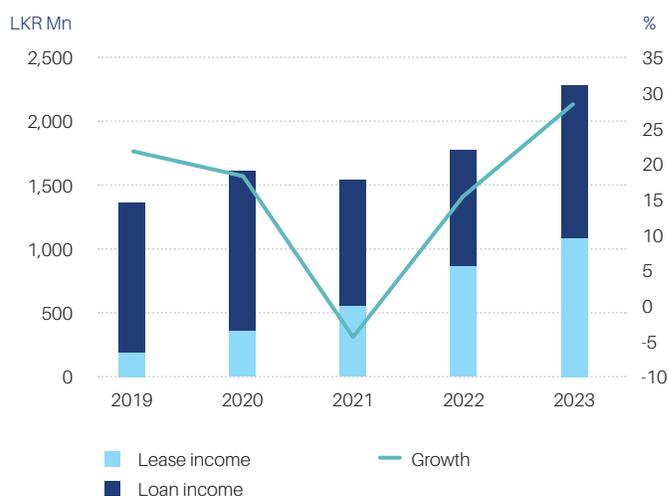
### Net Interest Income and Net Interest Margin



### Interest income

The Company experienced a growth of 35.07% in interest income, reaching LKR 2,461.33 Mn compared to LKR 1,822.32 Mn in the previous financial year (2021-22). This increase can be attributed to raising the interest rate on short-term lending products in line with the rise in the cost of funds. It's worth noting that the Company has not changed the interest rate for existing loan portfolios and takes measures to safeguard customers' repayment capacity during periods of high inflation.

### Interest income and growth



## Financial Capital

### Interest expenses

Interest expenses increased by 117.32% to LKR 1,221.61 Mn from LKR 562.12 Mn during the financial year. This significant increase can be attributed mainly to the rise in the bank's Average Weighted Prime Lending Rate (AWPLR) and the increase in fixed deposit interest rates in line with the treasury bill auction rates. It's worth noting that 80% of the bank borrowing consists of variable interest rates, while 80% of the fixed deposits have a duration of 12 months or less. Therefore, the interest rate increases had a high impact on the existing fund base due to the sensitivity of the Company's interest rates to these factors.

### NON-INTEREST INCOME

Fees and commission income grew by 79.57% to LKR 114.19Mn compared to the 77.38% growth in 2021-22.

Other income reduced in 2021-22 due to the reduction in valuation gains from revaluation of Investment Properties. In 2022-23, the other income component further reduced to LKR 21.97Mn.

Overall contribution of non-interest income to interest income which had declined to 4.09%, due to the reduction in valuation gains in 2021-22, 0.40% in 2022-23.

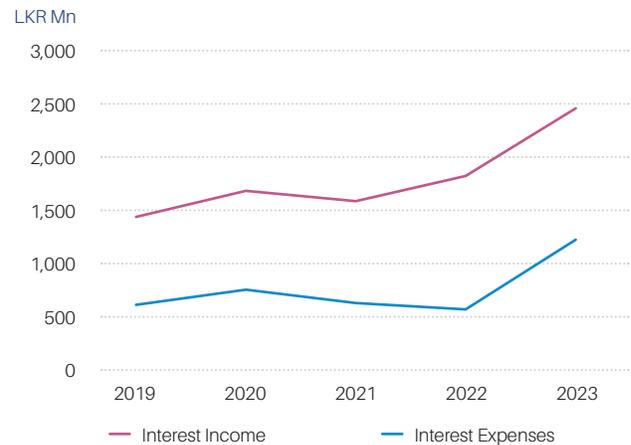
### OPERATIONAL EXPENSES

Operational expenses increased by LKR 66 Mn during the financial year, reflecting a 8.28% increase compared to the previous year. This rise can be attributed primarily to license fees that were influenced by the increase in the USD exchange rate and VPN charges. Furthermore, other expenses also saw a slight increase due to the high inflation experienced during the crisis period.

Despite the economic crisis, the Company provided an 11% salary increment to its staff and awarded one-month annual bonus as an incentive for their contributions during this challenging period. However, the total personnel expenses increased marginally as a result of the Company reducing its total staff count from 508 to 458 over the course of the financial year.

The company has adopted a strategic approach of reducing marketing expenses as customers are not currently investing in new business ventures and assets due to the prevailing market situation.

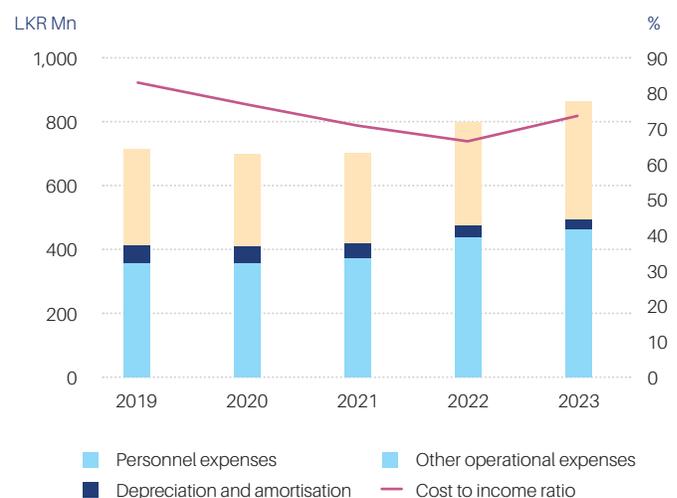
### Interest income and interest expense



### Non-interest income



### Operational expense vs Cost to income ratio



### IMPAIRMENT

Impairment charges and other losses were LKR 471.91 For 2022-23 compared to LKR 550.52 Mn in 2021-22. The Company strengthened recovery operations during the year, which resulted in lower NPA ratios compared to the previous financial year.

### TAX

Tax on financial services increased by LKR 40 Mn primarily due to the implementation of a new tax called the Social Security Contribution Levy, which is set at a rate of 2.5%. Additionally, there was a 3% increase in the FSVAT (Financial Services Value Added Tax) rate during the financial year.

Income tax expenses increased by LKR 25 Mn during the FY as a result of changes in tax regulations. Previously, the Company enjoyed a 50% tax concession (12% tax rate) as a newly listed company in the Colombo Stock Exchange (CSE). However, due to the recent economic crisis, the government removed this concession and implemented other tax increases. Consequently, the Company had to pay a 30% income tax and deferred tax for the last six months of the financial year 2022/23.

### FINANCIAL STRENGTH - ANALYSIS OF STATEMENT OF FINANCIAL POSITION

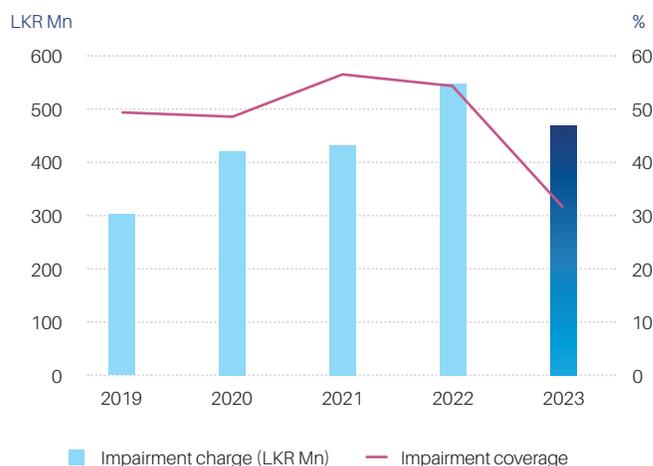
#### Total Assets

Total assets grew by 4.4% to LKR 11,670.29 Mn from LKR 11,174.48 Mn in 2021-22. Interest earning assets accounted for 93.34% of the total assets as at 31 March 2023.

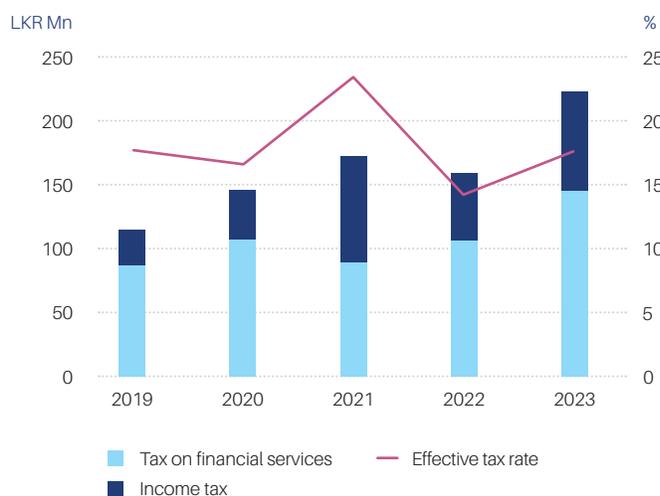
#### Funding Mix

In the 2021-22 financial year, the Company raised LKR 950.95 Mn in new capital through its IPO. In 2022-23 growth in the funding mix was from public deposits and debt.

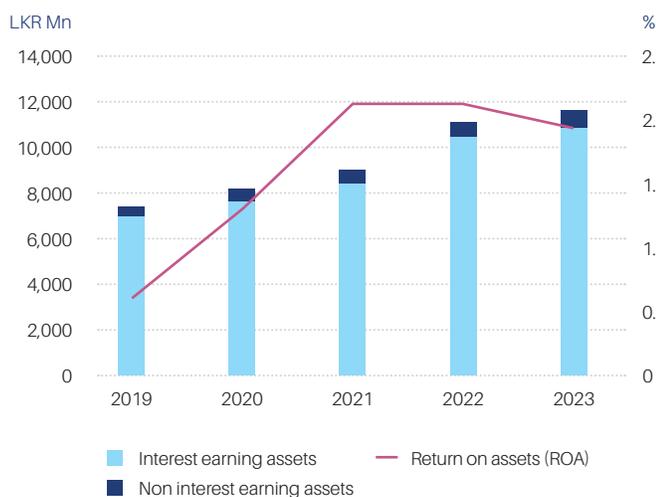
### Impairment charge and coverage



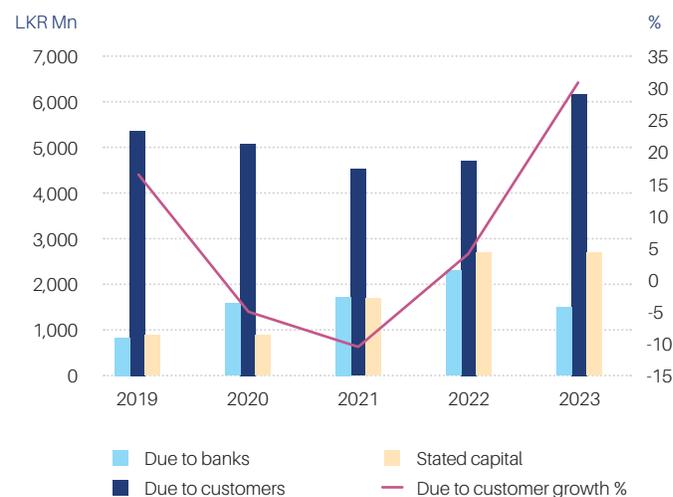
### Tax expense and effective tax rate



### Total Assets and Return on assets



### Funding Mix and deposit growth



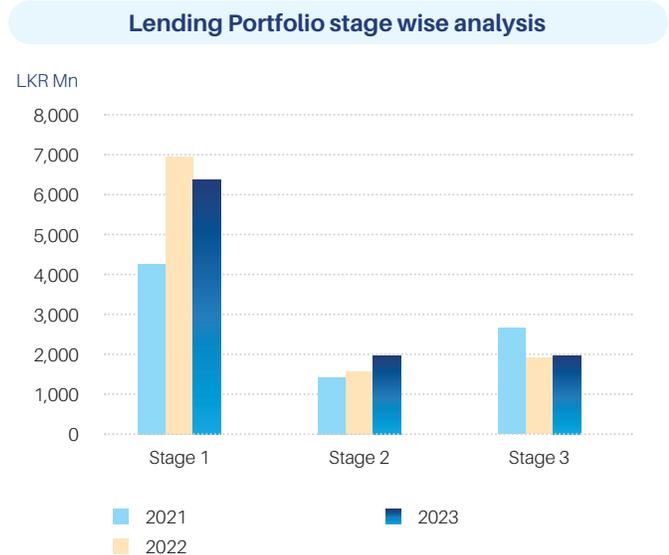
# Financial Capital

## Lending Portfolio

The Company's net lending portfolio declined by 1.22% to LKR 10,366.64 Mn from LKR 10,494.70 Mn in 2021-22.

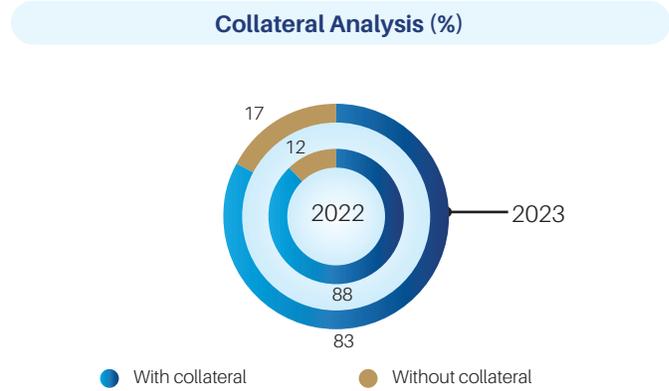


The Stage 1 portfolio declined by 8.34% compared to the 67% growth in 2021-22.



## Lending Portfolio - Collateral Analysis

SDF's long-term business strategy is to maintain a minimum share of 70% of collateral-backed lending. Accordingly, the gross portfolio, backed by collateral, increased to 91.00% from 87.72% in the previous financial year.



## Lending Portfolio - Composition Analysis

The gross portfolio value decreased by 1.22% to LKR 10.37Bn from LKR 10.49Bn in the previous year. The key products of SME and micro loans contributed 16% of the gross portfolio compared to 22% in 2021-22, and leasing contributed to 47% in both year 2022-23 and year 2021-22.



### Disbursement By Product Type

The Leasing product remained the largest recipient of SDF credit, absorbing 60% of total disbursements during the year, which was LKR 1,148 Mn against LKR 3,002 Mn disbursed during the previous year which accounted for 64% of the total loan disbursements.

Product Type	2023 LKR Mn	2022 LKR Mn	2021 LKR Mn
Leasing	1,148	3,002	1,808
SME	145	591	403
Housing	83	311	223
Society	104	369	257
Cash Back	370	248	279
Micro Personal	63	136	96
Micro Business	14	25	27
<b>Total</b>	<b>1,927</b>	<b>4,682</b>	<b>3,092</b>

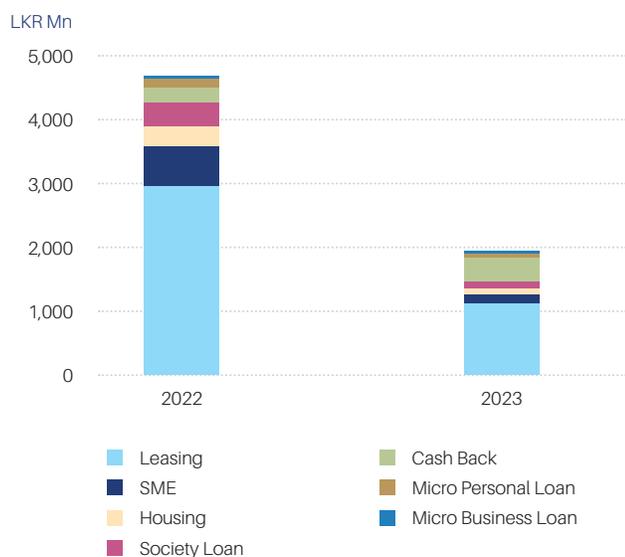
### FINANCIAL STRENGTH - ANALYSIS OF STATEMENT OF CASH FLOWS

Liquidity management was vital for financial stability and consumer confidence during 2022-23.

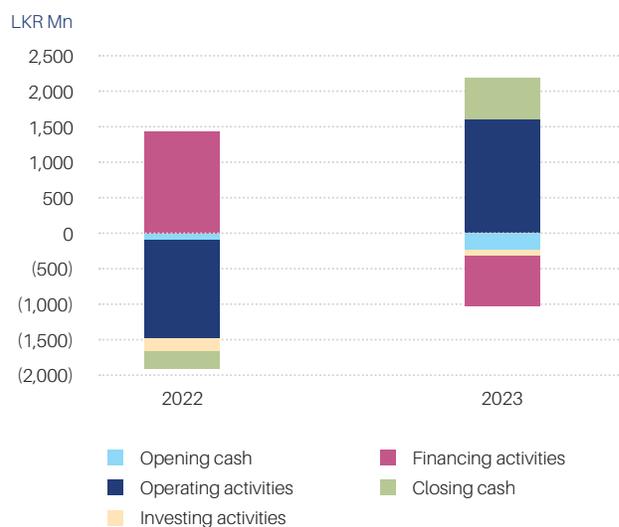
The operating cash flow in operating activities went from deficit of LKR 1,405.49 Mn in 2021-22 to surplus LKR 1,618.10 Mn. The increase in profits shows the ability to convert profits into cash. Cash generated from operating activities is mainly used to settle dues to banks.

For the year ended	2023 (LKR Mn)	2022 (LKR Mn)
Opening cash	(241.12)	(96.34)
Operating activities	1,618.10	(1,405.49)
Investing activities	(84.75)	(174.45)
Financing activities	(712.57)	1,435.47
Closing cash	579.67	(241.12)

Product Type



Cash flows



## Financial Capital

### FINANCIAL STABILITY

#### Capital Base

The primary objective of the Company's capital management policy is to ensure compliance with externally imposed capital requirements and maintain strong credit ratings and capital ratios to support business and maximise shareholder returns. Our Tier 1 and total capital ratios of 32.75% and 34.01% respectively, were well above the new capital adequacy requirements of 8.5% and 12.5% laid down by the Finance Business Act Direction No. 3 of 2018, reflecting the Company's financial strength.

	2023	2022	Industry - March 2023	Regulatory Minimum
Tier 1 Capital ratio (%)	32.75	29.17	20.50	8.5
Total Capital ratio (%)	34.01	30.42	21.86	12.5

### LIQUIDITY POSITION

The Company was able to maintain liquidity well above the regulatory minimums during the financial year.

	2023	2022	2021	2020	2019
Regulatory minimum liquid assets (LKR Mn)	677.5	553.0	338.3	623.1	619.2
Available liquid assets (LKR Mn)	1,227.3	634.3	493.5	661.3	741.7

### ECONOMIC IMPACT

#### GRI 201-1

#### Direct economic value generated and distributed

Total economic value created by SDF grew by 34.56% to LKR 2.59Bn in the financial year 2022-23, from LKR 1.93 Bn in the previous financial year.

This value has been distributed among our stakeholders as stated below.

#### Economic Value Added Statement (EVA) (LKR Mn)

For the year ended 31 March	2023	2022	2021	2020	2019
Invested Equity					
Total equity	3,449	3,305	2,181	1,196	1,099
Add : Cumulative Loan Loss Provision/ Provision for Impairment	472	567	484	424	304
<b>Total</b>	<b>3,921</b>	<b>3,872</b>	<b>2,665</b>	<b>1,620</b>	<b>1,403</b>
Earnings					
Profit attributable to shareholders	222	215	183	102	41
Add: Impairment for loans and receivables and other losses	63	193	60	119	94
<b>Total</b>	<b>285</b>	<b>408</b>	<b>243</b>	<b>221</b>	<b>135</b>
Cost of equity (Based on 12 months weighted average T-Bond rate plus 2% for risk premium)	26%	12%	7%	10%	13%
Cost of average equity (Economic Cost)	1,025	392	150	151	174
Economic value added	(740)	16	93	70	-39

### Market Value Added (MVA) (LKR Mn)

For the Year ended 31 March	2023	2022	2021	2020	2019
<b>Market Capitalisation</b>					
Market Value of Equity	1,645.56	1,869.95	NA	NA	NA
Less: Equity Owners' Funds					
Shareholders' Funds	3,449.49	3,304.80	2,181.38	1,195.68	1,098.54
Market Value Added/(Destroyed)	(1,803.93)	(1,434.85)	NA	NA	NA

### Direct Economic Value Generated and Distributed 5year (LKR Mn)

	2023	%	2022	%	2021	%	2020	%	2019	%
<b>Economic Value added</b>										
Interest income	2,461.33		1,822.32		1,584.75		1,681.68		1,433.37	
Other income	136.16		108.09		158.79		120.76		141.87	
Total Economic value generated	2,597.49		1,930.41		1,743.54		1,802.44		1,575.24	
<b>Economic value distributed</b>										
<b>To depositors and lenders</b>										
Interest expenses	1,221.61		562.12		623.35		750.12		606.62	
Total to depositors	1,221.61	47.03	562.12	29.12	623.35	35.75	750.12	41.62	606.62	38.51
<b>To employees</b>										
Salaries and other benefits	464.03		440.42		381.67		363.24		356.17	
Total to employees	464.03	17.86	440.42	22.81	381.67	21.89	363.24	20.15	356.17	22.61
<b>To the government</b>										
Income tax	78.48		53.24		9.87		17.34		-	
VAT on FS	145.95		106.55		89.36		108.02		87.76	
<b>Total to the GVT</b>	224.43	8.64	159.80	8.28	99.23	5.69	125.36	6.96	87.76	5.57
<b>To suppliers</b>										
Other operating expenses	374.64		291.83		364.19		293.53		330.65	
Impairment charges	63.09		192.62		60.09		119.32		94.01	
Depreciation and amortization	30.20		36.38		47.16		53.73		58.14	
<b>Total to suppliers</b>	467.93	18.01	520.83	26.98	471.44	27.04	466.58	25.89	482.80	30.65
Economic value retained	219.49	8.45	247.26	12.81	167.85	9.63	97.14	5.38	41.89	2.66
<b>Total Economic Value Distributed</b>	2,597.49	100.00	1,930.42	100.00	1,743.54	100.00	1,802.44	100.00	1,575.24	100.00

## Financial Capital

### GRI 203-2

#### SIGNIFICANT INDIRECT ECONOMIC IMPACTS

At the time of its initial public offering (IPO), the Company was admitted to the Colombo Stock Exchange as the first impact investment company. This recognition was a result of acknowledging the significant impact that Sarvodaya has created over the course of its 60-year history.

Sarvodaya-related entities hold a 53% ownership stake in the Company, and these entities are actively engaged in social service activities, primarily focused on benefiting local communities.

Dividend payments to Sarvodaya and its entities 2019-2023

	2023	2022	2021	2020	2019
Dividend applicable for the year	Processing	40,942,250	Dividends withheld due to macro uncertainty.	Dividends withheld due to macro uncertainty.	Dividends withheld due to macro uncertainty.

In addition to the dividend distribution, the Company's primary focus is on development finance activities within the country. With the exception of the cash margin product, all other products are designed and implemented to support income generation activities. By providing funding for these income-generating initiatives, the Company helps create a broader range of job opportunities, particularly for communities in rural areas. This value creation contributes to the overall growth and development of the economy as a whole.

#### SDF lending by region

One of the unique features of SDF is that over 80% of its branch network is located outside of the western region. The provinces of North Central, Eastern, and Uva take the lead in terms of business distribution for the Company.

#### Gross portfolio by province (%)

Province	2023		2022		% change
	Value (Mn)	(%)	Value (Mn)	(%)	
Western Province	1,853	18%	2,176	21%	-17%
Southern Province	1,048	10%	1,186	11%	-13%
Central Province	960	9%	1,071	10%	-12%
North Central Province	1,751	17%	1,463	14%	16%
Uva Province	1,166	11%	1,103	11%	5%
Sabaragamuwa Province	840	8%	892	9%	-6%
Eastern Province	1,335	13%	1,169	11%	12%
North Western Province	1,163	11%	1,160	11%	0%
Northern Province	251	2%	274	3%	-9%
<b>Total</b>	<b>10,367</b>	<b>100%</b>	<b>10,495</b>	<b>100%</b>	<b>-1%</b>

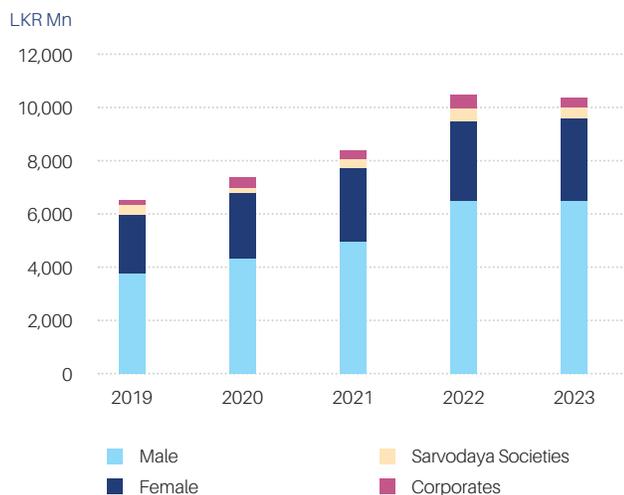
As part of our development financing services we provide many support services, free of charge, including training and market connections with advisory support, to upgrade rural businesses to the next level and add value to products. In the agriculture sector, SDF provides access to agricultural equipment that have helped modernise the sector and enhanced sector productivity. These efforts contribute towards developing entrepreneurs and expand rural economies, which has contributed towards employment generation.

By supplying palmtop computers to 100 Sarvodaya Societies, we have also promoted digital financial transactions in rural areas, where internet penetration is extremely low, thereby contributing to bridge the urban-rural digital divide.

### SDF lending to women

During the financial year 2022-23, women customers accounted for 57% of total loan recipients. We also provide business training for women, to empower women entrepreneurs.

#### Gender Analysis



### GRI 207-1

#### APPROACH TO TAX

SDF's tax policy is fully complies with all applicable taxes to support national welfare and development efforts.

With the exception of standard tax deductions, SDF does not have a tax strategy to either shelter income or reduce the tax payouts, as the Company believes in supporting Sri Lanka's social welfare programmes. SDF's sustainable business strategies are designed to accommodate taxes, and no tax evasion or tax avoidance measures are adopted as a policy by the Company. Internal control systems are in place for continuous oversight on the Company's accounts, in addition to independent external audits to ensure correct tax calculations for the financial year.

No tax deductions have been claimed on the basis of charitable contributions and SDF contributed a total tax payout of LKR 224.42 Mn to the national exchequer in 2022-23, which is an increase of LKR 64.63Mn from the previous financial year. SDF's tax expense consists of two main elements, namely tax on financial services and income tax. Tax on financial services was 65.03% in 2022-23, from the total tax amount.

Please also refer our Social Capital chapter and Local Community Engagement for more information on activities pertaining to indirect economic impacts.

For the year ended 31 March	2023 LKR Mn	2022 LKR Mn	2021 LKR Mn	2020 LKR Mn	2019 LKR Mn
VAT on Financial Services	136.77	106.55	88.99	70.96	61.97
NBT on Financial Services	-	-	0.37	6.08	8.26
Debt repayment levy	-	-	-	30.98	17.53
SSCL	9.17	-	-	-	-
Total tax on Financial Services	145.94	106.55	89.36	108.02	87.76
Income tax	78.48	53.24	83.48	22.35	27.74
Total	224.42	159.79	172.84	130.37	115.5
Profit before tax	446.07	375.26	356.2	232.09	156.72
Effective tax rate	18%	14%	23%	10%	18%

# Financial Capital

## INVESTOR RELATIONS

### Overview

#### 1. Significant

Investors who encompass shareholders of the Company, play a major role as key stakeholders, paving the way for an organization's progress and value creation. They are the main source of financial capital; equity capital. Our shareholders provide equity capital and respond proactively to strategic decisions while expecting a reasonable return on their investment. The company has always maintained a mutually beneficial relationship with investors and shareholders to drive the sustainable development of the business. Investors are regularly informed of the Company's performance through various digital and physical channels such as Annual General Meetings, Annual Reports, Interim Financial Statements, Colombo Stock Exchange (CSE) announcements, press conferences, media releases, etc.

#### 2. Expectation

Given that there are multiple avenues for investors' funds to be invested, they have certain expectations when those funds are invested in us. We recognize that this expectation is primarily related to their investment returns and potential risks. To meet (and exceed) their expectations, we need to achieve the best risk-reward trade-off. This in turn requires certain performance standards to ensure sustainable value creation underpinned by sound corporate governance and risk management systems.

#### 3. SDF responsibility

We have a responsibility to deliver a satisfactory return on the capital invested in a sustainable manner.

#### i. How SDF engage with investors

Method	Frequency
AGM	Annually
Annual report	Annually
Interim financial statements	Quarterly
Semiannual paper publication	Semiannually
Corporate website	Ongoing
Disclosures in CSE	As required
Press release	As required
Social media	Ongoing

#### ii. SDF share trading

Quarterly	Q1	Q2	Q3	Q4
Market capitalization	619,218,077	713,137,101	956,745,045	842,014,789

### iii. Share information

Quarterly	Q1	Q2	Q3	Q4
Share price				
- Highest	15.0	13.8	12.4	13.0
- Lowest	9.0	9.6	9.5	9.8
- Last traded price	9.6	11.3	10.8	11.0

### iv. Key investor ratios

Key investor ratios	2023	2022	2021	2020	2019
Earnings per share	1.48	1.86	2.55	1.51	0.61
Return on equity	6.56%	7.85%	10.86%	8.87%	3.70%
Net Assets per share (LKR)	23.06	22.09	21.43	17.71	16.27
Shareholder funds (LKR)	3,449,487,718	3,304,795,115	2,181,385,226	1,195,679,266	1,098,545,644
Price earnings (PE)	7.42	6.74	N/A	N/A	N/A
Price to book value	47.70%	56.58%	N/A	N/A	N/A
Earnings growth	2.87%	17.51%	80.26%	146.79%	-55.29%

### v. Composition of equity

	2023	2022	2021	2020	2019
Stated capital	2,696,113,032	2,696,113,032	1,696,113,020	890,000,020	890,000,020
Reserves	753,374,686	608,682,082	485,272,206	305,679,245	208,545,624
Total shareholders' funds	3,449,487,718	3,304,795,115	2,181,385,226	1,195,679,266	1,098,545,644

### vi. Movement of the shares presented in stated capital

Year ended	No of shares opening	Addition	Cum no of shares	Stated capital at end of FY
2011/12	54,000,002	Nil	54,000,002	540,000,020
2012/13	54,000,002	Nil	54,000,002	540,000,020
2013/14	54,000,002	Nil	54,000,002	540,000,020
2014/15	54,000,002	13,500,004	67,500,006	890,000,020
2015/16	67,500,006	Nil	67,500,006	890,000,020
2016/17	67,500,006	Nil	67,500,006	890,000,020
2017/18	67,500,006	Nil	67,500,006	890,000,020
2018/19	67,500,006	Nil	67,500,006	890,000,020
2019/20	67,500,006	Nil	67,500,006	890,000,020
2020/21	67,500,006	36,641,500	104,141,506	1,696,113,020
2021/22	104,141,506	45,454,546	149,596,052	2,696,113,032
2022/23	149,596,052	Nil	149,596,052	2,696,113,032

## Financial Capital

### vii. Analysis of shareholders

Shareholding	No of shareholders	Shareholder %	No of shares	Share %
Less than or equal to 1000	520	22.0	196,852	0.1
1,001 to 10,000	1032	43.0	6,333,972	4.2
10,001 to 100,000	796	33.0	20,276,234	13.5
100,001 to 1,000,000	26	1.0	6,304,326	4.2
Over 1,000,000	12	1.0	116,484,668	77.9
Total	2,386	100.0	149,596,052	100.0

### viii. Composition of shareholders

Shareholding	No of shareholders	Shareholder %	No of shares	Share %
Resident individual	1,078	45.2	10,651,467	7.0
Non-resident individual	1	0.0	95,012	0.0
Resident institutions	1,306	54.7	125,349,569	84.0
Non-resident institutions	1	0.0	13,500,004	9.0
Total	2,386	100.0	149,596,052	100.0

### ix. Public holdings

The Company's public holding stood at 51.16% as at 31 March 2023 and the number of shareholders representing the public holding was 2,374. There was no significant change in the Company's public holding compared to the previous year. However, the number of shareholders representing the public holding has only decreased by 3 when compared to the previous year.

### x. Float adjusted market capitalization

The float adjusted market capitalization as at 31 March 2023 - Rs. 842,014,789. (As at 31 March 2022 - Rs. 807,178,537.50)

The Float adjusted market capitalization of the Company falls under Option 5 of Rule 7.14.1 (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.

### xi. Share price movement

Following table shows share price movement for 1st to 4th quarters.

Quarterly	Q1	Q1	Q3	Q4
<b>Share price</b>				
- Highest	15.0	13.8	12.4	13.0
- Lowest	9.0	9.6	9.5	9.8
- Last traded price	9.6	11.3	10.8	11.0

**xii. Twenty five largest shareholders**

No	Name of the shareholder	No of shares	%
1	Sarvodaya Economic Enterprises Development Services (GTE) Ltd	54,000,000	36.10
2	Janashakthi Capital Limited	16,089,270	10.76
	<i>Seylan Bank Plc/Janashakthi Capital Limited</i>	<i>11,365,000</i>	<i>7.60</i>
	<i>Commercial Bank Of Ceylon Plc/Janashakthi Capital Limited</i>	<i>4,724,270</i>	<i>3.16</i>
3	Seylan Bank Plc/Senthilverl Holdings (Pvt) Ltd	15,542,251	10.39
4	Gentosha Total Asset Consulting Inc.	13,500,004	9.02
5	Lanka Jathika Sarvodaya Shramadana Sangamaya	4,645,000	3.11
6	Ideal Automobile (Pvt) Ltd	4,382,246	2.93
7	Sanasa Life Insurance Company Ltd (Life)	3,579,900	2.39
8	Thalwila Pibidena Sarvodaya Shramadana Society	1,414,000	0.95
9	Capital Trust Holdings Ltd	1,151,352	0.77
10	Sanasa General Insurance Company Ltd	1,108,445	0.74
11	Mr M.A.A.H. Esufally & Mrs A.M. Moonesinghe	1,072,200	0.72
12	Dr T.H. Rajudin	613,600	0.41
13	Mr J.D. Ariyaratne	454,600	0.30
14	Kekunawela Sarvodaya Shramadana Society	450,000	0.30
15	Porathota Sarvodaya Shramadana Society	450,000	0.30
16	Macksons Holdings ( Pvt ) Ltd	447,500	0.30
17	Mr W.T.D. Ganegama & Ms N.H. Ariyaratne	365,000	0.24
18	Mr G.C.A. De Silva	323,200	0.22
19	Kuda Arukgoda Sarvodaya Shramadana Society	300,000	0.20
20	Mis L.M. Ginige	236,600	0.16
21	Mr C.W. Perera	234,500	0.16
22	Mrs G.R.D. De Silva	234,500	0.16
23	Mr I.A. Shameer	227,000	0.15
24	Hatton National Bank PLC/R A Pradeep Chaminda Janaka	200,569	0.13
25	Other Shareholders	28,574,315	19.10
	Total	149,596,052	100.00





# MANUFACTURED CAPITAL

SDF's manufactured capital is limited to land and buildings, ATM machines, company owned vehicles, IT systems, and office equipment and furniture. During the year under review, we did not experience major changes to our stock of manufactured capital. However, this capital base will be augmented significantly in the new financial year to support growth plans.

Branches

51 ↑

Re Locations

3 ↑

Branch Upgrade

2 ↑

Investment in PPE

LKR 40.9 Mn ↑



As a comparatively small financial services provider in Sri Lanka, SDF's own manufactured capital base is fairly small and is limited to land and buildings, ATM machines, company owned vehicles, IT systems, and office equipment and furniture.

### Changes to our manufactured capital base

- During the current financial year, the Central Bank granted approval to open seven new branches, out of which five will be located outside the Western province. These branches will be formally opened to the public in the new financial year.
- We added two new ATMs in Kethsirigama in the Ampara district and Pasyala in Gampaha district. Our policy is to set up ATMs in remote interior parts of the country, to bring financial services to rural populations. This has increased the number of SDF owned ATMs to three.
- We also purchased an additional car, which has increased our vehicle fleet to five

### LAND AND BUILDINGS

Our land and building assets refer to the SDF head office located in Borella which is rented from the Sarvodaya Movement, buildings housing SDF branches, land acquired from loan defaults, and one other land and building asset owned by SDF, located in Rawathawatte. The Rawathawatte property is treated as an investment property and is rented. Lands acquired from default customers will be disposed of, by reselling.

### SDF HEAD OFFICE

The SDF head office and land are strategically located in the high value area of Colombo 08, with easy public transport access to all parts of Colombo and the regions. The modern building is equipped with all modern amenities and many facilities for employees, including a canteen and recreation area.

### BUILDINGS HOUSING SDF BRANCHES

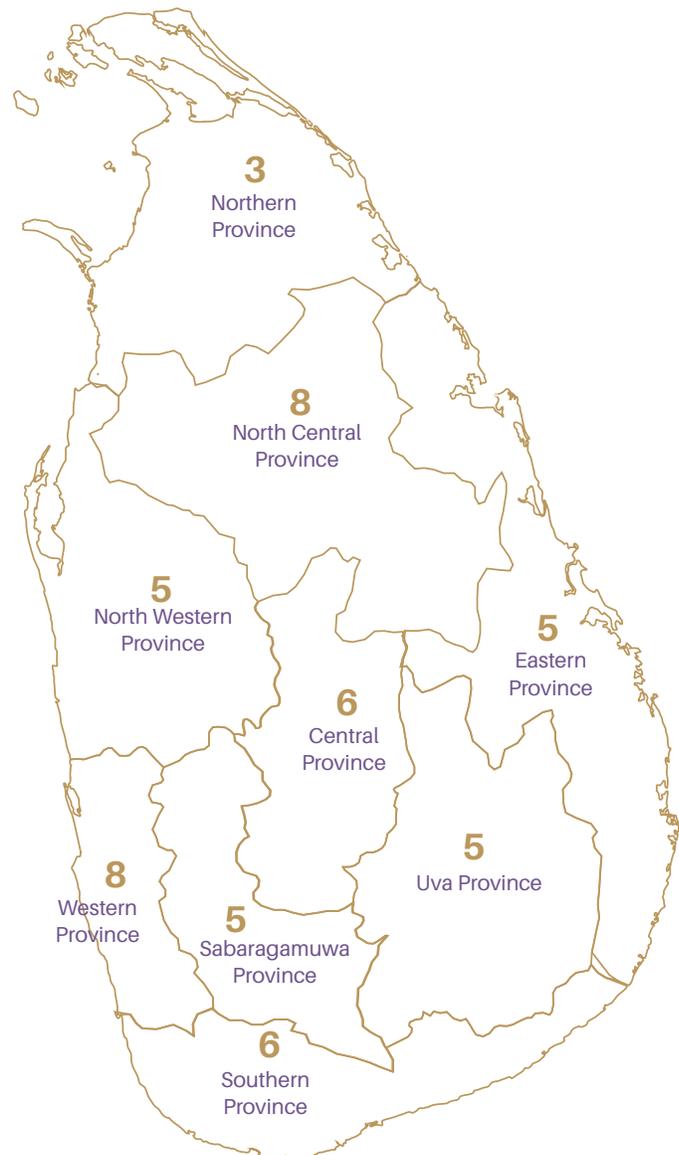
All 51 buildings housing SDF branches are rented properties, accounted as 'right of use assets.'

### VEHICLES

As at end March 2023, SDF owned a very small fleet of five vehicles, as we encourage our employees to travel by public transport, which has a lower environmental impact, or use their own vehicles.

### OTHER FIXED ASSETS

All other fixed assets include SDF's computers, hand held devices for field staff and Sarvodaya Societies, and office equipment and furniture. There were no significant purchases in the current financial year.



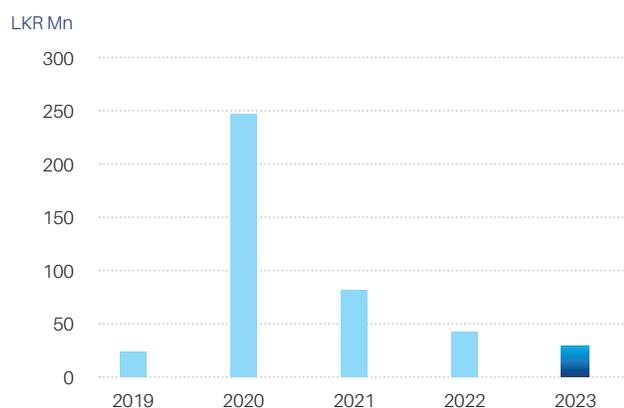
## Manufactured Capital

### VALUE OF SDF'S MANUFACTURED CAPITAL

Type of manufactured capital	2023 LKR Mn	2022 LKR Mn	2021 LKR Mn	2020 LKR Mn	2019 LKR Mn
Land & Buildings	36.10	36.10	36.10	18.05	18.05
Furniture & Fittings	95.25	104.30	111.40	100.79	98.24
Office Equipment	69.71	71.64	81.40	70.64	60.21
Computer Equipment	66.04	86.50	78.98	80.81	80.57
Plant & Machinery	48.88	50.16	48.85	40.72	40.36
Motor Vehicle	62.55	42.75	42.75	42.75	43.33
Right of use assets	363.37	321.45	270.68	234.37	-
ATMs	1.28	1.28	1.28	1.28	1.28
Maintenance and repair costs	23.48	14.43	16.10	17.79	16.27
<b>Total</b>	<b>766.66</b>	<b>712.90</b>	<b>670.16</b>	<b>588.13</b>	<b>340.76</b>

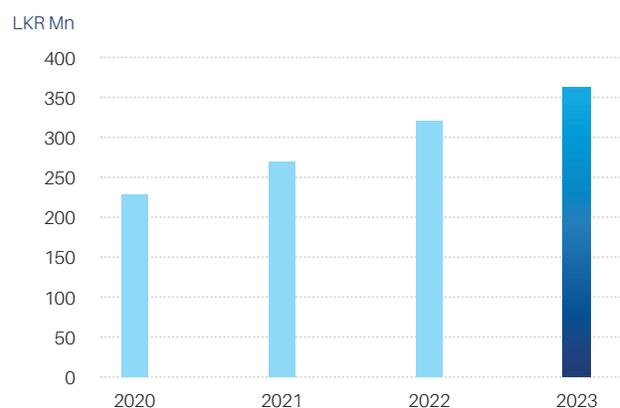
### GROWTH IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS 2019- 23

#### Growth in PPE and Right of Use Assets



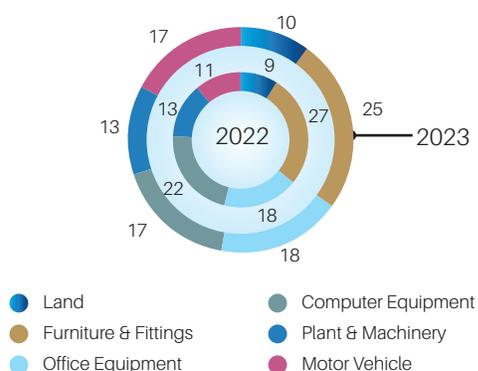
### RIGHT OF USE ASSETS 2019-23 (LKR MN)

#### Right-of-Use Assets



### COMPOSITION OF PROPERTY, PLANT AND EQUIPMENT 2021-22 VS 2022-23

#### Composition of PPE (%)



### PLANS FOR THE FUTURE

We will open seven branches within the 2023-24 financial year and we have Central Bank approval to set up 5 new ATMs as well.

The budget for IT has been significantly expanded for the new financial year and we have allocated Rs. 100 Mn for software and hardware in 2023-24. Our objective is to provide remote access to our field officers for collections and customer onboarding.

We will also be investing in upgrading the core banking system to enhance customer value creation through new products and to increase transaction volumes. New computers and handheld devices will be purchased to replace obsolete machines and support branch and field level efficiencies. We are now negotiating with various vendors regarding the development and costs of our mobile banking application.



# REIMAGINE



SDF supported a gold jewelry craftsmen and retailer in meeting their financial obligations and surviving the economic downturn. Their assistance helped the craftsman sustain their business during challenging times.

M G R Nandatilake

Geliyoia, Kandy District

# INTELLECTUAL CAPITAL

SDF's intellectual capital base is primarily the SDF operating model, which is one-of-a-kind due to its foundation in the Sarvodaya philosophy, and the collective knowledge of the Company, acquired through decades of operations in rural economies. Another significant intellectual capital, is SDF's unique impact investment model which has attracted international interest in the Company.

Investment in Intangible assets

**LKR 1 Mn** ↓



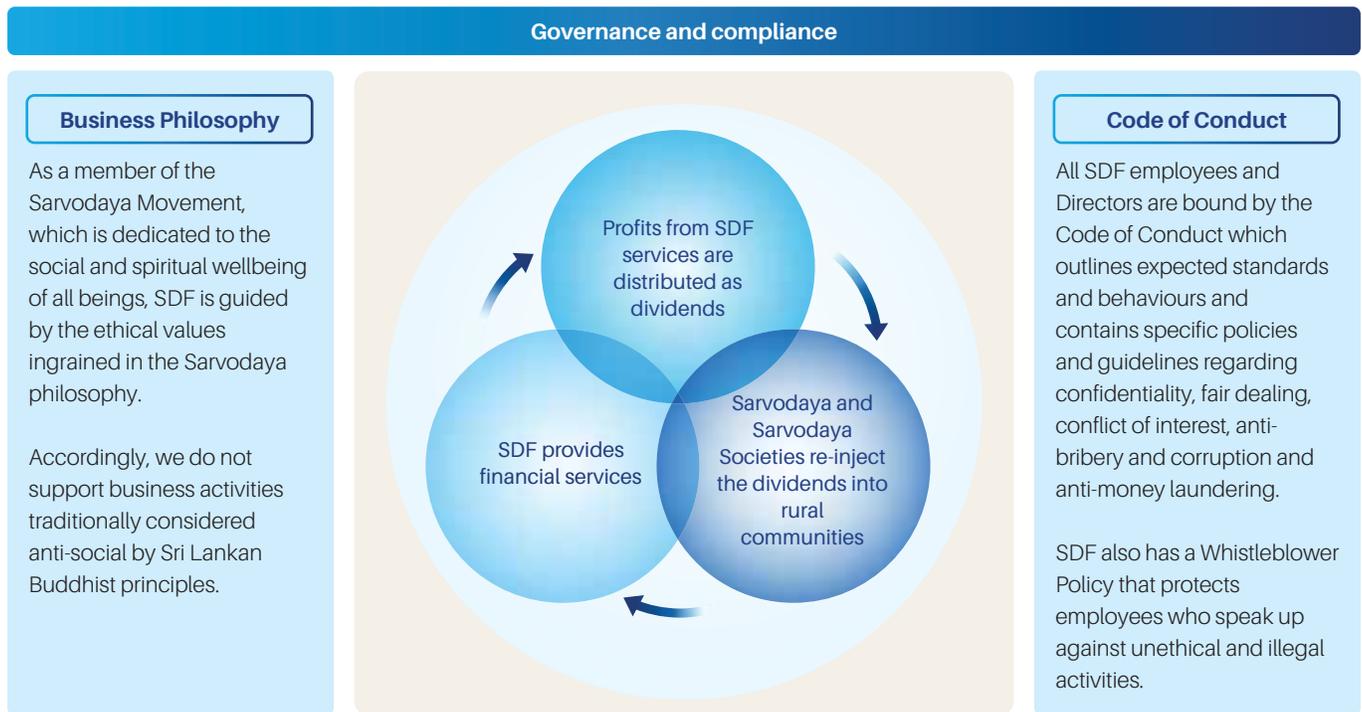
Our intellectual capital is the combined outcomes of our impact investment business model and collective knowledge of the Company, acquired through decades of operations in rural economies.

We are currently in the process of modernising our business model by integrating modern information communications technologies into our systems and processes. This transformation is creating a new and unique operating model that is geared for wide geographic coverage, including interior areas with little or no internet penetration, but is also reliable and secure.

**SDF IMPACT INVESTMENT MODEL**

SDF provides modern, formal financial services, at fair rates for Sri Lankan consumers, emphasising the rural and agricultural sectors. A share of profits from these services are redistributed among SDF shareholders as dividends. A large share of dividends are redistributed among underserved communities by the Sarvodaya Movement entities through community welfare projects. SDF’s profits also re-enter rural economies through dividend payments to around 1,000 Sarvodaya Shramadana Societies that have now become SDF shareholders.

**SDF IMPACT INVESTMENT MODEL**



**ISLAND WIDE ICT SYSTEM**

Under our digital strategy, previously manual systems and processes are being digitised. Our final objective is to interconnect all SDF branches and 5,400 Sarvodaya Societies scattered island wide.

Many rural micro entrepreneurs also cannot afford to purchase a smart phone or laptop computers. Therefore, we have introduced unique hybrid solutions to include our rural customers, who have been marginalized in Sri Lanka’s digital revolution, in the new digital age. One such example is to

provide handheld devices to Sarvodaya Societies that in turn provide digital transaction services to rural customers.

We continue to digitize our internal operations and introduce new digital solutions. We have deployed Google (G-Suite) to facilitate our email communications and the Google AppSheet workflow management system which has streamline several key back end processes, such as our Supplier Payment Workflow and Bank Reconciliation Workflow, (amongst others) which have collectively led to a notable increase in productivity. We have already taken the first steps towards investing in advanced digital tools to strengthen our data analytics capabilities.

**BUSINESS CONTINUITY MANAGEMENT (BCM)**

The entire BCM programme was revisited during the pandemic of 2020 to address information security implications that may arise if remote access was granted for an extended period of time. Already the Company has a virtual server ecosystem for Mission Critical Applications ("MCA") and new Lenovo servers and additional an Storage Area Network have also been deployed. We have also linked up with a leading call centre solutions provider to implement an innovative platform to integrate their solution with our Recovery Call Centre requiring minimal capital expenditure to enable integration.

**SUSTAINABLE NEW PRODUCT DEVELOPMENT**

As part of its growth and evolution SDF has introduced a new Product Development Policy setting out formal guidelines to determine the way new products are identified, developed, marketed, according to Central Bank guidelines on financial services.

All new products and services will be routed through the New Product Development Committee chaired by the Chief Executive Officer, and consisting of Head of Credit, Head of Finance, Head of Compliance, Head of IT, Head of Audit, Head of Marketing and Head of Risk Management. SDF's Board of Directors will be responsible for ensuring that product risks are well managed, and the needs and rights of consumers are appropriately addressed.

We have also included a mandatory screening process to assess the environmental and social impacts caused by any new product and will also be applied to see how our existing products measure up in terms of social and environmental impacts.

**SYSTEM SECURITY**

Information security audits are conducted regularly and secure work from home systems have been successfully deployed.

**PLANS FOR THE FUTURE**

In the new financial year, SDF plans to launch a ground-breaking Ecommerce platform called Agri-Connect to help rural farmers market their products locally and globally through the internet. A specialised team on agriculture and international logistics are working together to build this application. This one-of-a-kind platform will eliminate all middlemen and allow the farmer and consumer to personally connect with each other. This will also benefit farmers and consumers by reducing the costs associated with middlemen, while ensuring high quality of produce. The platform will also support farmers by creating revenue and sales records, that will allow farmers to access credit to expand their activities. We will conduct visibility building activities for the project to ensure traffic to the site.

We will also continue to invest in integrating new digital solutions and developing innovative operational solutions to bridge the urban-rural digital divide.



# REIMAGINE



SDF helped an IT software and digital transformation business during COVID lockdowns by financing laptops, and business operations enabling them to work from home and maintain productivity. This support ensured the growth of valuable software development and the company earned foreign exchange and contributed to the Sri Lankan economy successfully.

Chandana Ranasinghe

Colombo District

# HUMAN CAPITAL

Despite the extremely uncertain environment that prevailed during much of 2022-23, SDF did not layoff employees or implement salary cuts. We continued to honour all our statutory commitments to our employees while upholding all welfare measures. However, we did experience greater employee attrition, which was due to employees opting to take up foreign employment opportunities in response to the spiralling cost of living. Throughout the year, we continued our efforts to hire new employees to fill both existing vacancies and new positions required for the staffing of our recently established branches.

Total Number of Employees

**453** ↓

New Employees

**118** ↓

Training Hours

**9,037** ↑

Male to Female

**52:48** ↑

Investment on training

**LKR 4.02 Mn** ↑



### COMPLIANCE WITH LABOUR REGULATIONS

We are fully compliant with all applicable labour laws, including legislation on child labour, forced labour and compulsory labour. All salaries, increments and bonuses, and statutory payments, such as EPF and ETF payments were made on the due dates. We did not face any fines and/or penalties for non-compliance with any labour laws, during the year.

#### GRI 2-7

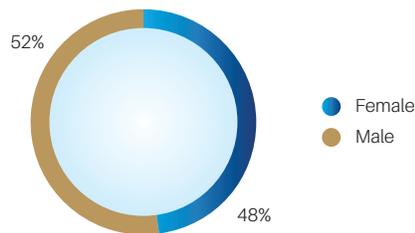
#### Employee profile

As at end March 2023, SDF had a total employee cadre of 453. We do not have part time or temporary employees. All SDF employees are full time, permanent employees.

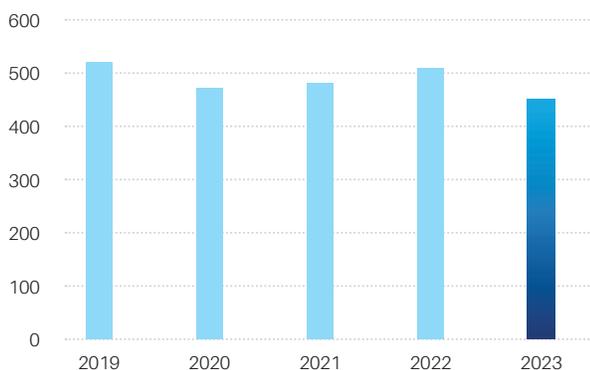
#### Total employees by gender/ permanent employees by gender

Gender	31 March 2023		31 March 2022	
	Head Count	%	Head Count	%
Female	219	48.3	214	42.1
Male	234	51.7	294	57.9
<b>Grand Total</b>	<b>453</b>	<b>100</b>	<b>508</b>	<b>100</b>

#### Employees % By Gender



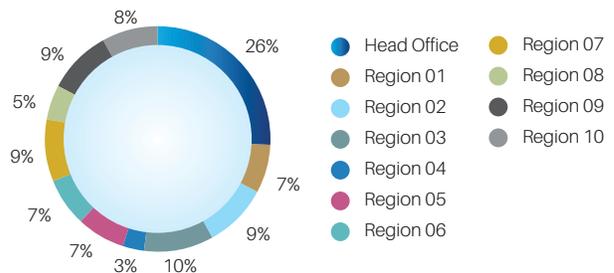
#### Total Employees



**SDF's island wide operations are divided into 10 internally classified regions and the head office. Only 2 areas - Head office and Region 1 - are in the Western Province. The rest of the 9 regions are outside the Western Province representing a majority footprint.**

We are present in some of the most far flung and underserved areas in the country including in the Monaragala District, Thambuttegama in the Anuradhapura District, Dehiattakandiya in the Ampara District, Medirigiriya in the Polonnaruwa District, Kebithigollewa in the Anuradhapura District, Parakrama Pura in Anuradhapura, bordering Vavuniya and Trincomalee, Kataragama in the Monaragala District, Akuressa and Karadeniya in the Matara District and many others. Employees are mainly recruited from their localities, generating employment opportunities in these areas. The number of employee's by region are listed below.

#### Employees % By Region



Region	31 March 2023		31 March 2022	
	Head Count	%	Head Count	%
Head Office	120	26.4	137	27.0
Region 1	31	6.8	37	7.3
Region 2	40	8.8	44	8.7
Region 3	46	10.1	54	10.6
Region 4	13	2.8	17	3.3
Region 5	32	7.0	34	6.7
Region 6	30	6.6	32	6.3
Region 7	41	9.0	46	9.1
Region 8	22	4.8	25	4.9
Region 9	41	9.0	45	8.9
Region 10	37	8.1	37	7.3
<b>Total</b>	<b>453</b>	<b>100</b>	<b>508</b>	<b>100</b>

## Human Capital

### GRI 2-8

#### Workers Who are not Employees

SDF has outsourced some non-core operations to third party service providers. These are security personnel and cleaning staff for the SDF head office in 5 cleaning staff and 2 security staff, which is a total of 7 personnel.

### GRI 2-21

#### Annual Total Compensation Ratio

The ratio of the annual total compensation for SDF's highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) is approximately 3:1.

The ratio of the percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) is : 1.3: 1

Please note that the increase in annual compensation to staff (excluding the highest paid individual), includes gratuity payments as well as increments.

### GRI 401-1

#### New Employee Hires and Employee Turnover

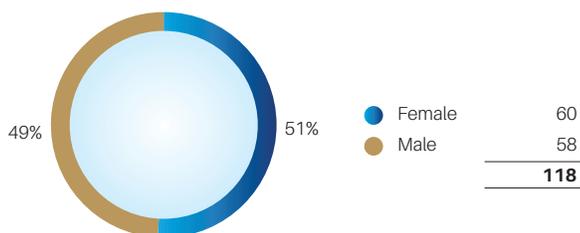
During the year, 118 new employees were recruited to support SDF's expanding footprint and growth plans for the future.

#### New Employee Hires by Age Group

Age Category	31 March 2023		31 March 2022	
	Head Count	%	Head Count	%
20-30	78	66.1	146	66.1
30-40	32	27.1	59	26.7
40-50	7	5.9	14	6.3
Above 50	1	0.8	2	0.9
<b>Grand Total</b>	<b>118</b>	<b>100.0</b>	<b>221</b>	<b>100.0</b>

#### New Employee Hires by Gender

##### Recruitments By Gender



#### New Employee Hires by Region

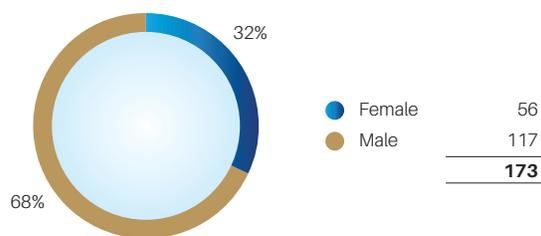
Region	31 March 2023		31 March 2022	
	Head Count	%	Head Count	%
Head Office	23	19.5	57	25.8
Region 01	6	5.1	19	8.6
Region 02	10	8.5	16	7.2
Region 03	15	12.7	32	14.5
Region 04	9	7.6	7	3.2
Region 05	15	12.7	23	10.4
Region 06	6	5.1	12	5.4
Region 07	5	4.2	14	6.3
Region 08	9	7.6	10	4.5
Region 09	8	6.8	18	8.1
Region 10	12	10.2	13	5.9
<b>Grand Total</b>	<b>118</b>	<b>100.0</b>	<b>221</b>	<b>100</b>

#### Employee Turnover

Total number of employee turnover during the reporting period was 173, a majority of which were men. The employee turnover ratio for the year was 36%

#### Employee Turnover by Gender

##### Turnover By Gender

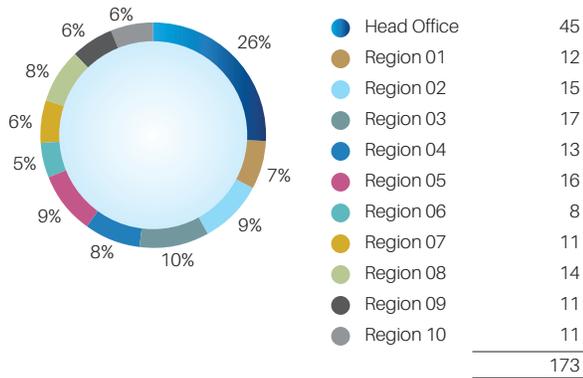


#### Employee Turnover by Age Group

Age Category	31 March 2023		31 March 2022	
	Head Count	%	Head Count	%
20-30	83	48.0	96	51.9
30-40	60	34.7	61	33.0
40-50	22	12.7	21	11.4
Above 50	8	4.6	7	3.8
<b>Grand Total</b>	<b>173</b>	<b>100.0</b>	<b>185</b>	<b>100</b>

### Employee Turnover by Region

#### Turnover By Region



### SDF HR POLICIES

All SDF HR policies were approved by the Board in June 2021. These comprise 21 policies categorised into 7 areas, applying to all aspects of employment at SDF. As an equal opportunity employer SDF provides employment and growth opportunities non-discriminately.

### Motivation strategy

SDF conducts many employee recognition events to encourage above average performance. These include acknowledging best performers, offering pay incentives and bonus payments, annual increments, and an annual award ceremony that recognises the best employee, the best branch manager, the best marketing officer and others who have done extraordinary work.

We even recognise children of staff that perform well in school.

### Employee benefits

We provide a range of benefits above and beyond the statutory requirements and all staff are entitled to all benefits from the first day of their recruitment. These include:

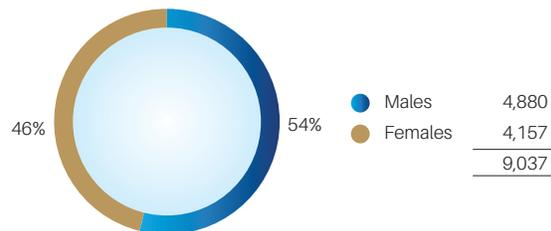
- ➔ An insurance scheme, which extends to parents of unmarried employees and children and spouse of married employees. The scheme also provides OPD cover for medical facilities. Critical illness cover - LKR 1 Mn and life insurance cover LKR 1 Mn
- ➔ An accident insurance cover of up to LKR 1 Mn and a life insurance of up to LKR 500,000.
- ➔ During the financial year 2022-23, employees were paid one month annual bonuses to the value of LKR 21 Mn and increments
- ➔ Best performers were given monthly incentives in 2022-23 up to LKR 150,000 per person
- ➔ Annual staff get together

- ➔ Gym, library facilities and music studio for staff at the SDF head office.
- ➔ Subsidised breakfast and lunch, and free dinner at the SDF head office

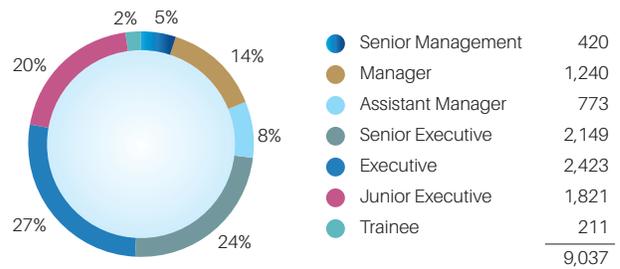
### GRI 404-1

#### AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE

#### Average training hours



#### Average hours of training



Average hours of training that the organization's employees have undertaken during the reporting period, by:

- i. Gender;
- ii. employee category.

During the financial year 2022-23, SDF invested LKR 4.0 Mn in training. Training needs are identified based on management and employee feedback, and performance evaluations. External resource persons are recruited or hired for regional training events.

We also provide coaching for employees. The HR Division and senior managers identify staff for personalised coaching. The coach identifies strengths and weaknesses through a questionnaire to assess individual requirements and face to face coaching sessions conducted for each selected individual.

## Human Capital

GRI 405-1

## Diversity of Governance Bodies and Employees

SDF has a diverse workforce with local recruitments from different parts of the country from all ethnic groups, including ethnic and religious minorities.

## Diversity Of Governance Bodies by Gender



6

Male



1

Female

## Diversity Of Governance Bodies by Age Group

0

+

2

+

5

Below 30

30-50

Above 50



7

Grand Total

## DIVERSITY OF EMPLOYEES BY GENDER AND BY ETHNICITY

Category	Female	%	Male	%	Total	%
Buddhist	193	50.8%	187	49.2%	380	83.89%
Catholic	11	32.4%	23	67.6%	34	7.51%
Tamil	14	40.0%	21	60.0%	35	7.73%
Muslim	1	25.0%	3	75.0%	4	0.88%
<b>Grand Total</b>	<b>219</b>	<b>100%</b>	<b>234</b>	<b>100%</b>	<b>453</b>	<b>100%</b>

## DIVERSITY OF EMPLOYEES BY AGE GROUP

Category	Age Group			Grand Total
	Below 30	30-50	Above 50	
Buddhist	128	210	42	380
Catholic	11	23	0	34
Tamil	20	15	0	35
Muslim	2	2	0	4
<b>Grand Total</b>	<b>161</b>	<b>250</b>	<b>42</b>	<b>453</b>
<b>%</b>	<b>35.5%</b>	<b>55.2%</b>	<b>9.3%</b>	<b>100.0%</b>

GRI 406-1

## INCIDENTS OF DISCRIMINATION AND CORRECTIVE ACTIONS TAKEN

There were no incidents of discrimination reported during the year under review.

## Performance evaluations

SDF conducts which is a highly effective form of employee engagement to discuss personal development goals and skill gaps of employees, to organise training activities and to set mutually agreeable performance goals. During the year, 362 employees, including new recruits who completed 6 months, participated in performance evaluations.

## Occupational health and safety

Given the nature of our business, SDF's employees do not face any material occupational health and safety risks. We comply with all national health and safety regulations to ensure our premises are safe for our employees. We continuously monitor safety systems and conduct regular safety drills to confirm the readiness of our safety systems, while safety training is done regularly to raise awareness among employees.

We have implemented all recommended COVID-19 safety protocols for protection of employees, while employees were trained and guided on following health regulations when at work. The Medical insurance scheme was expanded to include COVID-19 related cases, while a dedicated COVID-19 quarantine unit was set up at the Sarvodaya centre specifically for the use of SDF staff, as and when needed.

### GRIEVANCE MANAGEMENT

We maintain an open-door policy where any employee from the highest to the lowest rank can speak directly to the Chief Executive Officer (CEO), the Head of HR and do not need to go through the hierarchy. The CEO conducts monthly meetings with the HR Division and any employee concerns are discussed and meetings are conducted with Regional Managers every month, which is another platform to discuss employee matters.

### SUCCESSION PLANNING

The SDF succession planning programme is aimed at ensuring the correct skills and talent to occupy key management positions. We have already identified organisation wide succession gaps and we are developing a successor pipeline. Earmarked talent is developed through continuous coaching and training at branch level as well as at the head office.

### EMPLOYEE ENGAGEMENT IN 2022-23

- ⇒ Celebrating International women's day on 08th March
- ⇒ New year celebrations (i.e. Hh ux. , Hh 2022)
- ⇒ Christmas Carols

### PLANS FOR THE FUTURE

Our employees will be a key component to drive our growth plans in the new financial year. Therefore, the main HR focus will be on staff training, staff engagement and retention. To retain employees, we plan on introducing Stay Interviews and building relationships through staff engagement events and staff feedback mechanisms. We will also emphasise a performance culture through incentive schemes based on performance targets.



Women's Day at SDF



Outbound Training conducted for senior management



# REIMAGINE

A woman with dark hair tied back, wearing a black floral-patterned shirt and pink gloves, is focused on processing cashew nuts. She is seated at a table covered with a patterned cloth, surrounded by large quantities of cashew nuts. The background is softly blurred, showing an indoor setting with other people and structures.

SDF played a key role in assisting members of the Buruthakelle Sarvodaya Shramadana Society in developing their cashew retail businesses. Through this support, these individuals were able to enhance their business operations and achieve growth in the cashew retail sector providing significant women employment.

Buruthakelle Sarvodaya  
Shramadana Society

Buruthakelle, Puttalam District

# SOCIAL AND RELATIONSHIP CAPITAL

SDF's social capital is the incalculable goodwill associated with the Sarvodaya Movement, which enjoys over 60 years of credibility and trust among rural Sri Lankans, and SDF's 30-year track record as a stable financial services provider.

Customer Base

**Over 159,000** ↑

Women in Customer Base

**57%** ↑

Payment to Suppliers

**LKR 2,416 Mn** ↑

Revenue to Government

**LKR 224 Mn** ↑



## Social and relationship capital

- SDF was awarded Gold at the TAGS Awards 2022, organised by the Institute of Chartered Accountants, in the non-bank financial institutions sector (Total group assets up to Rs 20bn).
- SDF is the only licenced finance company to receive a credit rating upgrade in 2022.
- In September 2022, SDF's credit rating was upgraded to BB STABLE from the previous B-ON WATCH status.

SDF's social capital is the incalculable goodwill associated with the Sarvodaya Movement, which enjoys over 60 years of credibility and trust among rural Sri Lankans, and SDF's 30-year track record as a stable financial services provider.

### ENGAGING WITH OUR STAKEHOLDERS

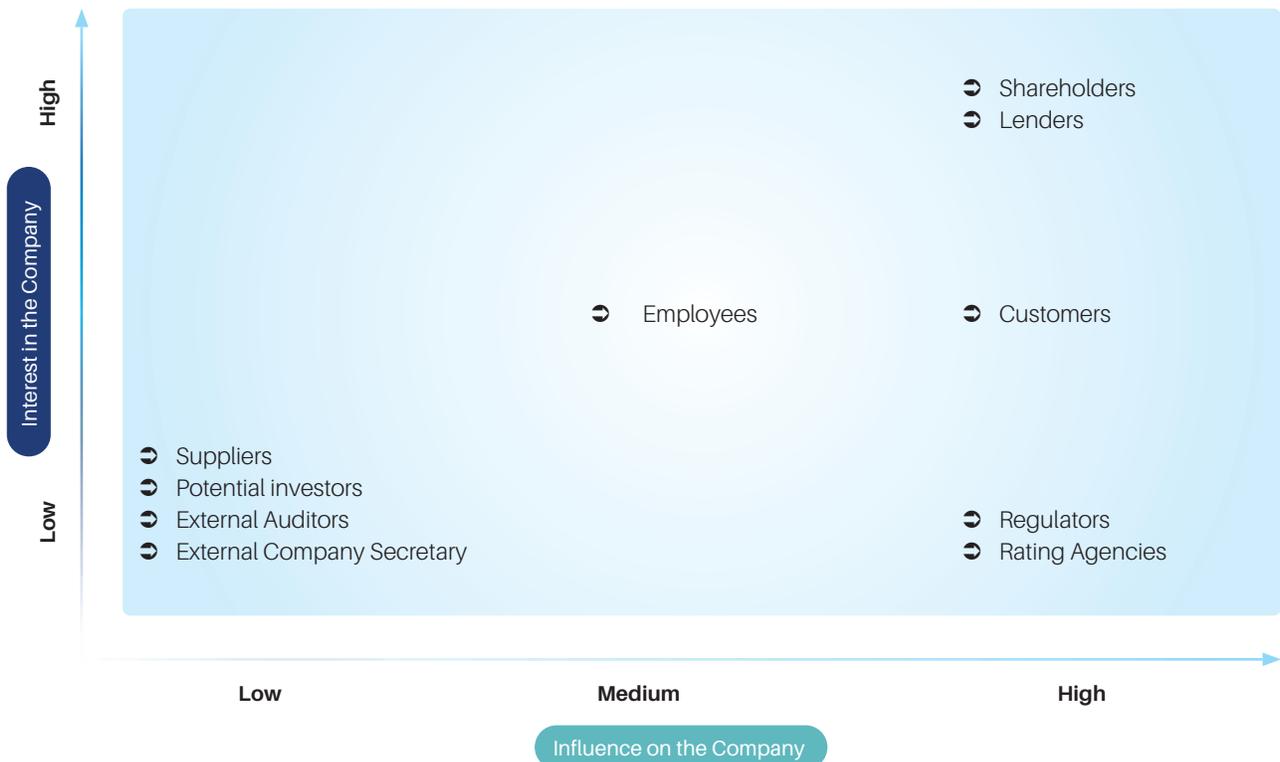
#### GRI 2-29

#### Approach to stakeholder engagement

During the current financial year we strengthened our relationships with key stakeholder groups under our Trust Network Strategy (please refer CEO's Review). We understand the value of our reputation and good will and we take great care to maintain trust among all our stakeholders.

SDF's key stakeholder groups were identified by the senior management based on each stakeholder group's ability to influence the Company and their interest in the Company.

During the current financial year, we identified rating agencies as a high influence stakeholder group to maintain our external credibility and trust, through independent assessments of our financial strength.



### Building meaningful relationships

Our primary stakeholder groups and how we build meaningful relationships with each group, is explained below.

- ➔ SDF caters to a diverse customer base. Therefore, we have segmented our customers into the 3 sub-groups of women customers, members of Sarvodaya Shramadana Societies (also known as Sarvodaya Village Societies), and others. This breakdown reflects the differences in each sub-sector's needs from SDF as a financial services provider, and the difference in how we respond to these needs.
- ➔ Although potential investors have no influence and/or interest in the Company, we have decided to include this category as a key stakeholder due to the Company's interest in raising global awareness regarding impact investment opportunities in Sri Lanka.

GRI 2-29 (i) Stakeholder category	GRI 2-29 (ii) Purpose of engagement	GRI 2-29 (iii) How engagement is made meaningful
<b>Regulators</b> <ul style="list-style-type: none"> <li>➔ Central Bank of Sri Lanka</li> <li>➔ Company Registrar</li> <li>➔ Labour Department</li> <li>➔ Securities and Exchange Commission</li> <li>➔ Colombo Stock Exchange</li> </ul>	<ul style="list-style-type: none"> <li>➔ For statutory obligations</li> </ul>	<p><i>* Following the listing on the Colombo Stock Exchange in 2021, SDF came under the purview of two new regulators - the Colombo Stock Exchange and the Securities and Exchange Commission - while operating in an already heavily regulated industry.</i></p> <p>We develop a meaningful relationship with our regulatory bodies through regular communications, including attending any training programmes to update our regulatory knowledge and by complying fully, on time, with all statutory reporting.</p> <p>SDF did not face any fines or penalties from any regulatory body during the year under review.</p> <p>Refer Internal Control Review in page 182 and Corporate Governance Report in page 101.</p>
<b>Shareholders</b> <ol style="list-style-type: none"> <li>1. Sarvodaya and related entities 54.0%</li> <li>2. Others 46%</li> </ol>	<ul style="list-style-type: none"> <li>➔ For statutory obligations</li> <li>➔ To build confidence and trust</li> <li>➔ To raise equity and debt</li> </ul>	<p>We develop meaningful relationships with our shareholders through shared values and by upholding our financial and non-financial commitments. To provide fair value for our shareholders we maintain above average dividend payout levels. We also deploy funds to support rural development and to empower small and micro enterprises, fulfilling our commitment as an impact investment company.</p> <p>We communicate our progress regularly through quarterly reports, the Annual General Meeting and by responding to shareholder queries.</p>
<b>Rating agency</b> Lanka Ratings Agency Ltd (LRA)	<ul style="list-style-type: none"> <li>➔ To communicate financial stability</li> <li>➔ To enhance local and international credibility and trust in the Company</li> <li>➔ To obtain foreign funding</li> </ul>	<p>We provide them access to our finances to make independent assessments about our financial stability</p> <p>We also take their recommendations into consideration</p>

## Social and Relationship Capital

GRI 2-29 (i) Stakeholder category	GRI 2-29 (ii) Purpose of engagement	GRI 2-29 (iii) How engagement is made meaningful
<b>Customers:</b> Women	<ul style="list-style-type: none"> <li>➔ For lending and deposit growth</li> <li>➔ To support women entrepreneurship</li> <li>➔ To support welfare of families (as women are the primary caretakers of children and elderly)</li> </ul>	<p>Women represent the majority 57% of our customer base, which we have acknowledged by dedicating this annual report to our women customers. We have categorised women as a distinct stakeholder group in need of special attention due to cultural obligations that may impede their progress. Many SDF women customers from the North and East are sole breadwinners supporting their children.</p> <p>We build meaningful relationships with our women customers by:</p> <ul style="list-style-type: none"> <li>➔ Not only providing a range of financial services, but by supporting their empowerment through training programmes, market linkages and sensitising our staff towards special needs of women.</li> <li>➔ Taking the time to speak to them and understand their needs, and customise our offerings to their needs and also their repayment capabilities, to prevent debt overburdening.</li> </ul>
<b>Customers:</b> Sarvodaya Shramadana Societies and their members	<ul style="list-style-type: none"> <li>➔ For lending and deposit growth</li> <li>➔ To support rural entrepreneurship</li> </ul>	<p>SDF provides modern financial services to SSS members in rural and under-served parts of the country.</p> <p>SDF engages with these customers by:</p> <ul style="list-style-type: none"> <li>➔ Participating in SSS activities and holding workshops/training events.</li> <li>➔ Organising special market linkage activities and providing advisory services for SSS members.</li> <li>➔ SDF also maintains below average micro credit lending rates to support rural entrepreneurs to prevent exploitation by , black-market village lenders, while providing the highest standard of professional services.</li> </ul>
Customers: Others	<ul style="list-style-type: none"> <li>➔ For lending and deposit growth</li> <li>➔ To support entrepreneurship</li> </ul>	<p>SDF provides a range of lending, leasing and deposit services for the public and engages with them through its branch network by providing fast and professional services.</p> <ul style="list-style-type: none"> <li>➔ Strategic locations in towns are selected to enable easy access to our branches and ATMs.</li> <li>➔ A range of financial products have been developed to meet different needs</li> <li>➔ SDF staff are trained to provide friendly services and financial advice in whatever language of the area, and discrimination of customers based on race, religion, ethnicity etc.. is prohibited.</li> </ul>

GRI 2-29 (i) Stakeholder category	GRI 2-29 (ii) Purpose of engagement	GRI 2-29 (iii) How engagement is made meaningful
Employees	<ul style="list-style-type: none"> <li>➔ To sustain growth</li> <li>➔ Build brand image</li> </ul>	<p>SDF has a diverse group of male and female employees from all ethnic and religious backgrounds in the country, scattered across 51 branches across the country and the SDF head office in Colombo.</p> <p>Employee engagement takes place in multiple forms including regular inter-branch meetings, informal activities and daily communications. A work-from-home system was also successfully deployed during the COVID containment period in 2020 and 2021.</p> <p><b>GRI 2-30</b> Collective bargaining agreements SDF employees are not unionised, and as such the Company does not engage in collective bargaining. Working conditions conform to:</p> <ul style="list-style-type: none"> <li>➔ The Shop and Office Act of 1954</li> <li>➔ The Maternity Benefits Ordinance of 1939</li> <li>➔ Employees Provided Fund (EPF) Act No.15 of 1958</li> <li>➔ Employees’ Trust Fund (ETF) No. 46 of 1980</li> <li>➔ Other relevant labour regulations (prevention of child labour, forced labour compulsory labour)</li> <li>➔ Best practices in health and safety</li> </ul> <p>Please refer the Human Capital chapter (Page 78) of this report for details on our human resource management policies and employee benefits.</p>
<p><b>Business partners :</b> Sarvodaya Shramadana Societies</p>	<ul style="list-style-type: none"> <li>➔ To capture rural market share</li> <li>➔ To understand rural market trends</li> </ul>	<p>Over 1,000 Societies are now shareholders of SDF making them shareholders as well as key business partners.</p> <p>There are 5,400 Sarvodaya Societies in the country, providing a direct channel to rural entrepreneurs.</p> <p>SDF has built a strong relationship with the Societies by building financial, technical and human resource capacity within these rural bodies. SDF intervention includes:</p> <ul style="list-style-type: none"> <li>➔ Providing bulk lending for disbursement among Society members</li> <li>➔ Reactivating dormant societies through lending and deposit programmes and training events for members</li> <li>➔ Organising training programmes to enhance the knowledge of Society officials</li> <li>➔ Introducing new revenue sources by enabling digital transactions by distributing palmtop computers to Societies</li> </ul>
<p>Business partners: DIMO Hayleys Agriculture Browns Agro</p>	<ul style="list-style-type: none"> <li>➔ To supply agricultural equipment to our farming customers</li> <li>➔ To mitigate agriculture sector lending risks</li> </ul>	<ul style="list-style-type: none"> <li>➔ We maintain ongoing communications with our business partners to be aware of benefits of modern agricultural equipment, and to communicate these to our farming customers.</li> <li>➔ We also engage in promotional activities with our business partners</li> </ul>

## Social and Relationship Capital

GRI 2-29 (i) Stakeholder category	GRI 2-29 (ii) Purpose of engagement	GRI 2-29 (iii) How engagement is made meaningful
Potential investors	<ul style="list-style-type: none"> <li>➔ To attract funding</li> <li>➔ To raise awareness among the investor community</li> </ul>	<p>SDF continues to engage with the global impact investor community to raise awareness about investment opportunities in Sri Lanka.</p> <p>In addition to investment road shows, annual reports, quarterly financial statements, the SDF website and social media are used to communicate and attract potential impact investors.</p>
Lending agencies	<ul style="list-style-type: none"> <li>➔ To access working capital</li> <li>➔ For debt financing</li> </ul>	<p>SDF works with impact investment agencies to raise low cost funding for sustainable agriculture.</p> <p>SDF works with licenced banks in Sri Lanka to raise funds for daily operations and for medium term funding.</p> <p>Transparent and open communications have built relationships based on mutual trust</p>

### Brand building

Despite the difficult socio-economic environment of 2022, we continued conducting brand building activities. These were primarily below the line activities for greater connectivity between different stakeholders and the Company. In addition, we promoted Gold Loans as a short-term product to optimise income and to maintain profitability and to also meet customer demand for quick cash. We conducted many door-to-door promotional campaigns to raise awareness in towns and villages. In addition, branch teams designed and conducted suitable localised campaigns, tailored to the particular target markets in their areas. SDF also participated in Sarvodaya Society activities to gain brand visibility in deeper rural areas.

We also conducted branding and marketing activities in collaboration with business partners whose values are consistent with SDF's own brand ideals. These include our leasing partners who supply agricultural vehicles and equipment for SDF customers.

**New product development:** During the current financial year, we introduced a new product called 'Vishrama Salakum,' targeting pensioners. The unique feature is the built-in customer care component, where we get the pension transferred to the relevant SDF branch, from the Pension Department, and deliver the funds directly to the homes of pensioners. This helps our pensioners, particularly those living in rural interiors and those who are not in good health, by eliminating the trouble and expenses associated with travelling to an SDF branch to collect their pensions.



**Product portfolio**

Our range of products is the primary brand identity and customer engagement channel.

**SDF Product portfolio as at end March 2023**

			
<b>Dairy Loans (Kiri Goviya)</b>	<b>Scooty Bike loans</b>	<b>SME loans</b>	<b>Housing Loans</b>
<ul style="list-style-type: none"> <li>➤ Existing SDF micro clients</li> <li>➤ Farmers</li> <li>➤ Sarvodaya Society members</li> </ul>	<ul style="list-style-type: none"> <li>➤ Self employed ladies</li> <li>➤ Ladies with permanent employment</li> </ul>	<ul style="list-style-type: none"> <li>➤ Entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>➤ Entrepreneur</li> <li>➤ Estate employees</li> <li>➤ Salaried employees</li> </ul>
			
<b>Nana Diriya student loans</b>	<b>SDF Agri Leasing</b>	<b>SME Micro Personal loans</b>	<b>Micro Business Loans</b>
<ul style="list-style-type: none"> <li>➤ University students</li> <li>➤ Students who are enrolling for higher studies</li> </ul>	<ul style="list-style-type: none"> <li>➤ Farmers</li> </ul>	<ul style="list-style-type: none"> <li>➤ Salaried employees of private and public sectors</li> </ul>	<ul style="list-style-type: none"> <li>➤ Micro entrepreneurs</li> </ul>
			
<b>3-wheel loans</b>	<b>Bulk loans</b>	<b>Fixed deposits and savings</b>	<b>Pancha accounts</b>
<ul style="list-style-type: none"> <li>➤ Government/private sector permanent employees</li> <li>➤ Self-employed persons</li> </ul>	<ul style="list-style-type: none"> <li>➤ Sarvodaya Shramadana Societies</li> </ul>	<ul style="list-style-type: none"> <li>➤ Any member of the public</li> </ul>	<ul style="list-style-type: none"> <li>➤ Children's saving accounts for under 18s</li> </ul>

**Expanding our footprint**

During the current financial year, SDF branches in Dambulla, Jaffna branch and Nawalpitiya were relocated to enhance visibility and accessibility to support our customers and to expand our business activities. We also expanded our ATM network and we have continued to enhance our digital presence.



*Nawalpitiya Branch Re-location*

## Social and Relationship Capital

With over 80% of operations outside the Western Province, SDF's constituency is primarily, but not exclusively, within Sri Lanka's rural communities. Through a network of 51 customer touch points and the network of 5,400 Sarvodaya Shramadana Societies (Sarvodaya Village Societies), today, SDF engages with all ethnic and language groups, among urban as well as rural communities, in all 9 provinces of the country, representing the most extensive social franchise of a single, private sector, non-bank financial services provider in the country. As at March 2023, our customer base comprised approximately 165,000 individuals and businesses with a customer retention ratio of 90%. In addition, we have access to around 800,000 members of Sarvodaya Societies. This base is geared for growth with expansion plans lined up across the network.

Following the 2021 IPO, Sarvodaya Shramadana Societies have now become direct SDF shareholders, strengthening the goodwill towards SDF in villages. We have also diversified our shareholder base beyond the Sarvodaya network, as many local and foreign independent investors bought into the Company. Our investment roadshows made it possible to internationally publicise the SDF brand name and impact investment model, to gain some extent of international goodwill towards SDF.

### SDF technology and digital strategy

We added two more SDF ATMs in interior areas of Kethsirigama in the Ampara District, and Pasyala in Gampaha district. Our policy is to locate our ATMs in interior parts of the island, where people do not have easy access to bank branches or finance company branches. Our ATMs therefore, provide an additional social service by making it easier for village communities to access their funds, without incurring additional expenditure to travel to the nearest bank branch.



*Kethsirigama ATM*



*Pasyala ATM*

We also revamped our website to allow our customers and other stakeholders better access to our activities and enhance online exposure of the SDF brand.

We are present in all major social media platforms with interactive activities to engage young people and our corporate website was upgraded with many new modifications in the pipeline. Currently our website and social media accounts are primarily used as a platform for customer inquiries, lead generation, raising awareness on financial developments such as changes to interest rates and for marketing and advertising activities. We are also expanding our reach through mobile phones for digital transactions.

To bridge the digital divide between urban and rural communities, we have already equipped 100 Sarvodaya

Societies with handheld devices that are enabled to conduct financial transactions on behalf of Sarvodaya Society members, for a small fee. This arrangement allows rural small and micro entrepreneurs who cannot afford to purchase smart phones and computers at current highly inflated prices, to benefit from the convenience of digital facilities.

SDF customers with savings accounts are issued ATM Debit Cards that allows them to use our ATM network, which is connected to the LankaPay network giving them access to a network of 4,500+ ATMs island-wide. We have set up Pay&Go enabled POS terminals at most Sarvodaya Shramadana Societies. Customers can also pay their utility bills this way and we have tied up with Mobitel (Pvt) Ltd to extend the mCash mobile payment facility to SDF customers. In addition during the current financial year we added 2 more of our own ATMs in rural areas.

### Customer privacy

All required customer protection guidelines, issued by the regulator, the Central Bank in 2022-23, were adopted immediately by the Company.

We have installed the latest data protection software to safeguard customers' information, with strict authority limits to grant access to authorised personnel only. Furthermore, we train our employees regularly to educate them on their duties and responsibilities with regard to upholding customer privacy.

In addition, we use the corporate website, social media accounts, email announcements, to inform customers about potential information security threats and provide them with practical and useful content on how best to protect themselves against any such risks.

### Complaint management

SDF complies fully with all Central Bank customer protection directives. A formal complaints handling policy is available and the Customer Protection Framework is available on our website with a link to the Financial Ombudsman's Office. A customer complaints number is available on the SDF website and all customer complaints are reviewed by the Head of Credit and Head of Operations. A dedicated 24-hour customer hotline (1319) is available and social media inquiries are also directed to the hotline, even outside normal working hours.

All concerns reported through any of these channels are documented and handled in compliance with board approved guidelines, which include specific workflows, set timelines and designated authorities to oversee the process.

We respond to all customer complaints within 24 hours.

### Business partners

#### Sarvodaya Shramadana Societies

The Sarvodaya Societies are our main business partners. We work closely with the societies for all business lines including raising deposits, and lending and leasing. The societies are a key source of fixed deposits to finance operations and account for a large share of microlending and agricultural leases.

### Suppliers of vehicles and equipment

Suppliers of vehicles and equipment for our leasing business, mainly for the agriculture sector, are the next major group of business partners.

During the year, we signed agreements with Hayleys Agri and Browns Agro to provide agricultural machinery for our farming customers.

SDF also renewed its Memorandum of Understanding with DIMO. The agreement provides attractive leasing rates and competitively priced down payments, exclusively to the agricultural sector through SDF's Special Finance Scheme, along with a host of other exclusive benefits.



Renewal of MOU with DIMO



Signing of MOU with Hayleys



Signing of MOU with Browns

## Social and Relationship Capital

### SOCIAL IMPACT

#### GRI 411-1

#### Indigenous peoples' rights

SDF's branch in Mahiyanganaya, which is home to the indigenous Vedda community, provides services indiscriminately to everyone, including people from the Vedda community and enjoys a good relationship with all communities in the area. According to SDF's local recruitment policy, SDF also recruits men and women to work in the branch from the local communities.

To date there have been no formal or informal complaints, or fines or penalties, with regards to any discrimination or violation of rights of indigenous communities.

#### GRI 413-1

#### Local community engagements

SDF works with Sarvodaya Societies on community projects. A dedicated Society Coordinating Unit (SCU) has been appointed to liaise between SDF and the large number of Societies and to identify projects to support SDF's community investment programmes.

#### Impact assessments

We have commenced economic, environmental and social impact assessments by contracting an external specialist. The objective is to measure our impacts on environment and society, governance and staff. This is an ongoing activity cutting across

the impacts of all our 51 branches and head office.

#### Maths tuition for rural students

We donate funds to the Colombo University and work with them to organise two day seminars in rural areas on ordinary level mathematics education for rural youth. Two such teaching events were held during 2022-23, in Ampara and Anuradhapura. We hired a hall and mathematics teachers from Colombo, and accommodated about 1,000 young girls and boys in the maths classes

#### GRI 417-2

#### Compliance on labelling

There were no incidents of noncompliance concerning product and service information and labelling.

We comply fully with all Central Bank directions on all promotional material for all our financial services and to date have faced no penalties and/or fines for non-compliance. We have also not received any customer complaints regarding misleading, or incorrect information in any of our communications including branding and marketing materials.

SDF's Board approved Marketing Policy requires that all our advertising and promotional material are designed in compliance with regulatory requirements applicable to local financial institutions. Moreover, in keeping with globally-accepted best practices we strive to ensure that the information



During the financial year Sarvodaya Development Finance PLC collaborated with University of Colombo Graduation association in conducting seminars for ordinary level students in remote locations who received less than 40 marks for their mathematics at their last school examination. Seen here over 500 such students doing a two day program at Kebithigollawa Mdayamaha Vidyalaya, Kebithigollawa. This was the 2nd programme sponsored by the company.

we provide regarding our products and services are clear, understandable, accurate, and accessible.

### Health and safety of customers

There have been no incidents of non-compliance with regards to health and safety standards in the provision of our products and services in our network of offices across the country, and we did not face any fines, or penalties in this regard during the year.

Sanitation procedures are maintained such as regular cleaning and disinfection of office premises and sanitation facilities, including toilet facilities, are available for customers at SDF branches.

### PLANS FOR THE FUTURE

We plan to introduce a term loan product for customers who raise credit through Gold Loans. Demand for gold loans have risen exponentially during the year. However, many people find it difficult to redeem their gold articles at the end of the loan period because they cannot pay the capital and interest in a lump sum. The new SDF product will allow settlement of gold loans in instalments. This will mitigate losses to borrowers and stop their economic situation from worsening.

We will also extend our reach deeper into rural areas of the country by expanding our branch network, through Sarvodaya Societies and through digital platforms. Growth in customer base will be accompanied by enhanced customer care facilities including the deployment of a Customer Relationship Management system, upgrades to the core banking system and continuous digitisation of process to facilitate faster delivery of services, and continuous office and field staff training to improve IT skills, professionalism and quality of services. The SDF website and mobile transactions facilities will be continually improved to expand our youth base.

SDF will also continue to scan global markets for like minded impact investors who would like to join us in our journey.



Receiving the Gold Award at the CA TAGS Award night 2022

# REIMAGINE

A man with a beard and mustache, wearing a white button-down shirt, is smiling and holding a large, round, woven bamboo basket filled with fresh green betel leaves. He is standing in a lush green field of betel trees. The background is filled with dense foliage and bright green leaves.

SDF aided a betel grower in expanding his business by offering a leasing facility to purchase vehicles for transporting betel leaves. This support enabled the grower to enhance their operations and successfully export betel leaves to various counties.

Isuru Dhananjaya

Kuliyapitiya, Kurunegala District

# NATURAL CAPITAL

In conformity with the Sarvodaya philosophy, we also do not support or lend towards environmentally harmful business activities conducted by other parties, and as a financial services provider, we do not have significant environmental impacts.

Electricity Usage

**516,860 Kwh** ↓

Electricity per Rs. 1 Mn Revenue

**199 Kwh** ↓

Fuel Usage

**107,653 Ltr** ↓

Fuel per Rs. 1 Mn Revenue

**41 Ltr** ↑



## Natural Capital

In conformity with the Sarvodaya philosophy, we also do not support or lend towards environmentally harmful business activities conducted by other parties, and as a financial services provider, we do not have significant environmental impacts.

Although we operate island-wide, we have a comparatively small carbon footprint as our office premises consume comparatively lower levels of natural resources and energy, and a majority of our employees travel by public transport, which significantly reduces per capita energy consumption.

Therefore, our natural capital related activities are mainly conservation initiatives and investments into renewable energy.

### RENEWABLE ENERGY

Almost 35 % of the monthly electricity requirement of the head office building is now met through solar power, as SDF commissioning rooftop solar panels at the Company's head office building in 2019.

### CONSERVING RESOURCES

- ➔ We have invested in a paperless office and we are introducing Google WorkPlace in the Company, including our branches. Therefore, almost 80% of back office functions are now paperless.
- ➔ The balance 20% of paper is reused and recycled where possible. We work with a Central Environmental Authority approved recycling partner to ensure paper waste is disposed responsibly. During the year we recycled 263 Kgs of used paper from the head office.
- ➔ Our e-waste is disposed through a specialised disposal company and is never dumped, or sent to landfill.
- ➔ We have commenced tracking electricity usage and fuel consumption digitally, through hand-held devices. To control the use of electricity in our day-to-day operations, we have set clear targets for consumption at a regional and corporate level and annual electricity usage levels are measured against overall revenue and cost structures, while usage per employee is also monitored digitally through hand-held devices.
- ➔ Similar metrics are applied to monitor fuel consumption across the Company. We plan on setting up systems to monitor paper consumption and recycling in the future.

### ENVIRONMENTAL IMPACT

#### Disclosure 302-1

#### Energy consumption within the organization

Our energy consumption refers to the non-renewable, fossil fuel consumption for work-related travel, electricity consumption at head office and 51 branches, and solar power, which we sell to the national grid.

Energy type	Amount (Joules)	
	2023	2022
Total fuel consumption non-renewable sources	3.71 x 10 <sup>12</sup>	8.67 x 10 <sup>12</sup>
Total fuel consumption renewable sources	NA	NA
Electricity consumption	1.86 x 10 <sup>12</sup>	1.94 x 10 <sup>12</sup>
Heating consumption	NA	NA
Cooling consumption	NA	NA
Steam consumption	NA	NA
Electricity sold	1.01x10 <sup>11</sup>	5.34x10 <sup>10</sup>
Heating sold	NA	NA
Cooling sold	NA	NA
Steam sold	NA	NA
<b>Total energy consumption</b>	<b>5.57x10<sup>12</sup></b>	<b>10.61x10<sup>12</sup></b>

#### Disclosure 302-4

#### Reduction of energy consumption

The reduction in energy consumption against the previous 12 months, is limited to reduction in electricity consumption, due to the use of solar power.

Energy consumption	Amount (Joules) 2023	Amount (Joules) 2022	How the reduction was achieved
➔ Fuel	No reduction	No reduction	
➔ Electricity	7.9 x 10 <sup>10</sup>	8.2 x 10 <sup>10</sup>	Through the solar panel system in Head office
➔ Cooling	NA	NA	

**Disclosure 303-5**

**Water consumption**

We have commenced monitoring water consumption and we hope to introduce waste minimisation systems in the future.

Water consumption	Volume (Megalitres)	
	2023	2022
Total water consumption	14.01	15.48
Total water consumption from all areas with water stress	14.01	15.48
Change in water storage	NA	NA

**Disclosure 306-3**

**Waste generated**

The primary waste generated by our offices is paper, which is now significantly reduced. We hope to extend our recycling efforts to all our branches and start monitoring this activity in the future.

Waste generated	Volume (MT)	
	2023	2022
Paper	0.02	0.05
Plastic	NA	NA
Food waste	NA	NA
Electronic waste	NA	NA
Any other type of waste	NA	NA

# REIMAGINE



SDF provided support to a young entrepreneur in launching his photography business. With the assistance of SDF, this aspiring individual was able to realize his dreams and establish a successful venture in the field of photography.

Chatura Kithsiri

Monaragala District

## GOVERNANCE AND COMPLIANCE

Corporate governance at Sarvodaya Development Finance PLC (SDF), comprises of carefully considered rules and principles on management, control and delegation of responsibility between the shareholders, the Board of Directors and the CEO.

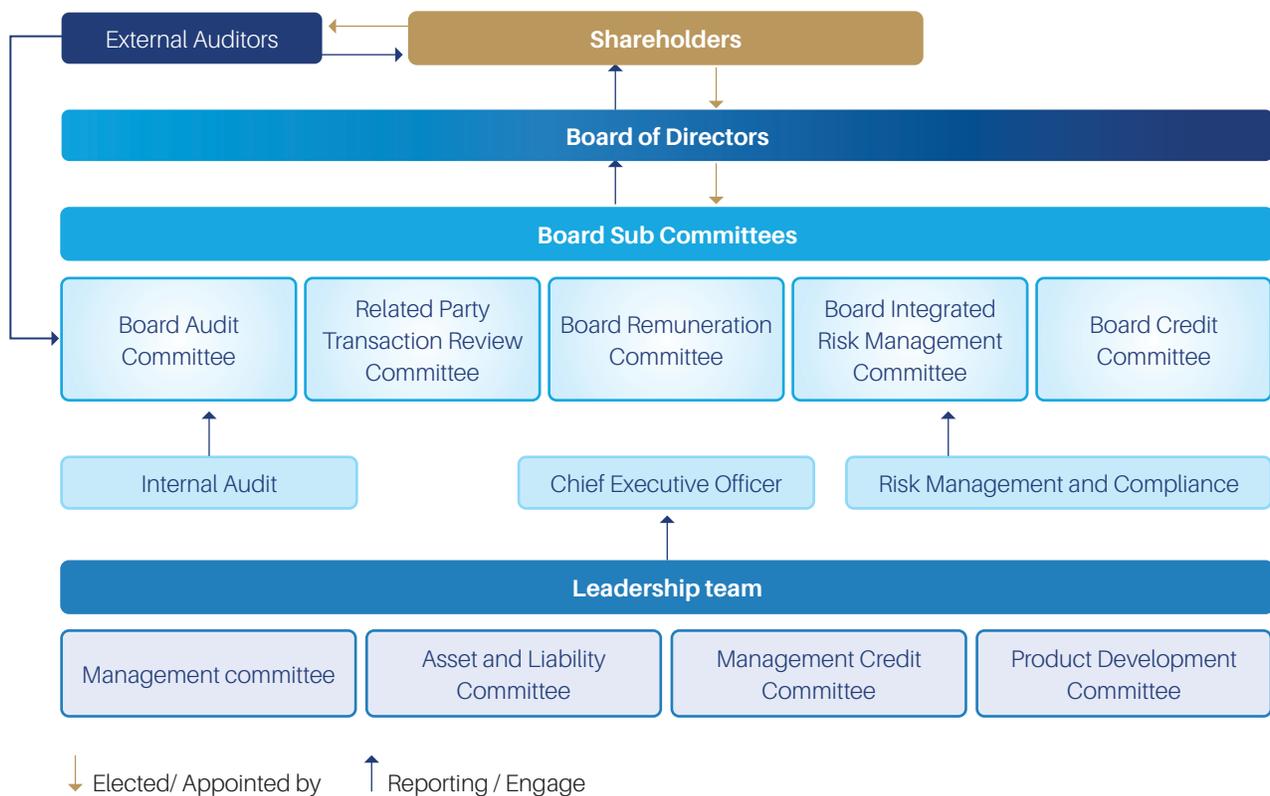
### INCORPORATION OF SUSTAINABILITY OVERSIGHT INTO THE GOVERNANCE STRUCTURE

A unique component in SDF's governance structure is the Sarvodaya Movement's policies, which incorporates an additional sustainability component into the Company from top to bottom by making social and environmental responsibility, a non-negotiable requirement in the Company's strategy development, decision making and day-to-day activities.

In addition, SDF as a development finance company values its stakeholder opinions and takes these into considerations when developing and delivering products and services.

#### GRI 2-9

### GOVERNANCE STRUCTURE AND COMPOSITION



The governance structure of SDF is built on well described roles and responsibilities, greater transparency & accountability and clear reporting lines of the Board, Board's sub committees, management and management committees.

## Governance and Compliance

SDF as a development finance company values its stakeholder engagement and take into consideration of stakeholder expectations when designing value creation of the Company.

### GOVERNANCE FRAMEWORK

#### External - Regulations

- Companies Act No. 7 of 2007
- Finance Business Act No.42 of 2011
- Corporate Governance Direction No.05 of 2021 issued by the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange (CSE)
- Sri Lanka Accounting standards and Sri Lanka Financial Reporting standards (LKASs/SLFRSs)
- Securities and Exchange Commission of Sri Lanka Act. No 19 of 2021

#### Internal - Regulatory structure

- Articles of Association
- Charters/Terms of Reference of Board, Sub Committees and Management Committees
- Board approved Internal policies, manuals and procedures

#### Voluntary standards

- Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017)
- Global Reporting Standards of the Global Reporting Initiative

#### GRI 2-9

##### (a) Highest governance body

The Board of Directors (Board) of SDF PLC, is the highest governing body of the Company, responsible for setting in place a governance framework for driving sustainable growth.

The Board provides the direction and leadership to SDF by setting strategy and risk appetite with oversight responsibility. The Board has an overarching responsibility for managing the affairs of SDF in the interests of the Company and all shareholders. The Board's tasks include, but are not limited to,

- Approving and overseeing the implementation of the Company's overall business strategy
- Ensuring a sound corporate culture within the Company
- Adopting and reviewing the adequacy and the effectiveness of the Company's internal control systems
- Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.

The Board of Directors are collectively responsible and accountable for making certain that the Company performs according to its mandate and adheres to its obligations to its constituencies. The Board is the sole governing authority in the Company and providing strategic leadership to the Management and staff in achieving its corporate goals and objectives. The Board's composition and balance ensures that no single individual dominates the decision-making process.

#### GRI 2-9

##### (c) composition of the highest governance body and its committees

The Board currently comprises of seven (7) Directors including the Chairman, who functions in a Non- Independent, Non- Executive capacity. Six (6) of the remaining Directors have been categorised as Independent, Non-Executive and Non-Independent Non-Executive Directors within the provision of section 3 of Finance Business Act Directions No.5 of 2021 - Corporate Governance. Currently there are three Independent Non-Executive Directors and four (4) Non- Independent Non- Executive Directors in the Board.

Changes in the Board composition during the financial year 2022/2023

##### ➤ New appointment to the Board

Mr. Ramesh Schaffter, Non-Independent Non-Executive Director has been appointed to the Board of SDF with effect from 20th April 2022.

##### ➤ Resignations of existing directors

There were no resignations of Directors during the financial year 2022/2023

##### ➤ Retirements of existing directors

There were no retirements of existing directors during the financial year 2022/2023

### ➔ Demise of Existing Directors

Late Mr. Chaminda Rajakaruna, Non-independent Non-Executive Director demised on 13th June 2022.

### ➔ Structural changes to the Board

There were no structural changes to the Board during the financial year 2022/2023

The Board of Directors are responsible for bringing independent judgement on issues of strategy, performance, resources and standard of business conduct.

## BOARD APPOINTMENTS

### GRI 2-10

#### Nomination and Selection of the BOD

The Director appointments to the Board recommends by the Remuneration and Nomination committee. On approval by the Board, names are referred to the Central Bank of Sri Lanka for approval as a fit and proper person. Subsequently, the Board recommends the names of the Directors for appointment by the shareholders at the Annual General Meeting.

Director appointments are communicated to the Colombo Stock Exchange and shareholders through press releases with a brief resume of the director.

#### RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

At each Annual General Meeting one of the Directors shall retire from the office provided that a Director appointed to the office of Chief Executive Officer, Managing or Joint Managing Director, or other Executive Officer shall not, while holding that office, be subject to retirement by rotation or be taken into account in determining the Directors to retire in each year (Article 85 of the Articles of Association of the Company).

Accordingly, Mr. Amrit Canaga Retna retires under Articles numbered 85 and being eligible offer himself for re-appoint with the unanimous support of the Board of Directors.

Ms. Shehara de Silva under Article No. 85 and being eligible offers herself for re-election with the unanimous support of the Board of Directors.

#### DIVERSITY AND INCLUSION

SDF Board combines an appropriate and diverse balance of skills, industry experience and perspectives to objectively and effectively discharge its responsibilities. The Board of Directors of SDF shares well diversified profiles which enable them to contribute in wide areas of the business. Accordingly, the Board comprising of members with expertise in Finance & Accounting, risk management, legal, credit, business management, marketing and Information Technology.

Mr. Channa de Silva represents SEEDS Gurarantee Limited and Mr. Masayoshi Yamashita and Mr. Senthil Nandhanan Senthilvel represent major shareholders of SDF.

The profiles of the Board disclosed in pages 24 to 27.

### GRI 2-16

#### COMMUNICATION OF CRITICAL CONCERNS

The Board can be made aware of any matters deemed critical through the reporting arrangements of Leadership Committees and Board Sub Committees, as described in the Governance Structure. There is a well-established, bottom-up monitoring and reporting mechanism for communicating macro environmental developments from branch level, regional level, to head office and from there, to Management Committees and Board Sub-committees.

There were no sudden critical concerns brought to the attention of the Board during the year under review, as the Board meets regularly, and operational and market information is communicated and reviewed on a regular basis.

### GRI 2-17

#### COLLECTIVE KNOWLEDGE OF THE BOD

As SDF is part of the Sarvodaya Movement, the Company's mandate is for sustainable development, in harmony with society and nature. The SDF Board comprises individuals who are aware of, and are supportive of, the Sarvodaya philosophy, and sustainable development. Therefore, there has been no requirement for separate dedicated measures to advance the collective knowledge, skills, and experience of the BOD on sustainable development. Board members themselves are interested in the subject and invest in advancing their knowledge on the subject, and share their knowledge at Board discussions.

### GRI 2-11

#### Chair of the highest governance body

The Chairman of the Board is not a senior executive in the organisation.

The Chairman of the Board is not a senior executive in the organization. The Chair of the Board has specific responsibilities, including;

- ➔ Provide leadership to the Board
- ➔ Ensure the Board works effectively and discharges its responsibilities
- ➔ Implement decisions/directions of the regulator
- ➔ Building and maintaining stakeholder trust and confidence.
- ➔ Setting the Board's annual work plan and the agendas, in consultation with the Company Secretary

## Governance and Compliance

The diverse experience, professional qualifications and competencies of the Chairman is disclosed under his profile on page 24.

### SEPARATION OF ROLES - CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of the Chairman and the Chief Executive Officer of the Company are distinct and clearly separated, ensuring the balance of power and authority. The Chairman of the Board leads the Board, preserving good corporate governance and ensuring that the Board works effectively. The Chief Executive Officer is accountable for implementation of strategic plan and driving performance.

There is no financial, business, family or other relationship between the Chairman and the Chief Executive Officer or other material relationship with other members of the Board which will impair their respective roles.

### DIRECTOR INDEPENDENCE

All Independent Non-Executive Directors of SDF met the criteria for independence according to the section 3.7 of Finance Business Act Directions No.5 of 2021. The Board evaluates the independence annually through submitting annual declarations by the Independent Non-Executive Directors.

### APPOINTMENT OF SENIOR INDEPENDENT DIRECTOR

Mr. Dammika Ganegama Independent Non-Executive Director has been appointed as the Senior Independent Director, with effect from 10th January 2022 to strengthen the independence of the Board.

### INFORMED DECISION MAKING

The Board as a whole and Directors individually, identify their duty to comply with the laws of the country. The Board ensures that processes and procedures are in place to ensure that the Company complies with all applicable laws and regulations. The Company has a Board-approved procedure in place for seeking independent professional advice. The Board obtains independent professional advice in appropriate circumstances, at the expense of the Company.

### BOARD INDUCTION AND TRAINING

Every new Director was given appropriate induction about the Company background, its business affairs and rules and regulations when first appointed to the Board. The Directors participate in trainings conducted by the corporate management and external parties in many business key areas.

#### Disclosure 2-18

### EVALUATION OF PERFORMANCE OF THE DIRECTORS

The Board submits self-evaluations of the Board members annually in line with the Corporate Governance regulations set by the Central Bank of Sri Lanka. Copies of the Board evaluation

forms are presented to the Board, for the Board members to discuss and critically assess how they have performed during the year and the weaknesses identified and for them to take required remedial action, if deemed necessary. The Board recognises that the Board evaluation is an essential component of good governance.

#### GRI 2-19

### REMUNERATION POLICIES

SDF has a Board Remuneration and Nomination Committee (BRNC) which make recommendations on remuneration for the Board and employees. The Remuneration policy is to ensure a transparent and a smooth "Hire to Retire" process, to enhance SDF's brand through quality recruitment and retention of staff while complying with the statutory and regulatory requirements of the Central Bank and other regulatory bodies.

Aligning with the principles of good governance, our remuneration policy reinforces our desired culture and encourages behaviour consistent with our values, while motivating the employees to deliver and sustain high levels of performance supporting achievement of our strategic Priorities.

The remuneration paid to the Board of Directors is disclosed in aggregate in note number 43 to the Financial Statements on page 245 and in 'the Report of the Board of Directors of the Affairs of the Company' on page 150 of this Annual Report.

#### Disclosure 2-20

### PROCESS TO DETERMINE REMUNERATION

The BRNC reviews the remuneration packages of the employees, taking into consideration the performance of the Company vs set KPIs, the individuals at the management level, remuneration comparison with peer group companies, institutional guidelines and reports from specialist consultants at the industry level.

### COMPANY SECRETARY

The Company Secretary guides the Board on discharging its duties and responsibilities, promoting best practices in Corporate Governance. All Directors have access to the Company Secretary. The Company Secretary's service is available to all Directors and advise the Board on Board procedures, applicable rules and regulations and Corporate Governance matters.

### BOARD MEETINGS AND ATTENDANCE

The Board of Directors meets once a month and whenever the need arises. The Board convened Twelve (12) routine monthly meetings during the year under review. The Board dedicates adequate time and effort to the meetings of the Board and sub-committees to ensure that the duties and responsibilities are satisfactorily discharged. The Company Secretary maintains meeting minutes and circulates them to all Board members

which shall be opened for inspection at any reasonable time to any Director. The Board meeting attendance of the Board of Directors are indicated as follows.

No.	Name of the Director	Executive	Non-Executive	Independent	Non-independent	Board meeting dates - FY 2023/2024											
						Date:27.04.2022	Date:25.05.2022	Date:29.06.2022	Date:27.07.2022	Date:31.08.2022	Date:29.09.2022	Date:26.10.2022	Date:30.11.2022	Date:28.12.2022	Date:25.01.2023	Date:22.02.2023	Date:29.03.2023
1.	Mr. Channa de Silva	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√
2.	Mr. Chamindha Rajakaruna	√			√	√	Deceased on 13 June 2022										
3.	Mr. S. S. N. Senthilverl	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√
4.	Mr. Dammika Ganegama	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√
5.	Mr. Amrit CanagaRetna	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√
6.	Ms. Shehara de Silva	√	√		√	√	x	√	√	√	x	√	√	√	√	√	√
7.	Mr. Masayoshi Yamashita	√		√	√	√	√	√	√	√	√	√	x	√	x	√	√
8.	Mr. Ramesh Schaffter	√		√	x*	√	√	√	√	√	√	√	x	√	√	√	√

\* Appointed w.e.f. 20.04.2022

#### COMMITTEES OF THE HIGHEST GOVERNANCE BODY

The Board of Directors has delegated the authority to the following Board sub-committee for the effective function of operations of the Company. Each sub-committee functions according to its Board approved Terms of Reference.

- I. The Board Integrated Risk Management Committee (BIRMC)
- II. The Board Audit Committee (BAC)
- III. The Board Remuneration and Nomination Committee (BRNC)
- IV. The Related Party Transactions Review Committee (RPTRC)
- V. The Board Credit Committee (BCC)

The Board dissolved the Board Nomination Committee (BNC) during the financial year 2018 and the scope and responsibilities assigned to BNC was amalgamated with BRC for effective functioning. All board committees report directly to the Board.

#### DUTIES AND RESPONSIBILITIES OF THE BOARD COMMITTEES

Each committee is chaired by a Non-Executive Director who has the requisite qualifications and experience and is assisted by one or more of the Non-Executive Board Directors. The committees also co-opt Key Management Personnel and relevant Senior Managers in monitoring specific areas under their purview to committee meetings, for effective discussion and decision making. They attend meetings on invitation. The respective reports of the first four committees for the year ended 31 March 2023 are given in pages 154 to 160 in this Annual Report.

#### GRI 2-14

#### Role of the highest governance body in sustainability reporting

The Board of SDF has given its approval for annual sustainability reporting. SDF's sustainability report is compiled under the direct supervision of the senior management with the full approval of the Board, and it is the Chairman of SDF who describes the Company's vision in terms of the sustainable growth strategy.

## Governance and Compliance

### GRI 2-9 (b) List the committees of the highest governance body that are responsible for decision making and overseeing the management of impacts on the economy, environment, and people

The entire Board, participates in sustainability related decision making and in trying to minimise any negative impacts, while augmenting positive impacts. The CEO is directly involved in making sustainability related decision making at operational level. In addition, the below committees are actively involved in monitoring impacts of our operations on customers and other stakeholders.

1. Management committee
2. Product Development Committee

### BOARD COMMITTEE MEETINGS AND ATTENDANCE

The Board of Directors by Name, their dates of appointment and attendance to Board Committees are given in the table below. The Secretaries to these Committees keep detailed minutes of the Committee meetings.

Name	Status	Appointment Date to the Board	Attendance 2022/23				
			IRMC	BAC	BCC	RPTRC	BRC
Mr. Channa de Silva	Chairman/Non-Executive, Non -Independent Director	19th April 2011 and reappointed on 10th January 2022	5	5	6	1	2
Mr. Dammika Ganegama	Senior Independent Non- Executive Director	15th July 2020 and appointed as the Senior Independent Director on 10th January 2022	3	-	-	1	2
Mr. Amrit CanagaRetna	Non-Executive, Independent Director	19th October 2018	5	5	6	1	2
Ms. Shehara De Silva	Non-Executive, Independent Director	27th June 2019	-	-	-	-	2
Mr. Mr. S. S. N. Senthilverl	Non-Executive, Non- Independent Director	15th July 2021	-	-	3	-	-
Mr. Ramesh Schaffter	Non- Independent Non- Executive Director	20th April 2022	-	3	-	-	-

### GRI 2-12

#### Role of the highest governance body in overseeing the management of impacts

The Board is ultimately responsible for managing SDF's impacts on the economy, environment and people, and for ensuring compliance with regulations and codes of conduct. This responsibility is delegated to functional heads of management and progress is reported to the Board.

### Disclosure 2-15

#### Conflicts of interest

##### (a) Processes for the Board to ensure that conflicts of interest are prevented and mitigated.

Under Article 115 of the Company's Articles of Association addresses the provisions on management of conflicts of interest of Directors.

The Company has established a Related Party Transaction Review Committee that meets periodically and has developed a Related Party Transaction and Avoidance of Conflict of Interest policy and established a documented process approved by the Board identifying the particular related parties and to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with related parties as per the direction.

The Company's Related Party Transaction and Avoidance of Conflict of Interest Policy clearly defines the responsibilities of the Board of Directors, among other things, to ensure that the Company does not engage in transactions with related parties in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Company.

Please refer section 12 on Related Party Transactions in the Compliance status of corporate governance table in page 131.

**(b.) Whether conflicts of interest are disclosed to stakeholders**

Related party transactions that have been carried out during the year are disclosed under related party transactions on pages 245 of these Financial Statements.

**GRI 2-16**

**Communication of critical concerns**

The Board, Board subcommittees and Management Committees meet regularly and can be made aware of any matters deemed critical through the reporting arrangements of Management Committees and Board Sub Committees, as described in the Governance Structure. There is a well-established, bottom-up monitoring and reporting mechanism for communicating business impacts on the economy, environment and people and also external developments from branch level, to regional level, to head office and from there, to Management Committees and Board Subcommittees.

Despite the precipitous deterioration of the economic situation in the country at the start of the financial year, SDF did not experience any sudden critical concerns that needed to be brought to the attention of the Board. The Board continued to meet regularly, and operational impacts and market information was communicated and reviewed on a regular basis.

**GRI 2-17**

**Collective knowledge of the BOD on sustainable development**

With the approval of the Board, during the current year, the Chairman and CEO participated in an international event on Regenerative Agriculture as a learning exercise. They have updated the Board on their learnings, and are currently considering ways of channelling this knowledge to the agriculture sector in Sri Lanka.

As SDF is part of the Sarvodaya Movement, the Company's mandate is for sustainable development, in harmony with society and nature. The SDF Board comprises individuals who are aware of, and are supportive of, the Sarvodaya philosophy,

and sustainable development. Therefore, there has been no requirement for separate dedicated measures to advance the collective knowledge, skills, and experience of the BOD on sustainable development. Board members themselves are interested in the subject and invest in advancing their knowledge on the subject, and share their knowledge at Board discussions.

**GRI 2-21**

**Annual total compensation ratio**

The ratio of the annual total compensation for SDF's highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) is approximately 3:1.

The ratio of the percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) is : 1.3:1 Please note that the increase in annual compensation to staff (excluding the highest paid individual), includes gratuity payments as well as increments.

**MANAGEMENT**

**GRI 2-13**

**DELEGATION OF RESPONSIBILITY FOR MANAGING IMPACTS**

The Board has delegated its responsibilities to duly appointed Board Committees and also Management Committees. The functional heads are responsible for management of risks and impacts on their respective operational areas and report on progress to the CEO.

The Management of SDF is responsible for strategy execution and driving performance of the Company.

**MANAGEMENT'S ROLE IN THE STRUCTURE OF CORPORATE GOVERNANCE**

The Chief Executive Officer, having authority and responsibility of planning, directing and controlling the activities of the Company in accordance with the delegated authority limits given to him by the Board, relies upon a number of management level committees to implement corporate strategies and policies in accordance with appropriate risk parameters in day-to-day management. Following management level committees have been formed by the Board to manage the day-to-day business and the operation of the Company with the main objective of achieving a sustainable growth while maintaining best practices in Corporate Governance.

## Governance and Compliance



### APPRAISAL OF CHIEF EXECUTIVE OFFICER

The CEO is appraised by the Chairman and the Board annually using aligned to the short, medium and long-term objectives of the Company. The performance of the CEO is reviewed at the end of the financial year and the Board evaluates the set targets and the actual performance.

### SHAREHOLDER COMMUNICATION

SDF is committed to promoting effective and open communication with all shareholders, ensuring consistency and clarity of disclosure at all times. SDF aims to engage with shareholders transparently and regularly in order to facilitate a mutual understanding of our respective objectives. SDF strives to be accessible to investors and pro-actively encourages all shareholders to participate at the AGM. Communication with shareholders governs by the Stakeholder communication policy of the Company, which is approved by the Board.

### ANNUAL GENERAL MEETING

The shareholders of SDF exercise their influence at the Annual General Meeting (AGM), which is the Company's highest decision making forum. In addition, Extraordinary General Meetings can be called.

- adopting the Annual Report and the Audited Financial Statements
- appointing the Auditors and fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed
- electing Directors in the place of those retiring by rotation or otherwise

Board subcommittee Chairmen, Directors and KMPs are available at the AGM to interact with Shareholders and respond to queries raised by shareholders. All shareholders are encouraged to exercise their voting rights at the Annual General Meetings.

### EMPLOYEE PARTICIPATION IN CORPORATE GOVERNANCE

The active participation of the employees has helped serve the interest of the stakeholders. SDF has been able to do so by empowering employees to positively contribute towards good corporate governance. To assist and facilitate transparency, SDF has institutionalised processes across all functionalities.

Moreover, SDF has been able to provide a safe, secure and conducive environment for employees. Equally, SDF also ensures that human resource standards and regulations are followed. SDF does not condone discrimination of any kind.

### FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial Statements have been prepared in accordance with accounting standards comprising of SLFRSs/LKAs. Financial Statements are also in accordance with the Finance Business Act No. 42 of 2011, Companies Act No. 07 of 2007, Directions issued by Central Bank of Sri Lanka and internal policies.

Messrs, Ernst and Young are the External Auditors of the Company. The External Auditors are permitted to act independently without the intervention of the Corporate Management or the Board of Directors. All the information required by the External Auditors has been provided to them for audit requirements.

### COMPLIANCE STATUS OF CORPORATE GOVERNANCE PRINCIPLES

The following disclosures are prepared and presented in conformity with the Finance Business Act Directions (Corporate Governance) No. 5 of 2021, issued by the Monetary Board of the Central Bank of Sri Lanka and which came into operation with effect from 1 July 2022. This report shall be deemed as SDF's Corporate Governance Report for the financial year 2022/23, prepared in compliance with this Direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
<b>1. Responsibilities of the Board of Directors</b>			
1.1	The Board shall assume overall responsibility and accountability for the responsibilities operations of the Finance Company (FC), by setting up the strategic direction, governance framework, establishing corporate culture and ensuring compliance with regulatory requirements.	Complied	SDF Board holds responsibility for setting effective business strategy, ensuring sound corporate culture, and adhering to the rules and regulations. The Board responsibilities are specified in the Governance Charter.
1.2	<p><b>Business Strategy and Governance Framework</b></p> <p>a) Approving and overseeing the implementation of the FC's overall business strategy with measurable goals for next three years and update it annually in view of the developments in the business environment.</p> <p>b) Approving and implementing FC's governance framework commensurate with the FC's size, complexity, business strategy and regulatory requirements.</p> <p>c) Assessing the effectiveness of its governance framework periodically.</p> <p>d) Appointing the Chairperson and the Chief Executive Officer (CEO) and define the roles and responsibilities.</p>	Complied	<p>The Board approved three-year business strategy is in force. The Board as a whole review the business strategy periodically to ensure that the Business strategy aligns with current economic environment.</p> <p>The Governance Charter of SDF was approved by the Board in September 2022; The Board discharges its responsibilities according to the Governance Charter and assess the effectiveness of charter periodically.</p> <p>The Board has appointed the Chairman and the Chief Executive Officer, and clear division of responsibilities have been defined in the Governance Charter.</p>
1.3	<p><b>Corporate Culture and Values</b></p> <p>a) Ensuring that there is a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.</p> <p>b) Playing a lead role in establishing the FC's corporate culture and values, including developing a code of conduct and managing conflicts of interest.</p> <p>c) Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.</p> <p>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 FC's performance, position and prospects in public and regulators.</p>		<p>The SDF Board actively contributes to ensure sound corporate culture and values within the Company.</p> <p>The sustainable financing is incorporated in the Board approved strategic plan and Board reviews the progress of the implementation of the same.</p> <p>The Board approved Stakeholder Communication Policy reflects the effective delivery of stakeholder communication and the Board reviews the policy to enhance its scope of policy implementation.</p>

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
1.4	<p><b>Risk Appetite, Risk Management and Internal Controls</b></p> <p>a) Establishing and reviewing the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework.</p> <p>b) Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.</p> <p>c) Adopting and reviewing the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically.</p> <p>d) Approving and overseeing business continuity and disaster recovery plan for the FC to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.</p>	Partially complied	<p>SDF is in the process of establishing the Risk Appetite Statement in line with the SDF's three-year strategic plan and the overall governance framework.</p> <p>SDF Board ensures the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently, through Board Integrated Risk Management committee and the Board Audit Committee.</p> <p>SDF reviews the adequacy and the effectiveness of the internal control systems and management information systems periodically.</p> <p>SDF has a Board approved Disaster Recovery Plan that ensures stability, financial strength, and preserve critical operations and services under unforeseen circumstances. The Business Continuity plan of SDF reviews by the Board.</p>
1.5	<p><b>Board Commitment and Competency</b></p> <p>a) All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the FC.</p> <p>b) All members of the Board shall possess necessary qualifications, adequate skills, knowledge, and experience.</p> <p>c) The Board shall regularly review and agree the training and development needs of all the members.</p> <p>d) The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and maintain records of such assessments.</p> <p>e) The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the FC.</p>	Complied	<p>The Board as a whole allocate sufficient time in exercising functions of the Company.</p> <p>Members of the Board possess sufficient competency levels including necessary qualifications, knowledge, experience and skills,</p> <p>During the annual appraisal process, the Board reviews and agrees on the training and development needs of all the members.</p> <p>An annual appraisal procedure is in place for self-assessment and assessment of individual performance of each director of its Board as a whole and that of its committees and maintains records of such assessments.</p> <p>The Board obtains external independent professional advice to the Board to discharge duties to SDF successfully.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
1.6	<p><b>Oversight of Senior Management</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>b) Defining the areas of authority and key responsibilities for the senior management.</li> <li>c) Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.</li> <li>d) Ensuring there is an appropriate oversight of the affairs of the FC by senior management.</li> <li>e) Ensuring the FC has an appropriate succession plan for senior management.</li> <li>f) Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.</li> </ul>	Complied	<p>The Board has identified and designated senior management to execute business strategy, who possess the necessary qualifications, skills, experience and knowledge. The job descriptions of the senior management define the responsibilities of each member. Board approved succession plan is available for SDF Senior management.</p>
1.7	<p><b>Adherence to the Existing Legal Framework</b></p> <ul style="list-style-type: none"> <li>a) Ensuring that the FC does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders.</li> <li>b) Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.</li> <li>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.</li> </ul>		<p>SDF Board ensures the conformity with the rules and regulations. The Board acts with due care and prudence, and with integrity and is aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.</p>

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
<b>2. Governance Framework</b>			
2.1	<p>Board shall develop and implement a governance framework in line with these directions and including but not limited to the following.</p> <ul style="list-style-type: none"> <li>a) role and responsibilities of the Board</li> <li>b) matters assigned for the Board.</li> <li>c) delegation of authority</li> <li>d) composition of the Board</li> <li>e) the Board's independence</li> <li>f) the nomination, election and appointment of directors and appointment of senior management</li> <li>g) the management of conflicts of interests</li> <li>h) access to information and obtaining independent advice.</li> <li>i) capacity building of Board members</li> <li>j) the Board's performance evaluation</li> <li>k) role and responsibilities of the chairperson and the CEO</li> <li>l) role of the Company secretary</li> <li>m) Board sub committees and their role; and</li> <li>n) limits on related party transactions.</li> </ul>	Complied	The SDF Board has developed a Corporate Governance Charter in line with the Corporate Governance Direction No.5 of 2021.
<b>3. 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 FC.	Complied	The SDF Board composition adds value to the Company through their knowledge and experience.
3.2	The number of directors on the Board shall not be less than seven (07) and not more than thirteen (13).	Complied	The Company's Board comprised of seven Directors.
3.3	The total period of service of a director other than a director who holds the position of CEO/ executive director shall not exceed nine years, subject to direction 3.4.	Complied	The approval of Central Bank of Sri Lanka has been granted to reappoint Mr.Channa de Silva to the Board w.e.f 10th January 2022.
3.4	Non-executive directors, who directly or indirectly holds more than 10% of the voting rights or who 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, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. Provided, however number of non-executive directors eligible to exceed 9 years are limited to one-fourth (14) of the total number of directors of the Board.		

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
3.5	Executive Directors	Not applicable	SDF Board does not comprise Executive Directors.
3.6	<p>Non-Executive Directors</p> <p>a) Non-executive directors shall possess credible track records, and have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct</p> <p>b) A non-executive director cannot be appointed or function as the CEO/executive director of the FC</p>	Complied	Profiles of the Non-Executive Directors are given in Page 24.
3.7	<p><b>Independent Directors</b></p> <p>a) The number of independent directors of the Board shall be at least three (03) or one-third ( 1 / 3 ) of the total number of directors, whichever is higher</p> <p>b) Independent directors appointed shall be of highest caliber, with professional qualifications, proven track record and sufficient experience</p> <p>c) A non-executive director shall not be considered independent if such:</p> <p>i. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC.</p> <p>ii. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.</p> <p>iii. Director has been employed by the FC or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director.</p> <p>iv. Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as director.</p> <p>v. Director has a relative, who is a director or senior management of the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC</p>	Complied	<p>The SDF Board comprises of three Independent Non-Executive Directors.</p> <p>The Independent Directors of SDF fulfil the given independent requirements.</p>

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
3.7	<ul style="list-style-type: none"> <li>vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC</li> <li>vii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, in which any of the other directors of the FC is employed or is a director</li> <li>viii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, which has a transaction with the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC.</li> <li>d) The nomination committee and Board should determine whether there is any circumstance or relationship, which is not listed at direction 3.7, which might impact a director's independence, or the perception of the independence</li> <li>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, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation.</li> </ul>		

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
3.8	<p><b>Alternate Directors</b></p> <p>a) Representation through an alternate director is allowed only;</p> <p>i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and</p> <p>ii) If the current director is unable to perform the duties as a director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad.</p> <p>b) The existing directors of the FC cannot be appointed as an alternate director to another existing director of the FC</p> <p>c) A person appointed as an alternate director to one of the directors cannot extend the role as an alternate director to another director in the same Board</p> <p>d) An alternate director cannot be appointed to represent an executive director.</p> <p>e) In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to an independent director</p>	Not applicable	No alternate Director has been appointed.
3.9	<p><b>Cooling off Periods</b></p> <p>a) There shall be a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC. Any variation thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of a FC which needs restructuring, shall be made with prior approval of the Monetary Board.</p> <p>b) A director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent</p>	Not applicable	Such a situation has not arisen during the Financial Year 2022/2023
3.10	<p><b>Common Directorships</b></p> <p>Director or a senior management of a FC shall not be nominated, elected or appointed as a director of another FC except where such FC 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)</p>	Complied	The SDF Board does not hold directorships in another Finance Companies.

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
3.11	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a FC 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.	Complied	The Directorships or any equivalent positions held by the Directors of SDF in other entities do not exceed the given threshold.
<b>4. Assessment of Fitness and Propriety Criteria</b>			
4.1	No person shall be nominated, elected or appointed as a director of the FC or continue as a director of such FC unless that person is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	Complied	SDF follows a formal procedure when appointing Directors to the Board in accordance with regulatory requirements.
4.2 & 4.3	A person over the age of 70 years shall not serve as a director of a FC.	Complied	No Director serves the Company over the age of 70 years.
<b>5. 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.	Complied	SDF follows the regulatory guidelines during appointments, resignations or removal of Directors and Senior Management.
<b>6. The Chairperson and the CEO</b>			
6.1	There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing	Complied	The functions and responsibilities of the Chairman and the CEO have been clearly defined and approved by the Board of Directors.
6.2 and 6.3	The chairperson shall be an independent director, subject to 6.3 below  In 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. Senior director will serve as the intermediary for other directors and shareholders. Nonexecutive directors including senior director shall assess the chairperson's performance at least annually.	Complaint	The Chairman is a Non Independent Non-Executive Director and a Senior Director has been appointed subsequently.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
6.4	<p><b>Responsibilities of the Chairperson</b></p> <p>The responsibilities of the chairperson shall at least include the following:</p> <ul style="list-style-type: none"> <li>a) Provide leadership to the Board</li> <li>b) Maintain and ensure a balance of power between executive and non-executive Directors</li> <li>c) Secure effective participation of both executive and non-executive directors</li> <li>d) Ensure the Board works effectively and discharges its responsibilities</li> <li>e) Ensure all key issues are discussed by the Board in a timely manner</li> <li>f) Implement decisions/directions of the regulator</li> <li>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</li> <li>h) Not engage in activities involving direct supervision of senior management or any other day to day operational activities</li> <li>i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board</li> <li>j) Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO</li> </ul>	Complied	<p>Responsibilities of the Chairman includes providing leadership to the Board, ensuring effective discharge of responsibilities of board members and implementing decisions of regulator.</p> <p>The Non-executive directors annually evaluate the performance of the Chairman.</p>

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
6.5	<p><b>Responsibilities of the CEO</b></p> <p>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:</p> <ol style="list-style-type: none"> <li>I. Implementing business and risk strategies in order to achieve the FC's strategic objectives</li> <li>II. Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions</li> <li>III. Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior</li> <li>IV. Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator</li> <li>V. Strengthening the regulatory and supervisory compliance framework</li> <li>VI. Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner</li> <li>VII. CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10</li> </ol>	Complied	The Chief Executive Officer is responsible for implementing business strategy of the Company while ensuring sound internal controls and effective risk management.
<b>7. Meetings of the Board</b>			
7.1	The Board shall meet at least twelve times a financial year at approximately the Board monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible	Complied	There have been twelve Board meetings during the financial year 2022/2023.
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings	Complied	Company has established a procedure to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
7.3	A notice of at least 3 days shall be given for a scheduled Board meeting. For all other Board meetings, a reasonable notice shall be given.	Complied	Agenda letters have been circulated by the Company Secretary to the Board of Directors at least 7 days prior to the Board meeting.
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions	Complied	The Directors allocate adequate time to contribute effectively during the Board meetings.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
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 (1/4) of the number of directors that constitute the quorum at such meeting are independent directors	Complied	The company duly complied with the requirement.
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	Complied	The Board comprises with Non-Executive Directors.
7.7	A director shall abstain from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item in the Board meeting	Complied	The Directors refrain from voting on any Board resolution pertinent to a matter which has a substantial interest to them.
7.8	A director who has not attended at least two-thirds (2/3) 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, subject to applicable directions for alternate directors	Situation has not arisen	
7.9	<b>Scheduled Board Meetings and Ad Hoc Board Meetings</b> For the scheduled meetings, participation in person is encouraged and for adhoc meetings where director cannot attend on a short notice, participation through electronic means is acceptable.	Complied	
<b>8. Company Secretary</b>			
8.1	<p>a) The Board shall appoint a company secretary considered to be a 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.</p> <p>b) The Board shall appoint its company secretary, subject to 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 FC and shall not become an employee of any other institution</p>	<p>Complied</p> <p>Will be adopted from the F/Y 2024/2025</p>	The Board has appointed Messrs, PW Corporates Secretarial (Pvt) Limited, as the Company Secretary to carry out all functions and responsibilities in accordance with statutory and regulatory requirements.

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Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	All directors shall have access to advice and services of the Company secretary with a view to ensuring the Board procedures laws, directions, rules and regulations are followed	Complied	A Board-approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.
8.3	The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function	Complied	Chairman prepares the agenda and Company Secretary circulates same.
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	Complied	The company secretary maintains minutes of the Board meetings and other recording materials for the period specified in the Direction.
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	Complied	The Company Secretary records the proceedings of the meetings and the decisions taken throughout in sufficient detail.
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 following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual director; (d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions; (e) the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions		Detailed minutes are kept covering the given criteria and the Board minutes contain the required details such as contribution of individual Director, decisions and Board resolutions, ultimate decision of the Board, whether it complies with strategies and policies of the Company, Board knowledge and understanding of risk management measures adopted by the Company.
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director		
<b>9. Delegation of Functions by the Board</b>			
9.1	The Board shall approve a Delegation of Authority (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	Complied	The Board approves delegation of authorities and provide clear directions to the Senior Management to executive strategic functions.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
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	Complied	The Board has appointed Board Audit committee, Board Integrated Risk Management Committee, Board Nomination and Remuneration Committee and Related Party Review Committee as specified in the section 10 of this Direction.
9.3	The Board may establish appropriate senior management level subcommittees with appropriate DA to assist in Board decisions	Complied	The Board has established Management level committees with appropriate delegation authorities such as Management committee, Asset and Liability committee, IT steering committee, Management credit committee, Product development committee.
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	Complied	The Board delegates matters to its board sub-committees or senior management to an extent that such delegation would not significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
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 FC	Complied	The Board periodically reviews the delegation of authorities and the pertinent processes to ensure its effectiveness.

### 10. Board Sub - Committees

The Company will be adopting the section 10 of the Direction from the Financial Year 2024/2025 under transitional provision specified in the Direction. Accordingly, section 8 of Finance Companies (Corporate Governance) Direction No.3 of 2008, is currently being adhered.

8	<b>Board appointed Committees</b>		
8.1	<p>Every finance company shall have at least the two Board Committees set out in sections 8 (2) and 8 (3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee.</p> <p>The Board shall present a report on the performance, duties and functions of each committee, at the Annual General Meeting of the Company.</p>	Complied	<p>During the financial year 2023, there were five (05) Board appointed Committees directly reporting to the Board, namely; the Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Credit Committee (BCC) , Board Remuneration and Nomination Committee (BRNC) and Related Party Transactions Review Committee (RPTRC). Each committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the Chairman of the respective committees.</p> <p>Pages 154 to 160 provides the details of the scope and composition of the above committees</p>

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	<p><b>Audit Committee</b></p> <p>The following shall apply in relation to the Audit Committee:</p> <p>a) The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/ or audit</p> <p>b) The Board members appointed to the Committee shall be Non- Executive Directors.</p>	<p>Complied</p> <p>Complied</p>	<p>Chairman of the Board Audit Committee (BAC), Mr. Ramesh Schaffter, is a non-independent, non-executive Director. He is a former Council Member of the Chartered Institute of Management Accountants SL, and he is Fellow Member of the Chartered Institute of Management Accountants (UK), and an Associate Member of the Chartered Institute of Marketing. Mr. Ramesh Schaffter was appointed as the Chairman of the BAC on 31 August 2022.</p> <p>All the members appointed to the BAC are Non-Executive Directors. Chief Executive Officer, other Key Management Personnel and the External Auditors, Ernst &amp; Young, present at the meeting/s by invitation.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	<p>c) The Committee shall make recommendations on matters in connection with:</p> <p>i. The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>ii. The implementation of the Central Bank guidelines issued to Auditors from time to time;</p> <p>iii. The application of the relevant accounting standards; and</p> <p>iv. The service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an audit partner shall not exceed five years and that 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</p>	Complied	<p>The Company has complied with the Direction issued by the Central Bank of Sri Lanka to select an External Auditor from the panel of authorised auditors to audit the accounts of licensed finance companies. The Company has appointed Messrs, Ernst &amp; Young (Chartered Accountants) as the External Auditor.</p> <p>The Board Audit Committee has at its meetings during the year under review recommended that:</p> <ul style="list-style-type: none"> <li>➤ Messrs, Ernst &amp; Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2022/23;</li> <li>➤ the implementation of Central Bank guidelines issued to Auditors from time to time; and</li> <li>➤ the application of Sri Lanka Accounting Standards (LKASs/SLFRSs).</li> </ul> <p>The Committee during the year met the External Auditors on two occasions. Main objective of these meetings were to discuss their external audit plan, discuss audited accounts, and to discuss Management Letter of external auditors.</p> <p>A policy has been established in relation to the service period, audit fee and resignation or dismissal of the Auditor which has addressed that the engagement partner does not exceed five (05) years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p> <p>Resignation or dismissal of the auditor has not taken place during the period under review and the audit partner is not reengaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.</p>

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	d) The Committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	<p>The Board Audit Committee monitors and reviews the External Auditors' independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>The Company's External Auditors for financial year 2022/23, Messrs Ernst &amp; Young, Chartered Accountants, have provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules. The Auditor's Engagement Letter submitted to the committee provide evidence of Auditor's independence, and the audit is carried out in accordance with the SLAS.</p>
	<p>e) The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <p>i) whether the skills and experience of the Auditor make it a suitable provider of the non-audit services;</p> <p>ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by External Auditor; and</p> <p>iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the Auditor, pose any threat to the objectivity and/or independence of the External Auditor.</p>	Complied	<p>The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	f) The Committee shall, before the audit commences, discuss and finalise with External Auditors the nature and scope of the audit, including:	Complied	<p>The Committee has before the audit commences, discussed and agreed upon the audit plan for the audit.</p> <p>Scope of the audit includes an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting and the preparation of financial statements in accordance with relevant accounting principles and reporting obligations.</p> <p>The Company has appointed Messrs. Ernst &amp; Young, as the External Auditor of the Company hence, the coordination between Auditors where more than one Auditor was involved was not required during the period under review.</p>
	i) an assessment of the finance 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.		
	g) The Committee shall review the financial information of the finance company, in order to monitor the integrity of the Financial Statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board. The Committee shall focus particularly on -	Complied	<p>The Committee periodically reviews the financial information of the Company in order to monitor the integrity of the Financial Statements of the Company and other financial disclosures.</p> <p>Also, Board Audit Committee has a process to review the financial information of the Company as required by the Direction when the Annual Audited Financial Statements and reports prepared for disclosure are presented to the Committee by the Head of Finance in attendance with the External Auditors in order to monitor the integrity of the Financial Statements of the Company.</p>
	i. major judgmental 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		
	h) The Committee 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 Key Management Personnel, if necessary,	Complied	<p>The Committee has met the External Auditors in the absence of the Key Management Personnel in two occasions during the year under review. Each Committee Member has had a personal conversation with External Auditors for better governance.</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	i) The Committee shall review the External Auditors' Management Letter and the Management's response thereto.	Complied	The Committee has reviewed and discussed the External Auditors' Management Letter for financial year 2021/22 and the Management responses thereto and provided necessary guidance to the management for improvement/ implementation of better internal controls, best practices and governance.
	j) The Committee shall take the following steps with regard to the internal audit function of the finance company:	Complied	The Committee has discussed the Internal audit scope, function and resources of the staff requirements. Company has an Internal Audit Charter established at the Company approved by the Board Audit Committee which covers to provide independent, objective assurance and support designed to add value and improve the Company's operations and systems of internal controls. The Board Audit Committee oversees the proper functioning of internal audit and make changes to internal audit charter when necessary. The Internal Audit Department assists the Company with accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, governance and accountability processes.
	i. Review the adequacy of the scope, functions and resources of the Internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work;		
	ii. Review the internal audit programme and results of the Internal Audit process and , where necessary, ensure that appropriate action are taken on the recommendations of the Internal Audit Department;	Complied	
	iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied	Assessment of the Internal Audit staff evaluations and Audit Committee performance has been carried out by the Audit Committee Chairman. Assessment of the performance of the Head of Internal Audit has also been carried out.
	iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function	Complied	Head of Internal Audit was resigned with effect from 31 March 2023.  Reviewing Financial Processes, ECL Calculation, Classification of Financial Instruments and Lease Calculation have been outsourced to Messer KPMG (Chartered Accountants).

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	v. Ensure that the Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning:	Complied	The Committee appraised the resignation of Head of Internal Audit and outsourced arrangement with Messrs KPMG (Chartered Accountants)
	vi. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	The Internal Audit Charter of the Company addresses that the audit work should be performed with impartiality, proficiency and due professional care. Accordingly, the Internal Audit functions have been performed impartially and with proficiency and due care. The Head of the Internal Audit Department directly reports to the Committee thus ensuring the independence and impartiality of the Internal Audit Department.
	k) The Committee shall consider the major findings of internal investigations and the Management's responses there to.	Complied	Based on the reports submitted by the Internal Audit Department, the Committee reviews and considers major audit findings and the Management's responses thereto. Further, the Committee has instructed the Head of Internal audit that all investigations reports to be discussed in the Management Audit Committee level and disciplinary actions/ decisions taken by the Management Audit Committee to be communicated to the Committee as a summarised report for discussion and instructions to the Management for future cause of actions.
	l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Director being present.	Complied	Although the Board Audit Committee does not comprise any Executive Directors, the Committee met with the External Auditors in two occasions during the current financial year. Chief Executive Officer and the other Key Management Personnel attended these meetings on invitation.
	m) The committee shall have: i) explicit authority to investigate into any matter within its terms of reference; ii) the resources which it needs to do so; iii) full access to information; iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary	Complied	The Board-approved Terms of Reference of the Board Audit Committee mandates explicit authority to investigate into any matter within its purview and take necessary action thereto. 'Board Audit Committee Report', from pages 156 to 157 this Corporate Governance Report, provides a summary of the Terms of Reference of the Committee.

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Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.2	n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	There were five meetings of the Board Audit Committee during the financial year 2022/23 Page 156 of this Annual Report, provides the details of the meetings of the Board Audit Committee during the financial year 2022/23 and the members attendance thereat.
	o) The Board shall, in the Annual Report, disclose in an informative way - i) details of the activities of the Audit Committee ii) the number of Audit Committee meetings held in the year; and iii) details of attendance of each individual member at such meetings	Complied	The 'Board Audit Committee Report' from pages 156 to 157 of this Annual Report, provides details of the activities of the Committee and attendance of members at meetings of the Committee.
	p) The Secretary to the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied	In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all committee meetings in sufficient detail.
	q) The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	Complied	The Company has established a 'Whistle-Blower Policy' which has been approved by the Board Audit Committee and Board of Directors and practiced through-out the Company. The whistle blower matters are submitted to the Committee for their review and instructions. The board has reviewed and approved the updated policy.
8.3	<b>Integrated Risk Management Committee</b>  The following shall apply in relation to the Integrated Risk Management Committee (IRMC)		
	a) The Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.  The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	The Committee consists of two Independent Non- Executive Directors and invites the CEO and the Key Management Personnel supervising broad risk categories such as credit, market, liquidity, operational and strategic risk.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.3	b) The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied	All key risk areas such as Credit, Liquidity, Market, Capital Adequacy and Operations are assessed by the Committee on a regular basis through Key Risk Indicators (KRIs) and other reports which includes Risk Database and Top Risks that cover the risk profile of SDF.
	c) The Committee shall 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 to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied	The Committee has taken for discussion the key areas of concerns of the management level committees at the BIRMC. The committee has reviewed in full the adequacy and the effectiveness of the Management level committees during the year under review and provided the necessary guidance and direction to those committees for effective functioning of those committees in relation to their TORs.
	d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied	Committee reviews risk assessment reports and take prompt corrective action to mitigate the effects of specific risks.
	e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	According to the Charter of the BIRMC, the Committee shall meet at least quarterly or more frequently if required and as per the current practice, Committee is meeting once in two months whereas according to the new Finance Companies Direction No.5 of 2021 on Corporate Governance requires the BIRMC meetings to hold at least quarterly. The Committee has met five times during the financial year 2022/23. Refer the report on Board Integrated Risk Management Committee on page No.159 provides the details of the meetings of the Committee during financial year 2022/23 and the members' attendance thereat.
	f) The Committee shall take appropriate action against the officers responsible for failure to identify specific risk and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Complied	Committee refers such matters, if any, to the HR Department such decisions for necessary actions. However, the specific risk and limits identified by the BIRMC and such decisions are taken collectively.

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Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
8.3	g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	The Committee submits the minutes of the BIRMC to the next immediate board meeting which described fully the risks applicable to the Company and mitigating actions discussed seeking the Board views and actions deemed necessary. The Head of Risk Management prepares detailed risk assessment reports of the Company and presents at each BIRMC. These risk assessments are categorically discussed at each BIRMC and necessary guidance is given to the management to take prompt mitigating actions.
	h) The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	Compliance officer monitors compliance of CBSL rules, regulations and directions issued under the Finance Business Act and submit a monthly compliance report to the Board and BIRMC for their review. Monitoring compliance of other applicable laws, internal controls and approved policies on all areas of business operations is carried out by the Risk and Compliance Departments.
<b>11. 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		SDF has adopted a robust internal control system that reflects clear reporting lines with segregation of duties and Board approved organization structure to effectively mitigate the operational risk.
11.2	A proper internal control system shall: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies	Complied	Further the Company reviews the existing internal control system to make sure it contributes effective and efficient operations, safeguards company assets, ensures effective risk management system and compliance with laws and regulations.
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives		

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
<b>12. Related Party Transactions</b>			
12.1	<p>Board shall establish a policy and procedures for related party transactions, which covers the following</p> <ul style="list-style-type: none"> <li>a) 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</li> <li>b) All related party transactions shall be prior reviewed and recommended by the RPTRC. The business transactions with a related party that are covered in this Direction shall be the following: <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 share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related parties.</li> </ul> </li> </ul>	Complied	<p>The Board has formed a related party transaction review committee who shall be responsible for the effective function of reviewing the proposed and existing related party transactions. SDF has adopted Board approved Related party review committee charter and Terms of Reference.</p> <p>The committee comprised of three Non-Executive Directors and chaired by an Independent Non-Executive Directors. The majority of the members are independent Non-Executive Directors.</p>

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Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
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. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises</p> <ul style="list-style-type: none"> <li>a) Directors and senior management</li> <li>b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC</li> <li>c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa</li> <li>d) Directors and senior management of legal persons in paragraph (b) or (c)</li> <li>e) Relatives of a natural person described in paragraph (a), (b) or (d)</li> <li>f) Any concern in which any of the FC’s directors, senior management or a relative of any of the FC’s director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest</li> </ul>	Complied	The Company has established a Board-approved Related party transaction review committee Charter to identify and report the types of transactions with related parties that is covered by this Direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
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> <ul style="list-style-type: none"> <li>a) Granting of 'total accommodation' to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee</li> <li>b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty</li> <li>c) Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties</li> <li>d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or</li> <li>e) Maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions</li> </ul>	Complied	<p>The Company has controls in place to ensure that the Company does not engage in transactions with related parties as defined in the Direction above, in a manner that would grant such parties "more favourable treatment" as defined in the section than that accorded to other constituents of the Company.</p> <p>Related party transactions that have been carried out during the year are disclosed under related party transactions on pages 245 to 246 of these Financial Statements.</p>
<b>13. Group Governance</b>			
13.1	Responsibilities of the FC as a Holding Company	Not applicable	
13.2	Responsibilities as a Subsidiary		
13.2	<p>Responsibilities as a Subsidiary</p> <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>		
<b>14. 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, integrity of reporting, protection and proper use of company assets and fair treatment of customers	Complied	The Code of conduct addresses the issues of confidentiality, conflict of interest, integrity of reporting and other ethical practices and the Company maintains record of breaches.
14.2	The FC shall maintain records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity		

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
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 confidence manner and without the risk of reprisal. The BAC shall review the policy periodically	Complied	The Board approved Whistle-Blower Policy is in place.
<b>15. Conflicts of Interest</b>			
15.1	a) Relationships between the directors shall not exercise undue influence or coercion. 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 substantial interest, is interested, and such Director shall not be counted in the quorum for the relevant agenda item in the Board meeting	Complied	The company has formed policy on conflict of interest and the policy prohibits Directors to use his or her position to divulge confidential or price- sensitive information, for personal benefit or benefit of any third party, whether financially or otherwise
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 policy for managing conflicts of interest shall, <ul style="list-style-type: none"> <li>i. Identify circumstances which constitute or may give rise to conflicts of interests</li> <li>ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest</li> <li>iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest</li> <li>iv. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest</li> <li>v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and</li> <li>vi. Articulate how any non-compliance with the policy to be addressed</li> </ul>	Complied	Directors do not participate in and excuse themselves from the Meeting when the Board considers matters in which a conflict may arise.

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
<b>16. Disclosures</b>			
16.1	<p>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 following disclosures are made in the Annual Report of the FC,</p> <p><b>i) Financial statements</b></p> <p>In addition to the set of financial statements as per LKA S 1 or applicable standard annual report shall include,</p> <ul style="list-style-type: none"> <li>➤ A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</li> <li>➤ A statement of responsibility of the Board in preparation and presentation of financial statements.</li> </ul>	Complied	Page 190
	<p><b>Chairperson, CEO and Board related disclosures</b></p> <ul style="list-style-type: none"> <li>➤ Name, qualification and a brief profile.</li> <li>➤ Whether Executive, Non-Executive and/or Independent Director.</li> <li>➤ Details of the Director who is serving as the senior Director, if any.</li> <li>➤ The nature of expertise in relevant functional areas.</li> <li>➤ Relatives and/or any business transaction relationships with other directors of the Company</li> <li>➤ Names of other companies in which the Director/CEO concerned serves as a director and whether in an executive or non-executive capacity.</li> <li>➤ Number/percentage of board meetings of the FC attended during the year; and</li> <li>➤ Names of board committees in which the director serves as the Chairperson or a member.</li> </ul>	Complied	Pages 24 to 27
	<p><b>iii. Appraisal of board performance</b></p> <ul style="list-style-type: none"> <li>➤ An overview of how the performance evaluations of the Board and its committees have been conducted</li> </ul>	Complied	Page 104

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
16.1	<b>iv. Remuneration</b> ➔ A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non-financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation) ➔ The aggregate values of remuneration paid by the FC to its directors and senior management.	Complied	Page 150
	<b>v. Related party transactions</b> ➔ The nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. ➔ Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital. ➔ The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.	Complied	Pages 158 , 245 to 246
	<b>vi. Board appointed committees</b> ➔ The details of the chairperson and members of the board committees and attendance at such meetings.	Complied	Pages 154 to 160
	<b>vii. Group Structure</b> ➔ The group structure of the FC within which it operates. ➔ The group governance framework.	Not applicable	

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
16.1	<p><b>viii. Director’s report</b> A report, which shall contain the following declarations by the Board:</p> <ul style="list-style-type: none"> <li>➤ The FC has not engaged in any activity, which contravenes laws and regulations.</li> <li>➤ The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.</li> <li>➤ The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.</li> <li>➤ The business is a going concern with supporting assumptions; and</li> <li>➤ The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.</li> </ul>	Complied	Page 147
	<p><b>ix. Statement on Internal Control</b></p> <ul style="list-style-type: none"> <li>➤ A report by the Board on the FC’s internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</li> <li>➤ The external auditor’s assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.</li> <li>➤ A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</li> <li>➤ A statement of the regulatory and supervisory concerns on lapses in the FC’s risk management, or non-compliance with the Act, and rules and directions.</li> </ul>	Complied	Page 182

## Governance and Compliance

Rule Reference	Principle	Extent of Compliance	Affirmation/ Extent of adoption
16.1	<b>x. Corporate governance report</b> ☞ Shall disclose the manner and extent to which the Company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.	Complied	Page 101
	<b>xi. Code of Conduct</b> ☞ FC's code of business conduct and ethics for directors, senior management and employees.	Complied	Page 133
	☞ The Chairperson shall certify that the Company has no violations of any of the provisions of this code.	Complied	Page 142
	<b>xii. Management report</b> ☞ Industry structure and developments ☞ Opportunities and threats ☞ Risks and concerns ☞ Sustainable finance activities carried out by the Company ☞ Prospects for the future	Complied	Page 46
	<b>xiii. Communication with shareholders</b> ☞ The policy and methodology for communication with shareholders. ☞ The contact person for such communication.	Complied	Page 108

**COMPLIANCE WITH CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA**

Code Ref	Requirement	Complied	Reference within the report
A	<b>Directors</b>		
A.1	<b>The Board</b> Should be headed by an effective Board, which should direct, lead and control the Company.		
A.1.1	Board should conduct regular meetings, provide information to the board on structured and regular basis	Complied	Board meetings and attendance Page 105
A.1.2	Role and responsibility of the Board	Complied	Highest governance body Page 102
A.1.3	Act in accordance with laws and seek professional advice	Complied	Informed decision making Page 104
A.1.4	Access to advice and services of the Company Secretary	Complied	Company Secretary Page 104
A.1.5	Independent judgement	Complied	Board composition Page 103
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	Complied	Board meetings and attendance Page 104
A.1.7	Calls for resolutions by at least 1/3 of Directors	Complied	Necessity did not arise during the financial year
A.1.8	Board induction and training	Complied	Board induction and training, page 104
A.2	Chairman and Chief Executive Officer	Complied	Separation of roles –Chairman and Chief Executive Officer Page 104
A.3	Chairman’s role in preserving good Corporate Governance	Complied	Chair of the highest governance body Page 103
A.4	Availability of financial acumen	Complied	Board profiles Page 24
A.5	Board balance		
A.5.1	The Board should include sufficient number of Non-Executive Directors	Complied	Composition of the highest governance body and its committees Page 102
A.5.2	If the Board includes only three Non-Executive Directors, they should be independent		

## Governance and Compliance

Code Ref	Requirement	Complied	Reference within the report
A.5.3	Independence of Directors		
A.5.4	Annual declaration of independence by directors	Complied	Director Independence Page 104
A.5.5	Annual determination of independence of Non-Executive Directors		
A.5.6	Alternate Directors	Not applicable	No alternative director appointed during the financial year 2022/2023.
A.5.7 & A.5.8	Senior Independent Directors	Complied	Appointment of Senior Independent Director Page 104
A.5.9	Annual meeting with Non-Executive Directors	Complied	Board meetings and attendance Page 105
A.5.10	Recording of dissent of minutes	Complied	Board meetings and attendance Page 105
A.6	Supply of information	Complied	Informed decision making Page 104
A.7	Appointments to the Board and Re-election	Complied	Retirement by rotation and re-election of Directors Page 103
A.7.1	Establishing a Nomination Committee, Chairman and Terms of Reference	Complied	Remuneration and Nomination Committee report. Page 154
A.7.2	Annual assessment of Board composition	Complied	Evaluation of performance of Directors Page 104
A.7.3	Disclosures on appointment of new directors	Complied	Board appointments Page 103
A.8	Directors to submit themselves for re-election	Complied	Retirement by Rotation and Re-Election of Directors. Page 103
A.9	Appraisal of Board and sub-Committee Performances	Complied	Evaluation of performance of Directors Page 104
A.10	Annual report to disclose specified information regarding Directors	Complied	Board profiles Page 24  Board Meetings and attendance, Page 105
A.11	Appraisal of the CEO	Complied	Appraisal of Chief Executive Officer Page 108

Code Ref	Requirement	Complied	Reference within the report
<b>B</b>	<b>Directors' remuneration</b>		
B.1	Establish process for developing policy on executive and Director remuneration.	Complied	There were no Executive Directors on the Board of the Company during the year 2022/2023.
B.2	Level and Make Up of Remuneration	Complied	Remuneration and Nomination Committee report Page154
B.3	Disclosures related to remuneration in Annual Report Remuneration Policy statement, Aggregate Board remuneration paid	Complied	Remuneration and Nomination Committee report Page154
<b>C</b>	<b>Relations with Shareholders</b>		
C.1	Constructive use of the AGM & other General Meetings	Complied	Annual General Meeting Page 108
C.2	Communication with shareholders	Complied	Shareholder Communication Page 108
C.3	Disclosure of major and material transactions	Complied	No major transaction during the year
<b>D</b>	<b>Accountability &amp; Audit</b>		
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects	Complied	SDF has reported a true and fair view of its financial position and performance for the year ended 31 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.
D.1.1	Balanced Annual Report	Complied	Directors' report in the Annual report, page 147
D.1.2	Balanced and understandable communication	Complied	Directors' report in the Annual report, page 147
D.1.3	CEO/CFO declaration	Complied	Chief Executive Officer's and Chief Financial Officer's Responsibility Statement, Page 180
D.1.4	Directors Report declarations	Complied	Directors' report in the Annual report, page 147
D.1.5	Financial reporting - statement on Board responsibilities	Complied	Directors' Responsibility for Financial Reporting page 178
	Statement on internal control	Complied	Directors' Statement on Internal Control over Financial Reporting page 182
D.1.6	Management Discussion & Analysis	Complied	Management Discussion Analysis, page 46

## Governance and Compliance

Code Ref	Requirement	Complied	Reference within the report
D.1.7	Net Assets < 50%	Complied	In the unlikely event of the net assets of the Company falling below 50% of Shareholders Funds the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.
D.1.8	Related Party Transactions Report	Complied	All related party transactions as defined in Sri Lanka Accounting standard 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 43 to the financial statements on pages 245 to 246
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	Complied	Risk Management Report of the Board Integrated Risk Management Committee, page 159 and Directors' Statement of Internal Control, page 182
D.3	Audit Committee	Complied	Report of the Board Audit committee, page 156
D.4	Related Party Transactions Review Committee	Complied	Related party transactions review committee report, page 158
D.5	Code of Business Conduct and Ethics	Complied	The code of conduct and ethics and the procedure for disseminating, monitoring and compliance with the code have been introduced company wide and the Chairman confirms that he is not aware of any material violations of the Code of Conduct.
D.6	Corporate Governance Disclosures	Complied	Corporate Governance Report, Page 101
E/F	<b>Institutional and other investors</b> Institutional and other investors	Complied	The company has 2,386 Ordinary voting shareholders of which above 1,300 are institutional shareholders. All shareholders are encouraged to participate at AGM and cast their votes. Investor relations hotline/email is open for any investor to reach out to the CEO or Directors if required
G	<b>Internet of Things &amp; Cybersecurity</b>	Complied	Integrated Risk Management report, Page 162
H	<b>Principles of Sustainability Reporting</b>	Complied	Independent Assurance Report On Sustainability Reporting Page 184

**COMPLIANCE WITH LISTING RULES SECTION 7.6 AND 7.10 ISSUED BY THE COLOMBO STOCK EXCHANGE**

Rule No	Requirement	Complied	Reference within the report
7.6 (i)	Names of persons who were Directors of the Company during the financial year	Complied	Page 24
7.6 (ii)	Principal activities of the Company and its subsidiaries during the year	Complied	Page 147
7.6 (iii)	Information on 20 largest shareholders at the end of the year	Complied	Page 67
7.6 (iv)	The public holding percentage	Complied	Page 66
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	Complied	Page 68
7.6 (vi)	Information pertaining to material foreseeable risk factors	Complied	Page 162
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	There were no material issues pertaining to employees and industrial relations during the year under review.	
7.6 (viii)	Information on building/land holdings and investment properties as at the end of the year	Complied	Page 226
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Complied	Page 65
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	Complied	Page 66
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	Complied	Page 68
7.6 (xii)	Significant changes in the Company's or subsidiaries' fixed assets	Complied	Page 226
7.6 (xiii)	Details of funds raised through a public issue, Rights issue and a Private placement during the year-	During the FY 2022/2023 no funds raised as equity capital.	
7.6 (xiv)	Information in respect of Employee share ownership or stock option schemes	The Company does not have any employee share ownership or stock option scheme at present.	
7.6 (xv)	Disclosure pertaining to Corporate Governance practice in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of section 7 of the listing rules	Complied	Page 143
7.6(xvi)	Disclosure on related party transactions exceeding 10% of the equity or 5% of the total assets of the entity.	Complied	No related party transactions exceeding the given threshold.
7.10.1	<b>Non-Executive Directors</b>		
7.10.1.(a)	Two or one -third of the directors, whichever is higher, should be Non-Executive Directors.	Complied	Page 150
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.	Complied	Page 150
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Complied	Page 150

## Governance and Compliance

Rule No	Requirement	Complied	Reference within the report
7.10.2	<b>Independent Directors</b>	Complied	Page 104
7.10.2 (a)	Two or 1/3 of non-executive directors appointed to the board of directors, whichever is higher shall be 'independent'. As at 31 March 2023, there were three Independent Non-Executive Directors		
7.10.2 (b)	Each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence in prescribed format.	Complied	Page 104
7.10.3	<b>Disclosures relating to Directors</b>		
7.10.3 (a)	The board shall make a determination annually as to the independence or non-independence of each non-executive director and shall set out in the annual report the names of directors determined to be 'independent'.	Complied	pages 150
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 on its board which includes information on the nature of his/her expertise in relevant functional areas.	Complied	Pages 24 to 27
7.10.3 (d)	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public.	Complied	Page 103
7.10.4	<b>Criteria for defining of Independence</b>		
7.10.4 (a-h)	Requirements for meeting criteria to be independent All independent directors of the Company met the criteria for independency specified in this rule.	Complied	Page 113
7.10.5	<b>Remuneration Committee</b>		
7.10.5 (a)	A Listed Entity shall have a remuneration committee in conformity with, Composition - a minimum of two independent non-executive directors or of Non-executive directors a majority of whom shall be independent, whichever shall be higher.	Complied	Please refer to remuneration and nomination committee report on page 154
7.10.5 (b)	Functions - functions of remuneration committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Complied	Please refer to remuneration and nomination committee report on page 154

Rule No	Requirement	Complied	Reference within the report
7.10.5 (c)	<p>Disclosure in the Annual report</p> <ul style="list-style-type: none"> <li>➤ The names of the Directors that comprises the remuneration committee</li> <li>➤ A statement of the remuneration policy</li> <li>➤ Aggregate remuneration paid to executive and non-executive directors.</li> </ul>	Complied	Please refer to remuneration and nomination committee report on page 154
7.10.6 (a)	<p>Audit Committee</p> <p>A Listed Entity shall have an audit committee in conformity with,</p> <p>(a) Composition - a minimum of two independent non-executive directors or a majority of independent Non-Executive Directors whichever is higher.</p> <ul style="list-style-type: none"> <li>➤ Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings</li> <li>➤ The Chairman of the Audit Committee or one member should be a member of a professional accounting body</li> </ul>	Complied	Please refer to the Audit committee report on page 156 of the Annual report.
7.10.6 (b)	<p>Function - Should be as outlined in the Section 7.10 of the Listing Rules</p>	Complied	Please refer to the Audit committee report on page 156 of the Annual report.
7.10.6.(c)	<p>Disclosure in the Annual Report</p> <ul style="list-style-type: none"> <li>➤ The names of the Directors who comprise the Audit committee</li> <li>➤ Make a determination of the independence of the auditors and shall disclose the basis for such determination</li> <li>➤ 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.</li> </ul>	Complied	Please refer to the Audit committee report on page 156 of the Annual report.

# REIMAGINE



SDF partnered with the Panamura Wethara Sarvodaya Sharmadana Society to provide credit facilities for farmers in Godakawala, supporting their agricultural activities and promoting rural agriculture development.

Kapila Rohan(left) Sriyani Malkanthi (middle) and Piyal Wijesiri (right)

Panamura, Ratnapura District

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

The Directors of Sarvodaya Development Finance PLC. (SDF) take pleasure in presenting their Annual Report on the state of affairs of the Company together with the Audited Financial Statements for the year ended 31 March 2023 as required by Section 168 of the Companies Act No. 07 of 2007, Finance Business Act Directions No. 5 of 2021-Corporate Governance and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

This Report was approved by the Directors at its meeting held on 29 May 2023.

### CORPORATE PHILOSOPHY

The Vision and Mission Statements, the Guiding Values and the Arthadharma Geethaya (Song), express the overarching philosophy and culture of the Company.

### LEGAL FORM

The Company was a limited liability company incorporated in Sri Lanka on 1 January 2010 under the Companies Act No. 07 of 2007 bearing Registration PQ 00251293, converted to a public limited liability company on 6 January 2022 and was admitted to the Official List of the Colombo Stock Exchange on 15 December 2021. It commenced business operations as a Licensed Finance Company (LFC) on 19 December 2012, regulated under the Finance Business Act No. 42 of 2011.

### LOCATION

The Company's Registered Office, which is also its Head Office, is located at 'No.155/A, Dr. Danister De Silva Mawatha, Colombo 08'. The contact details of the Company are given under Corporate Information.

### BRANCH NETWORK

As at 31 March 2023, the Company's branch network comprised 51 Branch Offices within the purview of ten Regional Offices (pages 33 to 34). During the financial year, two (2) branches were rebranded and strategically relocated with greater visibility to enable our customers in those strategic locations to have easy access to our products and services. This move not only helped to retain the existing customers but also helped to attract new customers.

### REVIEW OF PERFORMANCE AND RISK MANAGEMENT

The Chairman's Message (pages 17 to 18) and the Chief Executive Officer's Review (pages 21 to 23) encapsulate the Company's business performance during the current financial year, set against the wider economic background as indicated in the Management Discussion and Analysis (pages 46 to 99). A detailed report on Assessing and Managing Risk is given in page 162 to 177.

### STATUTORY/REGULATORY COMPLIANCE

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto; as well as the Directions, Rules, Notices, Determinations and Guidelines, for Non-Bank Financial Institutions, issued by the Central Bank of Sri Lanka (CBSL) under enabling legislation. The Directors are also taking steps to resolve any issues of non-compliance and the Listing Rules of the Colombo Stock Exchange.

### PRINCIPLES ACTIVITIES

Pursuant to obtaining the finance companies license in December 2012, the Company's principal business activities during the year were deposit mobilisation, micro credit (represented by bulk loans to Sarvodaya Societies), micro credit including gold loans to individuals and individual entrepreneurs, corporate and retail credit (represented by personal loans, business loans, mortgage loans, SME and Leasing), and other credit facilities and related services.

### FINANCIAL STATEMENTS

The Financial Statements of the Company (pages 190 to 263), have been prepared in accordance with the Sri Lanka Accounting Standards and the Sri Lanka Financial Reporting Standards (SLFRSs /LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 and the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

The Financial Statements of the Company duly signed by the Head of Finance and the Chief Executive Officer with the approval of the Chairman and a Director on behalf of the Board which are attached hereto form an integral part of the Annual Report.

### DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

In terms of Section 150(1) and 151 of the Companies Act No. 07 of 2007, The Directors confirm by declaration (page 178) that they are responsible for the preparing and presenting of the Financial Statements and that they give a true and fair view of the affairs of the Company for the year ended 31 March 2023.

The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes to the Financial Statements for the year ended 31 March 2023 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No. 07 of 2007, the listing rules of the Colombo stock exchange, the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995

## Report of The Board of Directors on the Affairs of the Company

and the Directions/Rules made under Finance Business Act No. 42 of 2011 and Directions issued thereto.

Furthermore, the Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future and has adopted the 'going concern' basis in preparing these Financial Statements.

### DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 16.1 (ix) of Finance Business Act Directions No. 5 of 2021 - Corporate Governance.

The Directors confirm by declaration (page 182) that they are responsible for the adequacy and effectiveness of the internal control mechanism in place in the Company. Recognising its responsibility in maintaining the safety and soundness of the Company and safeguarding its assets and resources, the Board has instituted an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and the process includes the system of internal control over financial reporting.

The Board confirms that apart from regularly reviewing this process, it has also instituted systems and procedures which comply with relevant laws and regulations to keep abreast of industry norms. The Board also affirms that the Company's internal control mechanism has been designed to provide reasonable assurance with regard to the reliability of financial reporting and that the preparation of Financial Statements has been carried out according to the Sri Lanka Accounting Standards (SLFRSs/LKASs), and the other regulatory requirements of the Central Bank of Sri Lanka.

### AUDITORS' REPORT

The Auditors' Report on the Financial Statements of the Company for the year in review is set out in this Annual Report (pages 190 to 192).

### ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies applied by the Company during the year under review. The Directors are of the view that these policies have been applied consistently supported

by informed judgements. Significant Accounting Policies together with the notes adopted in preparation of the Financial Statements of the Company is given from the pages 198 to 263 of these Financial Statements comply with the requirements of Sri Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

### ARTICLES OF ASSOCIATION AND CHANGES DURING THE YEAR

During the financial year under review, no revisions and/or amendments were made to the Company's Articles of Association.

### ACCOUNTING PERIOD

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

### FINANCIAL RESULTS AND APPROPRIATIONS

#### Interest Income

The Company recorded a total interest income of Rs. 2,461.33 Mn for the year ended 31 March 2023 (Rs. 1,822.32 Mn in financial year 2022). This represents a positive growth of total interest income by Rs. 639.01 Mn or 35% compared to the previous year. A more descriptive analysis of the interest income is given in note no. 5 (page 205) to these Financial Statements.

#### Profit and Appropriations

The Company recorded a profit after tax of Rs. 221.65 Mn for the year ended 31 March 2023 (a profit after tax of Rs. 215.47 Mn in financial year 2022). This represents an increase of Rs. 6.18 Mn or 2.9% compared to the previous year. The Company recorded a total comprehensive income of Rs. 219.49 Mn for the year ended 31 March 2023 (a total comprehensive income of Rs. 247.25 Mn in financial year 2022).

As per the guidelines and criteria laid down in the Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No.1 of 2003 of the Central Bank of Sri Lanka, the Board of Directors transferred Rs. 11.08 Mn (Rs. 10.77 Mn in financial year 2022) to the Company's 'Statutory Reserve Fund' during the year under review.

Details of the Company's performance and appropriation of profit are tabulated below.

	2023 Rs. ('000)	2022 Rs. ('000)
Profit/(Loss) After Taxation	221,649.45	215,466.25
Profit Brought Forward from Previous Year	437,316.53	324,679.97
Profit Available for Appropriation	658,965.98	540,146.22
Appropriations		
Other Comprehensive Income / (Expenses)	(2,158.82)	31,788.90
Transfer to Reserves	(11,082.47)	(10,773.31)
Expenses related to the Share Issue		(49,047.25)
Interim Dividend		(74,798.03)
Final Dividend	(74,798.03)	
Total Appropriation		(134,618.59)
Un-appropriated Profit Carried Forward	570,926.66	437,316.53
Proposed final dividend	Nil	Rs. 0.50 per share

#### PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred on Property, Plant and Equipment (including capital work in progress) of the Company in the year ended 31 March 2023 amounted to Rs. 40.87 Mn (Rs. 13.83 Mn in financial year 2022). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no 25, on pages 226 to 229.

During the financial year under review, Company revalued its land and building as at 31 March 2023 to comply with the provisions of section 31 of LKAS 16: Property, Plant and Equipment. The details of such revaluation and the resulted revaluation surplus are fully described under note no 25 (Page 226) to the Financial Statements.

#### STATED CAPITAL

The stated capital of the Company as at 31 March 2023 amounted to Rs. 2,696.11 Mn (Rs. 2,696.11 Mn as at 31 March 2022). The stated capital is the total of all amounts received by the Company in respect of the issued share capital.

#### RESERVES

Total Reserves of the Company, including Retained Earnings, stood at Rs. 753.34 Mn (Rs. 608.68 Mn in the financial year 2022) at the end of the financial year.

A summary of Reserves of the Company at the end of the financial year is as follows.

	2023 Rs. ('000)	2022 Rs. ('000)
Statutory Reserve Fund	125,933.25	114,850.79
Revaluation Reserve	56,514.76	56,514.76
Retained Earnings	570,926.66	437,316.53
<b>Total</b>	<b>753,374.69</b>	<b>608,682.08</b>

#### CONTINGENT LIABILITIES

There were no material contingent liabilities as at the reporting date except as disclosed in note no 38 on page 241 to these Financial Statements.

#### OUTSTANDING LITIGATIONS

In consultation with the Company Lawyers, the Board of Directors opine that the pending litigations against the Company as at the reporting date will not have any material impact on the reported financial results or the future operations of the Company. The litigations against the Company are fully disclosed under note no 38 on page 242 to the Financial Statements.

#### ENVIRONMENTAL PROTECTION

The Directors, to the best of their knowledge and belief, are satisfied that the Company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

#### EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events and/or circumstances that have arisen since the reporting date that would require adjustments to or disclosure in the financial statements, other than those disclosed in note no 44 on page 247 to the Financial Statements.

#### ISSUE OF SHARES OR DEBENTURES

The Company did not issue any shares or debentures during the financial year under review.

## Report of The Board of Directors on the Affairs of the Company

### SHARE INFORMATION

There were 2,385 shareholders registered as at 31 March 2023 (2,385 shareholders as at 31 March 2022). Top 20 shareholder and the shareholding structure information are set out on page 67 under Investor Review.

### DIRECTORS' SHAREHOLDINGS

The Directors shareholding and the relevant interests of Directors in the shares of the Company as at 31 March 2023 and as at 31 March 2022 are disclosed in page 68.

### DIRECTORATE

Mr. Chaminda Rajakaruna who was a Non-Executive, Non-Independent Director of the Company demised during the year under review and thus, ceased to be a Director w.e.f. 13 June 2022.

Accordingly, the following Directors held office during the financial year under review.

Name	Status
Mr. Channa de Silva	Chairman/Non-Executive, Non Independent Director
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director (Deceased on 13 June 2022)
Mr. Amrit CanagaRetna	Non-Executive, Independent Director
Ms. Shehara De Silva	Non-Executive, Independent Director
Mr. Dammika Ganegama	Senior Independent Director
Mr. Ramesh Schaffter	Non-Executive, Non-Independent Director (Appointed w.e.f 20 April 2022)

The seven-member Board of Directors of the Company who held directorships as at 31 March 2023 are composed of distinguished professionals whose financial acumen in banking, finance, economics and allied fields have been invaluable in guiding the destinies of the Company during their tenure of office. The profiles of the Directors appear on pages 24 to 27.

### MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held twelve (12) monthly meetings, during the year under review. The attendance schedule is given in the Corporate Governance Report on page 105.

### BOARD SUB-COMMITTEES

The Board has delegated some responsibilities to five (5) oversight committees without derogating from its ultimate responsibility to the Company. They are:

- Board Integrated Risk Management Committee (BIRMC);
- Board Audit Committee (BAC);
- Board Remuneration and Nomination Committee (BRNC);
- Related Party Transaction Review Committee (RPTRC) and;
- Board Credit Committee (BCC).

The composition, functions and responsibilities of the first four committees are set out in their respective reports as at 31 March 2023 and included in this Annual Report.

### MANAGEMENT LEVEL COMMITTEES

The Board also appointed five (5) management level committees in line with industry norms. These are:

- Asset-Liability Committee (ALCO),
- Management Committee (ManCom),
- IT steering Committee (ITSC)
- Management Credit Committee (MCC) and;
- Product Development Committee (PDC).

### DIRECTORS' REMUNERATION

As required by Section 168 (1) (f) of the Companies Act No.07 of 2007, the Directors' fees and emoluments for the financial year ended 31 March 2023 and 31 March 2022 are stated below and disclosed under note no 43 to these Financial Statements on pages 245 to 246.

	2023 Rs. ('000)	2022 Rs. ('000)
Directors' Fees and Emoluments	7,940	9,924

### CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 101 to 145, complies Finance Business Act Directions No.5 of 2021 - Corporate Governance and other regulatory requirements.

SDF has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.

The Board has obtained the Assurance Report from its External Auditors, Messrs Ernst & Young (Chartered Accountants) on the Internal Control over Financial Reporting and the same is disclosed on page 181 Also, the Company has obtained a factual findings reports on Corporate Governance from External Auditors over the compliance of corporate governance directions and the Company is in the process of strengthening the procedure.

### APPRAISAL OF BOARD PERFORMANCE

Each Board Director of the Company, in conformity with the section 1.5 (d) of Finance Business Act Directions No.5 of 2021 - Corporate Governance, undertakes a self-assessment annually by answering a self-assessment questionnaire. The Board of Directors undertook the self-assessment for the year under review. The extent of compliance is fully described on page 110 in the Company's report on Corporate Governance.

The Board also carried out an annual self-evaluation of its subcommittees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of Finance Business Act Directions No.5 of 2021 - Corporate Governance and the Best Practices of Corporate Governance.

### STATUTORY PAYMENTS

The Directors are satisfied, to the best of their belief and knowledge, that all statutory dues, vis-à-vis the Government and the Company's employees, have been paid up-to-date on a timely basis.

### EMPLOYEE SHARE OWNERSHIP AND PROFIT SHARING PLANS

There are no immediate plans to introduce employee share ownership and profit sharing scheme.

### AUDITORS

The Company's External Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. They were appointed with effect from 14 February 2013, pursuant to a Directive by the Central Bank of Sri Lanka (CBSL) in October 2012, where Licensed Finance Companies were required in terms of the Finance Business Act No. 42 of 2011, to appoint an External Auditor from a Panel of Independent Auditors, as listed by the Central Bank.

Messrs Ernst & Young have expressed their willingness to continue in office for the ensuing year and a resolution with regard to their reappointment and remuneration will be submitted for approval by the shareholders at the Annual General Meeting scheduled on 26 June 2023.

Auditors' remuneration consists of two types of fees, as follows:

- i. Audit service fees for the year under review and;
- ii. Audit-related fees for non-audit services.

The Company paid following sums for audit and related services as well as non-audit services to M/s. Ernst & Young, Chartered Accountants. Agreed-Upon Procedures engagement to comply with the Finance Business Act Directions No.5 of 2021 - Corporate Governance and Assurance engagement on Directors' Statement of Internal Control have been classified as audit related services and, the fees paid on the same during the year under review are included under audit and related services accordingly. Non audit services mainly comprised of the fees paid during the year under review on tax consultancy services, and payment for Accountants Report provided by auditors.

	2023 LKR ('000)	2022 LKR ('000)
Audit and Related Services	2,470.00	5,290.13
Non Audit Services	1,521.99	1,061.46

### COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS LAWS AND INTERNAL CONTROLS

The Company has not engaged in any activity contravening any laws and regulations. There have been no irregularities involving management or employees that could have material financial effect or otherwise resulting in non-compliance with prudential requirements, regulations, laws and internal controls. The Directors' Statement on Internal Control over Financial Reporting (page 182) confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of 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 Company has obtained a certificate from the External Auditors on the effectiveness of the Internal Control mechanism on page 181.

## Report of The Board of Directors on the Affairs of the Company

Following table shows Compliance with Requirements on the Content of the Annual Report in Rules 7.6 and 9.3.2 of the Listing Rules

Rule Reference	Information required to be Disclosed	Status of Compliance	Page Reference
7.6 (i)	Names of person who were Directors of the Company during the Financial year	Complied	24
7.6 (ii)	Principal activities of the Company during the year	Complied	147
7.6 (iii)	Information on 20 largest shareholders at the end of the year	Complied	67
7.6 (iv)	The public holding percentage	Complied	66
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	Complied	68
7.6 (vi)	Information pertaining to material foreseeable risk factors	Complied	162
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	There were no material issues pertaining to employees and industrial relations during the year under review	
7.6 (viii)	Information on buildings/land holdings and investment properties as at the end of the year	Complied	226
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Complied	65
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	Complied	66
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	Complied	68
7.6 (xii)	Significant changes in the Company's fixed assets.	Complied	226
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	During the FY 2022/2023 no funds raised as equity capital.	
7.6 (xiv)	Information in respect of employee share ownership or Stock option schemes	The Company does not have any employee share ownership or stock opinion scheme at present	
7.6 (xv)	Disclosure pertaining to corporate governance practice in term of Rules 7.10.0, 7.10.5c. and 7.10.6c. of Section 7 of the Listing Rules	Complied	143
7.6 (xvi)	Related Party Transaction exceeding 10% of the equity or 5% of the total assets of the entity	No related party transactions exceeding the given threshold	
9.3.2 (a)	Non-recurrent related party transactions exceeding 10% of equity or 5% of total assets, whichever is lower	There were no non-recurrent transactions that exceeded the threshold during the Financial year 2022/2023	
9.3.2 (b)	Recurrent related party transactions exceeding 10% of gross income	No related party transactions exceeding the given threshold	

### GOING CONCERN

The Company's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business in the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

#### PREPARATIONS FOR ADOPTING NEW REGULATIONS

An alternative format has been used in presenting accounting policies to minimise the disclosure overload and clutter in the Financial Statements. These Financial Statements comply with the requirements of the Sri Lanka Accounting Standards – LKAS 1 on ‘Presentation of Financial Statements’ and with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 198 to 263. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given in Note 3.1 on pages 200 to 201.

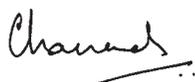
#### NOTICE OF MEETING

Notice convening the 13 Annual General Meeting of the Company is given on page 278.

#### ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by section 168(1)(k) of the Companies Act No 07 of 2007 the Board of Directors hereby acknowledge the contents of this report.

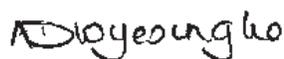
For and on behalf of the Board of Directors of Sarvodaya Development Finance PLC.



**Channa de Silva**  
Chairman



**Dammika Ganegama**  
Senior Director



**P W Corporate Secretarial (Pvt) Limited**  
Company Secretaries

29 May 2023

## REPORT OF THE BOARD NOMINATION AND REMUNERATION COMMITTEE



**Mr. Dammika Ganegama**  
Chairman - Board  
Remuneration and  
Nomination Committee

29 May 2023

### OBJECTIVES AND SCOPE

The Board Nomination & Remuneration Committee (BNRC) is established to ensure Board and Employee well-being, HR policies and best practices, Remuneration arrangements and healthy corporate governance to align strategic objectives of SDF. The BNRC focuses to make recommendations to the Board on all new Board appointments and ensure a transparent and a smooth 'Hire to Retire' process to increase SDF brand to increase quality recruitment, retention of staff through employer engagement while complying with the statutory and regulatory requirements of CBSL and other governing bodies.

### THE ROLE AND RESPONSIBILITIES

The BNRC has following role and responsibilities.

- I. Recommend the Board on the Company's policy around Non-Executive Directors' remuneration and benefits
- II. Determine and finalize remuneration packages at hiring time and during performance appraisal cycles for all key management personal of SDF
- III. Interview and recommend employment or contract adjustments for key management hires on behalf of the Company
- IV. Determine the terms of any compensation package in the event of early termination of the contract of any Executive Director and make recommendations to the Board regarding the content to be included in the Annual Report on Directors remuneration
- V. Assist the Board in deciding and enhancing Human Resource Policies and ensure guidance to align with statutory and regulatory compliance
- VI. Approve Performance Goals for Key Management Personnel
- VII. Advise and guide on best practices and activities to ensure employee well-being, training and retention

The role and responsibilities of the BNRC has been extended with the role and responsibilities of the Board Nomination Committee (BNC) as the BNC was dissolved by the Board in FY 2018 with an intention of broad-basing the role of BNRC for effective functioning and greater value creation.

Accordingly, the following role and responsibilities of BNRC has been amalgamated with BNRC; namely,

- I. Propose suitable Charter for the appointment and re-appointment of Directors to the Board and to act in accordance with such Charter in proposing appointments and re-appointments. Such Charter shall cover areas such as qualifications, competencies, independence, relationships which have potential to give rise to conflict vis-à-vis the business of the Company, etc.
- II. Consider making of any appointment or re-appointment to the Board
- III. Provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment
- IV. Regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes (a member of the Nomination BNRC should not participate in decisions relating to his/her own appointment)
- V. Adopt a scheme of self-assessment to be undertaken by each Director annually
- VI. Designating Key Management Personnel
- VII. Ensure 'fit and proper' of Directors and Key Management Personnel
- VIII. Approve Key Management Personnel Succession Plan and periodically review selected successors for Key Positions

### COMPOSITION

The BNRC comprised four (4) Non-Executive Directors as at 31 March 2023 as mentioned below. The Chairman of the BNRC is an Independent, Non-Executive Director.

Name	Designation
Mr. Dammika Ganegama	Chairman/ Senior Independent Director
Mr. Channa de Silva	Member/Non-Executive, Non Independent Director
Mr. Amrit CanagaRetna	Member/Non-Executive, Independent Director
Ms. Shehara De Silva	Member/Non-Executive, Independent Director

The Profiles of the BNRC members are set out on pages 24 to 27 of this Annual Report. Mrs. Niranjani Rajaratnam, Head of HR, functions as the Secretary to the BNRC.

## MEETINGS

The BNRC meets regularly, at least two times a financial year. The Chief Executive Officer and the Head of HR participate at meetings of the BNRC by invitation. The Minutes of each BNRC meetings held are submitted to the Board for their information and decision making on the implementation of recommendations made by the BNRC.

The BNRC held two (2) meetings during the current year and the recommendations made by the BNRC were circulated and ratified by the Board of Directors.

	05-08-22	18-01-23
Mr. Dammika Ganegama - Chairman	√	√
Mr. Channa de Silva - Member	√	√
Mr. Amrit CanagaRetna - Member	√	√
Ms. Shehara De Silva - Member	√	√

## REMUNERATION POLICY

### Reward strategy

The Committee oversees the reward strategy of the Company to ensure that the employees are rewarded based on their performance, skills, experiences and level of responsibility enabling the Company to retain the right people to deliver on the strategy.

Aligning with the principles of good governance, our remuneration policy reinforces our desired culture and encourages behaviour consistent with our values while motivating the employees to deliver and sustain high levels of performance supporting achievement of our strategic Priorities.

### REMUNERATION PACKAGE AND OTHER BENEFITS

The Committee reviews the remuneration package of the employees, taking into consideration the performance of the Company vs set KPIs, the Individuals at the management level, remuneration comparison with peer group companies, institutional guidelines and reports from specialist consultants at the industry level.

The employee well-being is addressed through benefits provided to employees including staff loan schemes, staff health insurance cover, critical illness cover and the personal accident cover.

## KEY POLICY MATTERS REVIEWED/INTRODUCED DURING THE REVIEW PERIOD

The BNRC continued providing visionary guidance and support to the Management team to realise agreed sustainable growth by introducing new HR policies/procedures, developing staff talent to align the entire workforce towards a performance-driven culture.

## THE BNRC REVIEWED/INTRODUCED THE FOLLOWING POLICY MATTERS DURING THE FY 2023.

- ➔ Based on performance appraisal process, eligible employees were given Bonuses based on their performance.
- ➔ Continuous advocating and guidance on skills development, capacity building and succession planning.
- ➔ Continuous monitoring and highlighting the need for effective staffing, cost management, adoption to diversity guidelines, Transparency & fair policy and best practices within SDF.
- ➔ Closely monitor and suggest staff welfare and motivational programs.

The BNRC places much emphasis on training and encourages the provision of continuous training and exposure as a key strategic role of HR. This will enhance the existing skills of employees and expand their experience and knowledge. Training will also bring in new thinking and fresh ideas. Further, continuous training opportunities provided to employees will serve to motivate those employees. The BNRC is of the view that as SDF grows and diversifies, it will benefit from having employees who are multi skilled who can serve cross functionally and also work with a regional outlook.

Aggregate remuneration paid to Non-Executive Directors and Executive Directors is disclosed in note 43 to the financial statements on page 245.

## REPORT OF THE BOARD AUDIT COMMITTEE



**Mr. Ramesh Schaffter**  
Chairman - Board Audit  
Committee

29 May 2023

### CHARTER OF THE COMMITTEE

The Terms of Reference of the Board Audit Committee (BAC) are clearly defined in the Charter of the BAC which is periodically reviewed and revised with the concurrence of the Board of Directors. The process ensures that new development and concerns are adequately addressed. The BAC is responsible to the Board of Directors and reports on its activities regularly. The functions of the BAC are designed to assist the Board of Directors in its general oversight on financial reporting, internal and external audits and compliance with legal and regulatory requirements and risk management.

### THE ROLE AND RESPONSIBILITIES

The BAC is expected to ensure;

- the integrity of the financial reporting of the Company and the compliance with financial reporting requirements, information requirements of the Company's Act and other related financial reporting regulations.
- the effectiveness of the internal control system and the Company's Risk Management function
- the Company's ability to continue as a going concern in the foreseeable future
- independence and effectiveness of the Company's External Auditors
- performance of the Company's Internal Audit function
- the Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function

The BAC is currently in compliance with section 8.2 of Finance Companies (Corporate Governance) Direction No.3 of 2008 and section 10.2 of the Finance Business Act Directions No.5 of 2021 - Corporate Governance will be adopted from the financial year 2024/2025 which is under transitional provision until 1 July 2024.

### AUTHORITY

The BAC has the entire authority to investigate into any matter, including call any employee to be questioned at a meeting of the BAC, full access to information and authority to obtain external professional advice, at the Company's expense.

### COMPOSITION

Members of the BAC are appointed by the Board and comprised entirely of Non-Executive Directors. The BAC comprised of three Non-Executive Directors of the Company as at 31 March 2023, as shown below:

Name	Designation
Mr. Ramesh Schaffter	Chairman of the Committee/ Non-Executive/Non- Independent Director
Mr. Channa de Silva	Chairman of the Board / Non- Executive/Non- Independent Director
Mr. Amrit CanagaRetna	Member / Non - Executive Independent Director

The Profiles of the BAC members are set out from pages 24 to 27 of this Annual Report. Mr. Chandana Bandara, Head of Internal Audit, who is a qualified Fellow Chartered Accountant, functioned as the secretary to the BAC until 31 March 2023.

Mr. Ramesh Schaffter, the Chairman of the Audit Committee, has been appointed to the Board Audit Committee w.e.f. 31 August 2022.

### MEETINGS

The attendance of the BAC members at the meetings during the financial year under review was as follows:

Name	No. of meetings applicable	No of meetings attended
Mr. Ramesh Schaffter	03	02
Mr. Channa de Silva	05	05
Mr. Amrit CanagaRetna	05	05

On the invitation of the BAC, any officer of the Company, External Auditors and any outsider may attend all or part of any meeting. The proceedings of the BAC meetings are recorded with adequate details and reported to the Board of Directors.

### SUMMARY OF ACTIVITIES DURING THE YEAR

#### Financial Reporting

The BAC reviewed the audited Financial Statements of the Company before submission to the Board, in order to monitor the integrity of the Financial Statements and the significant financial reporting judgments contained therein. In reviewing the audited Financial Statements, the BAC focuses particularly on:

- (i) Major judgmental 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 regulatory requirements.

The BAC also assessed the Company's compliance status with financial reporting requirements, information requirements of the Companies Act, Finance Business Act and other relevant financial reporting related regulations.

#### **INTERNAL CONTROLS, RISK MANAGEMENT FUNCTION AND GOING CONCERN**

The BAC keeps under review the Company's internal controls and risk management systems ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards.

The BAC also assesses the Company's ability to continue as a going concern in the foreseeable future. The BAC reviewed and approved the 'Directors' Statements on Internal Controls over Financial Reporting' to be included in the Annual Report.

#### **EXTERNAL AUDIT**

The BAC monitors independence and objectivity of the audit processes of external audit in accordance with applicable standards and best practice. The BAC with the approval of the Board of Directors developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.

The BAC met the External Auditors Messrs Ernst & Young during the year under review and provided the opportunity to discuss the issues, problems and reservations arising from audits including those matters that may need to be discussed in the absence of Key Responsible Persons. The BAC also reviewed the External Auditors' Management Letter and management responses thereto.

The BAC recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditors of the Company for the financial year ending 31 March 2024, subject to approval by the Shareholders at the next Annual General Meeting.

#### **INTERNAL AUDIT**

The BAC reviewed the adequacy of the scope, functions and resources of the Internal Audit Department and satisfied itself that the Department has the necessary authority to carry out its work and monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system. The BAC ensured that the internal audit function is independent from the activities it audits and that it is performed with impartiality, proficiency and with due professional care. The BAC also reviews and monitors Management's responsiveness to the significant audit findings and recommendations of the Internal Auditor. Internal Audit

Department carried out 51 branch annual audits, 39 branch spot audits, 04 functional audits and 01 special audit during the year under review.

#### **OVERSIGHT ON REGULATORY COMPLIANCE**

The BAC with the assistance of internal audit closely examined the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

#### **ETHICS AND GOOD GOVERNANCE**

Highest standards of Corporate Governance and adherence to the Company's Code of Ethics are ensured. All appropriate procedures are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means.

#### **WHISTLE-BLOWING AND FRAUD**

Whistle Blower Policy that was implemented in year 2017 which was subsequently revised is intended to encourage and enable employees and others to raise serious concerns internally, so that Board of Directors and the Corporate Management can address and correct inappropriate conduct and actions.

In the event of whistle-blower is uncomfortable or reluctant to report his/her supervisor, then he/she could report the matter to the next higher level of Management including the BAC.

The whistle-blower policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers. The policy is subject to regular review in order to further improve the effectiveness.

The BAC engaged the main Board in taking decisions related to matters implemented by the BAC. The main Board thereafter, is fully briefed and take part in making decisions in regards to certain key areas of Operations.

#### **CONCLUSION**

The evaluation of reports and based on independent judgment, the BAC is satisfied about the financial reporting, internal control environment, compliance with statutory requirements, independence and effectiveness of External Auditors and performance of internal audits of the Company.

I take this opportunity to thank the External Auditors, Internal Audit Department and members of the BAC for their participation and contribution to the efforts of the BAC. Also appreciate the support of the Board of Directors in regard to all our activities at the BAC.

## RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT



**Mr. Amrit Canagaretna**  
Chairman - Related  
Party Transaction Review  
Committee

29 May 2023

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 shareholders and constituents of the Company.

### COMPOSITION AND ATTENDANCE OF THE COMMITTEE

During the year under review, the Related Party Transactions Review Committee (the Committee) comprised of the following Independent Non-Executive Directors (in conformity with the requirements of CBSL Direction on Corporate Governance and the Code of Best Practice on Corporate Governance issued by CA Sri Lanka - 2017). Profiles of the members as at 31 March 2023, are indicated on pages 24 to 27.

Name of the Director	Director status	Attendance
Mr. Amrit Canagaretna Chairman	Non-Executive/ Independent	1/1
Mr. Channa De Silva	Non-Executive/Non Independent	1/1
Mr. Dammika Ganegama	Senior Independent Director	1/1

### CHARTER OF THE COMMITTEE

The Related Party Transactions (RPT) Review Committee was established by the Board of Directors to assist the Board in reviewing all related party transactions carried out by the Company in terms of Section 9 of the CSE Listing rules.

### FUNCTIONS

Scope of the Committee includes;

- Assessing whether the transactions are in the best interests of the Company and its shareholders as a whole
- Establishing guidelines to be followed by the employees of the Company in respect of ongoing RPTs
- Monitoring RPTs, if any, to ensure that they are conducted in a manner that will prevent or mitigate the impact of any conflict of interest which may arise between the Company and its Related Parties

- Advising the Board of Directors in making immediate market disclosures on applicable RPTs as required by Section 9.3.1 of the Listing Rules of the CSE
- Advising the Board of Directors in making appropriate disclosures on RPT in the Annual Report as required by Section 9.3.2 of the Listing Rules of the CSE

### METHODOLOGY

In accordance with the guiding principles, a self-declaration is obtained from each director and key management personnel (KMP) of the Company to identify persons related to the directors and key management personnel. Therefore, the Company adopts a disclosure-based approach when identifying related parties.

Based on the information provided in these declarations, the Company has established a process that enables the Company to generate related party transaction data across the Company's network.

If a member has a material personal interest in the matter under consideration, or if the RPT directly or indirectly involves a member of this committee, the conflicting member immediately informs the committee and excludes himself from the meeting, and the member was not present at the meeting during the matter considered and abstained from voting on the matter.

### ACTIVITIES IN 2022/23

- The Committee met one (01) time during the financial year ended 31 March 2023, and the proceedings of the Committee meetings have been regularly reported to the Board of Directors during the financial year.
- There were no non recurrent or recurrent RPT that exceeded the respective thresholds mentioned in the Listing Rules of the CSE.
- Reviewed all Related Party Transactions and confirmed that such transactions occurred at arm's length price.
- The committee charter was reviewed by the committee during the financial year 2022/2023.

Details of other RPT's entered into by the Company during the above period are disclosed in Note 43 (Pages 245 to 246) to the Financial Statements.

### DECLARATION

The board of directors declares that the Company has no related party transactions within the scope of the listing rules in 2022/23, as set out in the annual report of the Board of Directors on the Affairs of the Company on page 150.

## REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE



**Mr. Amrit CanagaRetna**  
*Chairman - Board Integrated Risk Management Committee*

29 May 2023

FY2022/23 was a challenging year as a nation which created the operating business environment more vulnerable and unpredictable. The uncertainty prevailed during this time period caused the emergence of new risks while intensifying the existing risks. The BIRMC closely assessed and reviewed these risks arising from internal and external factors on an ongoing basis while escalating those to the Board in a timely manner to mitigate their impact on the operations of the Company in order to withstand the Company's resilience.

Sarvodaya Development Finance PLC (SDF) firmly believes that risk management function is the core of the organization since SDF functions as a financial intermediary. A robust risk management system ensures the protection of depositors, investors and key stakeholder interest along with secured long term growth in the organization. The Board of Directors of SDF is the apex body which reviews and monitors the risks of the Company.

### CHARTER OF THE COMMITTEE

The Board Integrated Risk Management Committee (BIRMC) was established by the Board of Directors in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended). The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction. The provisions of the new Finance Companies Direction No.5 of 2021 on Corporate Governance relating to the BIRMC will be adopted timely as there is a transitional provision till 1 of July 2024. The BIRMC Charter clearly sets out the membership, source of authority, duties and the responsibilities of the BIRMC. The Committee assists the Board of Directors in ensuring the Company is financially viable and sustainable by regularly assessing a diverse range of risks faced by SDF in its business operations and assuring the adequacy and effectiveness of the risk management framework implemented by SDF. According to the Charter of the BIRMC, the Committee shall meet at least quarterly or more frequently if required and as per the current practice, Committee is meeting once in two months whereas according to the new Finance Companies Direction No.5 of 2021 on Corporate Governance requires the BIRMC meetings to hold at least quarterly.

### ROLES AND RESPONSIBILITIES

Duties of the BIRMC include identification of current and potential risks and determining the adequacy and effectiveness of risk mitigating measures used to ensure that the actual overall risk profile of the Company conforms to the desirable risk profile of the Company as defined by the Board of Directors.

### COMPOSITION OF THE COMMITTEE

The BIRMC comprises two Independent, Non-Executive Directors, the CEO, the COO, the Head of Risk Management, the Compliance Officer and the key management personnel supervising broad risk categories i.e. credit, market, liquidity, operational and strategic risks who attend the meetings upon invitation. During the year under review, the BIRMC was comprised of following Board Members and their attendance for the five (5) meetings held during FY2022-23 has been tabled below.

Name	Designation	No. of Meetings Attended
Mr. Amrit CanagaRetna	Chairman - BIRMC Non- Executive, Independent Director	5/5
Mr. Dammika Ganagama*	Senior Director of the SDF Non- Executive, Independent Director	3/5

\*Mr. Dammika Ganagama was appointed to the BIRMC at the Board Meeting held on 31 August 2022.

Currently, the Head of Risk Management functions as the secretary to the BIRMC.

The Profile of the BIRMC Chairman is set out on page 27 of this Annual Report.

All key risk areas such as Credit, Liquidity, Market, Capital Adequacy and Operations are assessed by the Committee on a regular basis through MIS reports and other reports that cover the risk profile of SDF. Apart from assisting the Board in performing its oversight in relation to both qualitative and quantitative risks, the Committee also ensures the adequacy, soundness and effectiveness of the risk management framework of the Company.

### RISK MANAGEMENT

The work of the Committee is supported by the Risk Management Department (RMD) which is headed by the Head of Risk Management. The RMD functions as an independent unit and the Head of Risk Management directly reports to the Chairman of the BIRMC.

## Report of The Board Integrated Risk Management Committee

### SUMMARY OF ACTIVITIES IN FY 2022-23

Key areas addressed by the BIRMC during the year under review;

- ➔ Key focus was given on the deterioration of credit quality level of the industry and discussed the measures to be undertaken to improve credit quality of the Company.
- ➔ Reviewed the KRIs developed for FY 2022/23 to identify significant risks and assessed the adequacy of risk mitigation actions.
- ➔ Reviewed the Risk Database and top risks of the Company.
- ➔ Reviewed the impact of the Finance Companies Direction No.5 of 2021 on Corporate Governance on SDF.
- ➔ Reviewed the Fraud Prevention Policy and Procedure to set guidelines to minimise the operational risks.
- ➔ Assessed and reviewed the macro economic factors of local and global to identify the impact on SDF to initiate proactive and corrective measures in terms of changing business, economic, industry and Company dynamics.
- ➔ Reviewed the Terms of References of the Management Level committees (ALCO, Product Development Committee, Management Committee and Information Technology Steering Committee) to ensure effective functioning of these committees.
- ➔ Reviewed the IT policies of the Company.
- ➔ Reviewed the Capital Planning Procedure.
- ➔ Reviewed the Foreign Exchange Risk Management Policy and Procedure for Foreign Currency Borrowings.
- ➔ Reviewed the Policy and Procedure on AML and CFT
- ➔ Reviewed the adequacy and effectiveness of ALCO activities and reviewed the liquidity position, funding pipeline and liquidity management strategies of the Company.
- ➔ Reviewed the product papers of the new products which the Company has introduced.
- ➔ Reviewed the Disaster Recovery (DR) Plan of the Company.
- ➔ Reviewed the initiation of identifying the possibility of pre-adopting the Internal Capital Adequacy Assessment Process (ICAAP) under BASEL III which will enhance the assessment of capital adequacy of the Company.
- ➔ Assessed all risks, i.e., credit, market, liquidity, operational, legal and reputational and strategic risks of the Company.
- ➔ Reviewed and approved the Terms of Reference of the BIRMC.
- ➔ Reviewed the implementation of risk management as well as compliance and control systems.

# REIMAGINE



SDF supported the growth of a medium-sized dairy enterprise, helping them develop and expand their production capacity. With SDF's assistance, the enterprise was able to meet increasing demands, reach new markets, and achieve overall business expansion.

Rangika Mallikaarchchi

Buttala, Monaragala District

## INTEGRATED RISK MANAGEMENT REPORT

### RISK LANDSCAPE

The financial year 2022-23 has been a turbulent year during which the complexity of the risk landscape intensified as the operating environment of the Company became more vulnerable, complex, unpredictable and uncertain. Macro-economic developments such as fuel and gas shortages, long hour power cuts and restrictions on imports, all due to inadequate foreign currency reserves which had heightened social unrest, finally led to political unrest. The ban on importing chemical fertilizers and pesticides also caused difficulties for the Company's agro-based customers. During the year, the nation faced its worst economic crisis. Low earnings from tourism and workers' remittances resulted in shortages in foreign currency and the foreign reserves dropped to critical levels. The sharp depreciation of the Sri Lankan Rupee, unsustainable public debt, domestic and forex market liquidity pressures, high inflation, scarcity of essential items, fall in tax revenue, and increase in market interest rates resulted in a credit downgrading of the sovereign debt, which constrained access to foreign financing as a nation. These developments affected the Sri Lankan economy adversely and caused an overall contraction of economic activities and ultimately affected the operating environment, creating unprecedented implications.

The uncertainty prevailed during this time period caused the emergence of new risks while intensifying the existing risks.



### RISK UNIVERSE

Being a Licensed Finance Company offering a wide range of financial services, risk is inherent in all our business activities and thereby SDF is prone to internal and external risk events. These risk events can be broadly categorized into two categories as;

- Quantitative risks and
- Qualitative risks.

**A SNAPSHOT OF OUR MATERIAL RISKS - DURING THE FINANCIAL YEAR 2022-23**

	Main Risk Category and Objective	Sub Risk Category	Risk Level FY2022-23	Trend Anticipated in FY2023-24
Quantitative Risks	<b>Credit Risk</b> To maintain asset quality and a well-diversified portfolio (refer from pages 170 to 172)	Default Risk	Medium	↑
		Concentration Risk	Low	↔
		Settlement Risk	Low	↑
	<b>Liquidity Risk</b> To ensure adequate funding for the business operations throughout market cycles, including periods of financial stress (refer from pages 172 to 173)	Funding Liquidity Risk	Low	↔
		Market Liquidity Risk	Low	↔
	<b>Capital Management</b> To maintain sufficient capital buffer to absorb unexpected shocks (refer page 174)		Low	↔
	<b>Market Risk</b> To safeguard against the adverse movements of market variables (refer from pages 174 to 175)	Interest Rate Risk	Medium	↔
		Commodity Price Risk	Low	↑
		Foreign Exchange Risk	Low	↑
		Equity Price Risk	Low	↔
<b>Strategic Risk</b> To minimise risks that affect the achievement of the Company's business strategy and strategic objectives (refer page 176)		Low	↔	
Qualitative Risks	<b>Operational Risk</b> To streamline the operations while ensuring smooth and effective functioning (refer page 175)		Low	↔
	<b>IT and Information Security Risk</b> To minimize cyber risks and data leakage to promote business continuity (refer page 176)		Low	↔
	<b>Legal/Regulatory Risk</b> To minimize cost of non-compliance and litigation (refer page 177)		Low	↔
	<b>Human Resources Risk</b> To retain and attract skilful and competent human resources to carryout business operations (refer page 177)		Low	↔
	<b>Reputational Risk</b> To safeguard the Company's brand value/goodwill (refer page 177)		Low	↔

# Integrated Risk Management Report

## RISK MANAGEMENT AT SDF

Risk is inherent in all business activities of a financial institution engaged in a varied offering of financial services. Sound risk management enables the Company to protect its depositors and investors whilst delivering an adequate risk adjusted return to its shareholders.

## APPROACH TO RISK MANAGEMENT

Risk management efforts at SDF are aimed at risk steering, as opposed to risk prevention or minimisation. The Company takes a comprehensive approach to risk management with a defined Risk Management Framework approved by the Board of Directors. The Company's risk management process is steered by the Board Integrated Risk Management Committee (BIRMC). An appropriate and effective risk management system, ensures that risks and their impacts are identified and evaluated at an early stage and that contingency plans and measures are in place where necessary to handle risks and to prevent their accumulation. Through proper implementation of an enterprise risk management system, the Company strives to achieve the following goals:

- Development of a risk culture that fosters awareness of risks and a common understanding of risks across functions and departments
- Capital protection, both for internal as well as regulatory purposes
- Limitation of earnings volatility
- Risk-based performance measurement and decision-making
- Ability to act proactively or to respond quickly and effectively to adverse events
- Better understanding of risks for competitive advantage
- Increase transparency and optimize information flows between business functions, control functions, the management committees and the Board of Directors.

### Key Risk Management Initiatives during the FY 2022-23

- Comprehensive review of Key Risk Indicators (KRIs)
- Formulated and continuously reviewed the risk data base of the Company with the objective of strengthening the Enterprise wide Risk Management Framework
- Reviewed the Risk Management Policy
- Reviewed the Fraud Prevention Policy and Procedure to set guidelines to minimize the operational risks
- Reviewed stress testing policy and initiated conducting stress testing
- Developed a Liquidity Crisis Management Policy to be followed during a deposit flight caused due to external factors and recommended minimum liquidity buffer to be maintained
- Conducted a BCP Drill and a DR drill
- Regularly reviewed the activities of the key management level committees at the BIRMC meetings
- Reviewed the initiation of identifying the possibility of pre-adopting the Internal Capital Adequacy Assessment Process (ICAAP) under BASEL III which will enhance the assessment of capital adequacy of the Company

### Risk Management Priorities for the FY 2023-24

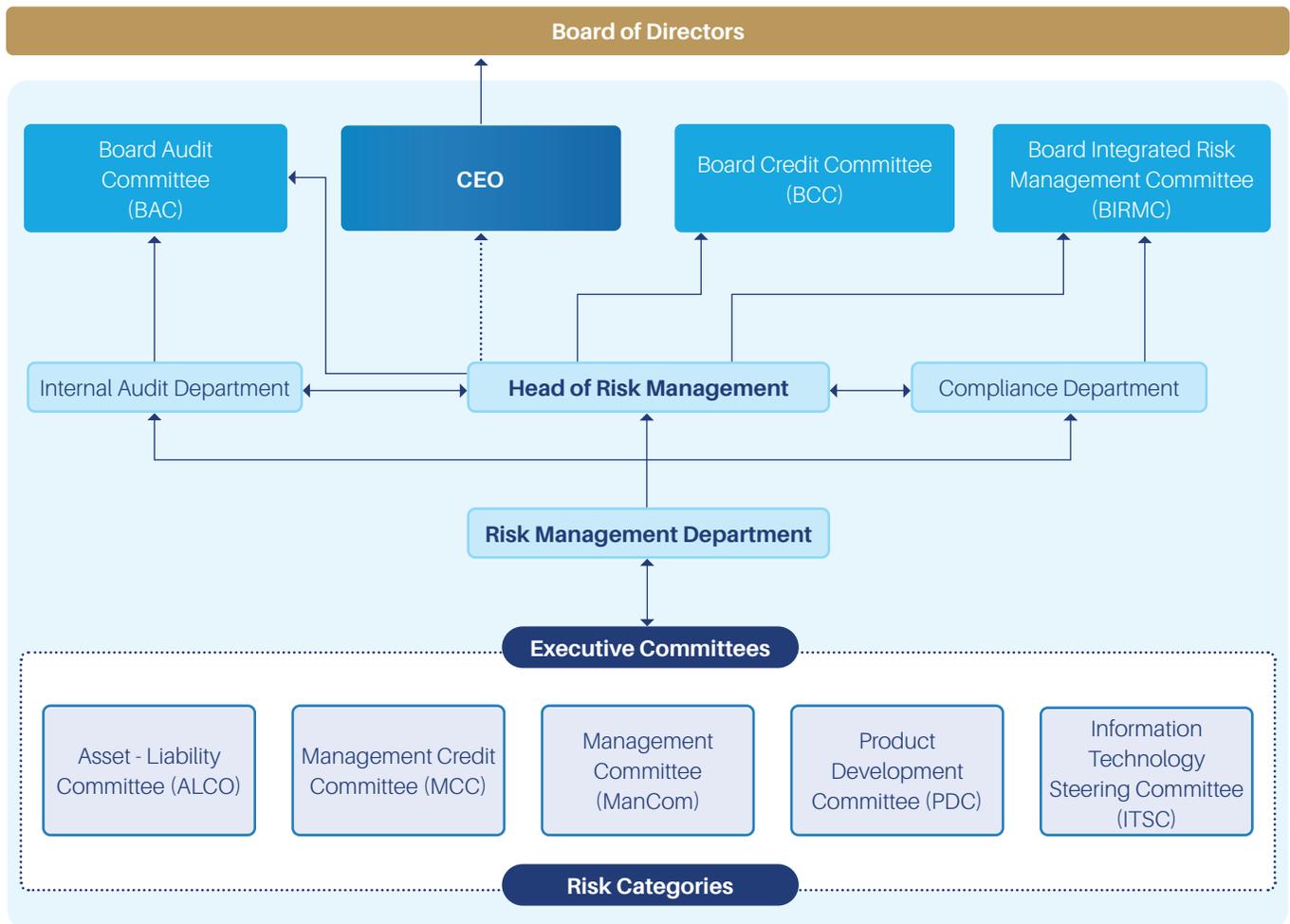
- Formulate the Risk Appetite Statement in line with the 3-year strategic plan of the Company
- Broaden the scope of the stress testing framework
- Conduct a 100% reliability testing of the enhanced Disaster Recovery (DR) site
- Continuously review the Business Continuity Plan
- Assess the progress of IT Risk Resilience Framework issued by the CBSL
- Put in place detective and reporting mechanisms for the early detection of internal/external frauds and exceptions
- Set ground level work for pre-adopting the Internal Capital Adequacy Assessment Process (ICAAP) under BASEL III



**RISK GOVERNANCE STRUCTURE**

The Company's Board of Directors is responsible for developing the overall risk strategy, including; supervision of the Risk Management Framework, approval of the overall Risk Management Policy and overseeing and challenging the risk levels to which the Company is exposed, while ensuring compliance with laws and regulations. The Board has delegated its authorities to the Board sub-Committees and hence the overall adequacy and effectiveness of the Risk Management Framework is managed by the Board Integrated Risk Management Committee (BIRMC) while the Board Audit Committee (BAC) providing an assurance to the Board. These sub-committees comprise of Non-Executive, Independent Directors. In order to increase the soundness and effectiveness of the supervision, SDF has formed management level committees such as Asset - Liability Committee (ALCO), Management Credit Committee (MCC), Management Committee (ManCom), Product Development Committee (PDC) and Information Technology Steering Committee (ITSC). These Committees comprise of senior level staff members in charge of key business functions.

Acting within the authority delegated by the Board, these committees review specific risk areas and receive regular reports on risk management, internal controls, portfolio trends, policies, limits and standards.



## Integrated Risk Management Report

Board Sub Committee	Role	Membership
BIRMC	BIRMC operates primarily as an oversight committee monitoring risk types, concentrating particularly on Credit, Liquidity, Capital, Operational, Strategic and Reputational risks and related issues.	Comprises of two Independent, Non-Executive Directors. Chaired by an Independent, Non-Executive Director and comprises of the CEO, the COO, the Head of Risk Management, the Compliance Officer and key management personnel supervising broad risk categories i.e. credit, market, liquidity, operational and strategic risks who attend the meetings upon invitation. Details of the members are given in the Integrated Risk Management Committee Report on Pages 159-160.
BAC	BAC reviews the accounting policies and practices, controls and procedures established by the Management for compliance with regulatory and financial reporting requirements.	Comprises of a Non-Executive, Independent Director and two Non-Executive, Non Independent Directors. The Chairman of the Committee is a Non-Executive, Non Independent Director who possesses qualifications and experience in accountancy and audit. Details of the members are given in the Audit Committee Report on Pages 156-157.
BCC	BCC oversees the management of credit quality of the lending portfolio and recovery actions.	Comprises of three Non-Executive Directors from which the Chairman to the Committee is a Non-Executive, Independent Director. The key management personnel attend the meetings upon invitation.
Management Level Committee	Role	Membership
ALCO	ALCO is responsible for identifying, managing and controlling risks in executing the business strategy of the Company and mainly focuses on interest rate risk and liquidity risk while maintaining profitability.	Comprises of senior management personnel who are in charge of Finance, Risk, Credit, Fund Mobilisation, Operations, Recoveries, Marketing and Treasury. ALCO is headed by the CEO.
MCC	MCC approves credit facilities within its delegated authority and reviews the methodologies for assessing credit risk and monitors concentration risk.	Comprises of senior management personnel and headed by the CEO.
MANCOM	MANCOM oversees the overall strategy and the new developments in the risk environment to take timely precautions and corrective measures.	Comprises of senior management personnel and headed by the CEO.
PDC	The Committee covers all the new developments as well as significant changes to existing products, processes and systems of SDF.	Committee comprises of Senior Management personnel, internal stakeholders from business units and other 'ad hoc' members with expertise in applicable functions such as credit, operations, legal, information technology, information security, audit, risk management, and compliance.
ITSC	The primary role of the ITSC is to exercise oversight and governance over SDF's IT function. The Committee is authorized to take decisions to improve or secure Information Resources, within the context of the Delegation of Authority assigned by the Board of Directors to the Chair.	The committee is chaired by the CEO and will be facilitated by the Head of IT and / or Senior Manager IT who will serve as the Committee Secretary. Permanent Invitees to the Committee will be the Chief Operating Officer (COO), the Head of Risk Management, the Compliance Officer and the Head of Operations & Administration.

### RISK CULTURE

SDF recognises the importance of having a strong risk culture to support its efforts to create value for its stakeholders. In this regard, the Company focuses on multiple drivers to enhance the risk culture and emphasises the principle of best business practices in order to empower employees and give them the confidence to act responsibly and transparently in executing their day-to-day job functions.

The Company's Risk Management Department (RMD) takes the lead in the development and implementation of necessary policies and procedures to ensure the principles of risk management are incorporated into the day-to-day business activities. This is supported by the 'three-lines-of defence mechanism' which facilitates building and maintaining a robust companywide risk culture and promoting a high level of risk awareness at all levels of the business.

#### Three-Lines-of Defence Framework



A culture of risk awareness and compliance is facilitated within the Company by the Risk Management and Compliance Departments through ongoing trainings for the employees. Employees in specialised roles are required to gain specified levels of skills and experience relevant to their roles which encompass a thorough understanding of the risks relevant to these roles. This is vital to strengthen the first line of defence.

The Risk Management and Compliance Departments serve as the 2nd line of defence, implementing the Company's risk management framework and policies. Internal Audit Department functions as the 3rd line of defence, reviewing the effective functioning of internal controls set in place and providing feedback independently to the Board Audit Committee.

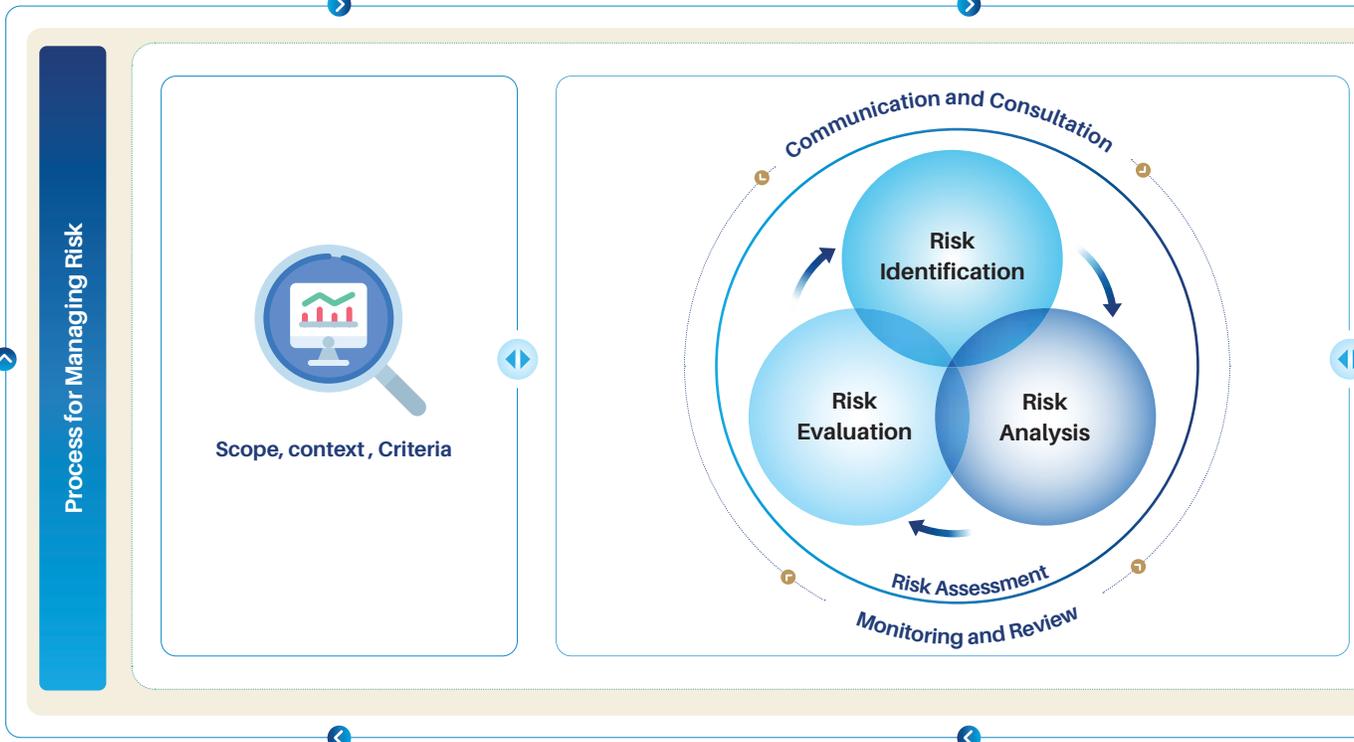
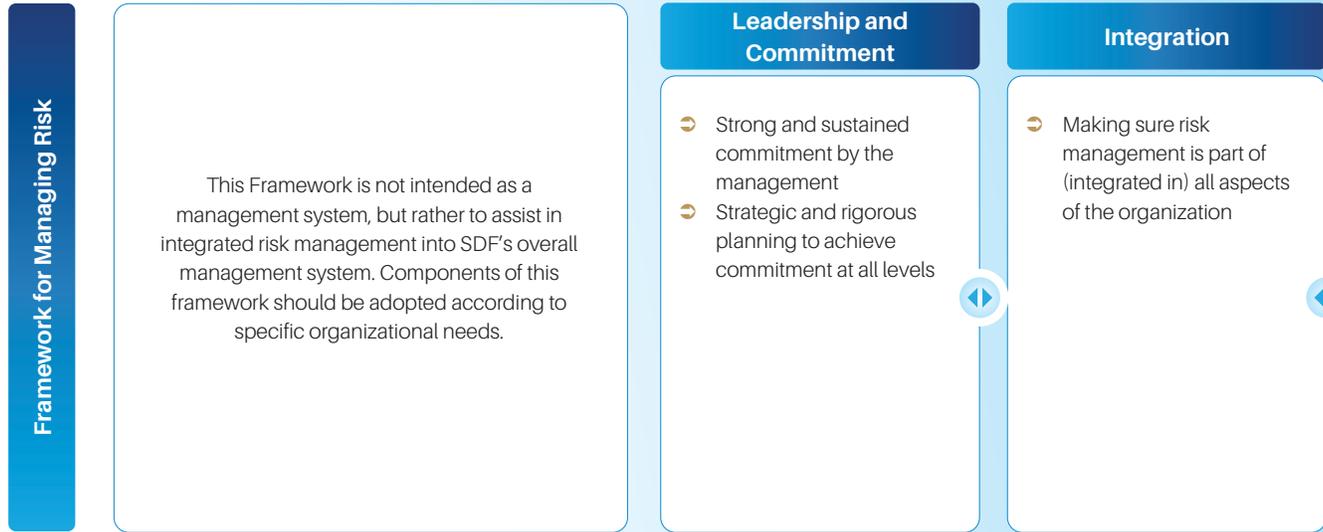
### RISK MONITORING AND REPORTING

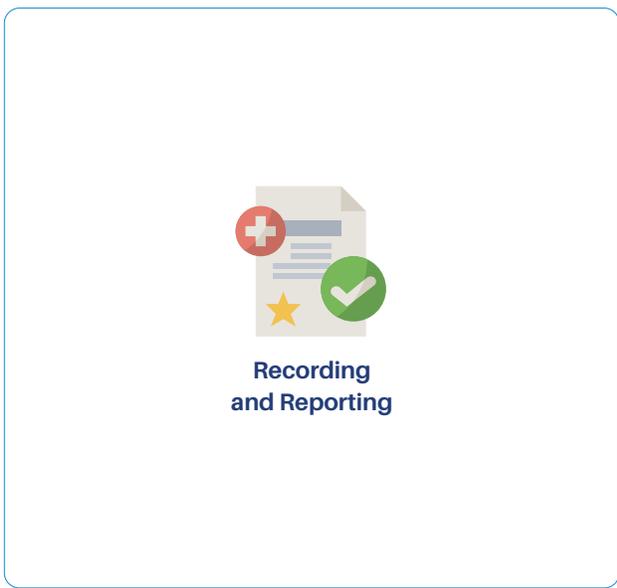
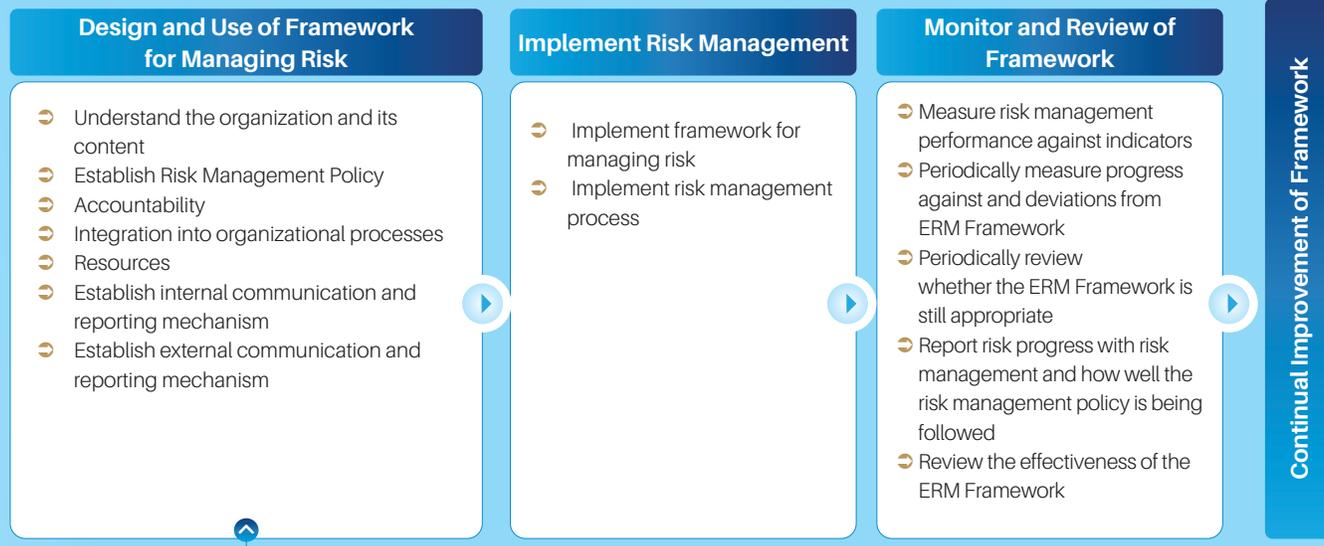
An Enterprise Risk Management (ERM) Framework, backed by a strong risk culture, is in place to identify, assess, monitor and control risks within the Company. All material risks are monitored centrally by the Risk Management Department, with any significant irregularities promptly escalated to the Corporate Management, Board Integrated Risk Management Committee and the Board of Directors for review and necessary action.

Additionally, the Operational Risk Self-Assessment (ORSA) process also facilitates both the management and staff to assume responsibility for internal controls. It also acts as a bottom-up feedback mechanism which supports proactivity in risk management.

# Integrated Risk Management Report

## Enterprise Risk Management Framework





# Integrated Risk Management Report

## MANAGING MATERIAL RISKS



### CREDIT RISK

We define credit risk as the risk of losses arising because counterparties fail to meet all, or part, of their payment obligations to the Company. Credit Risk consists of two major components; Default Risk and Credit Concentration Risk, which together represent the most material risk for any financial institution.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. A well-defined hierarchy of delegated approval, supported by high ethical standards and well established policies and procedures provide a robust framework for the management of credit risk.

Major credit exposures to individual counterparties, groups of counterparties and product categories are reviewed and approved by the designated officers under the delegated approving limits set by the Board. The Board approves changes to the delegated authority levels pertaining to credit as considered necessary.

The risk of loss due to the concentration of credit risk to a specific product, asset class, sector or counterparty is monitored regularly. Credit concentration risk is managed within limits set for counterparty or groups of connected counterparties, asset types, industry sectors, etc. Credit concentrations are monitored by BIRMC and ALCO in each of the product type and such limits as material to the Company are reviewed accordingly.

Key controls used are;

- Credit Policy that serves as the foundation for prudent lending
- Comprehensive due diligence and customer screening procedures at the pre-credit evaluation stage, including borrower rating for all obligors
- Independent review by the Risk Management Department for individual/group exposures in excess of Rs. 3 Mn
- A clear segregation of duties between loan origination, pre-credit evaluation and administration
- Effective identification of Early Warning Signals and Watch Listing procedure

We regularly monitor credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal management reports are presented to various committees, containing information on key industry and economic trends.

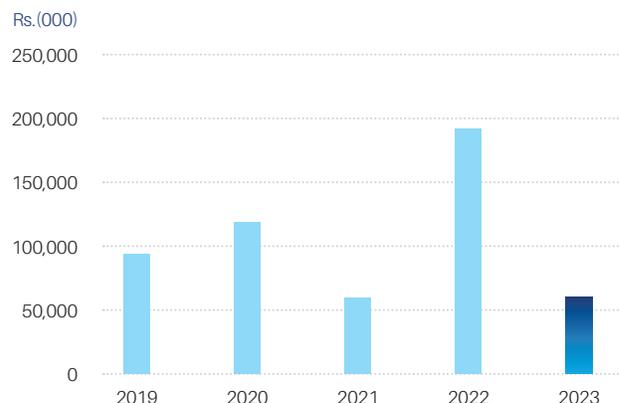
### Trend Analysis - Credit Default Risk

#### NPL Ratio



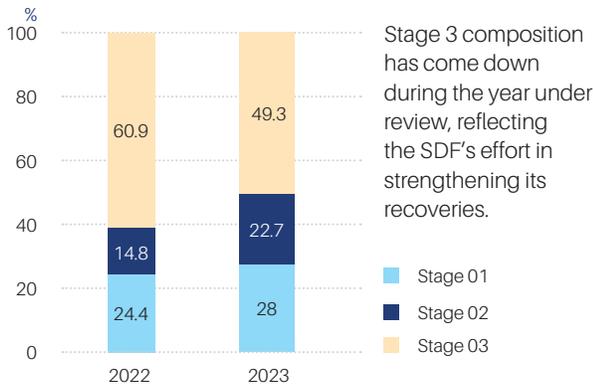
During the FY2022-23, NPL classification of the credit facilities has been changed to 120 days and above. As a result, the NPL ratio of both the industry as well as the Company are indicating a hike when compared to previous years where the credit facilities were classified as NPL when they were overdue by 180 days and above. The Company was able to maintain its gross NPL ratio at 14.40% which is below the industry average of 16.01% reflecting the effectiveness of strengthened credit processes and the conservative risk profile.

#### Impairment Charge

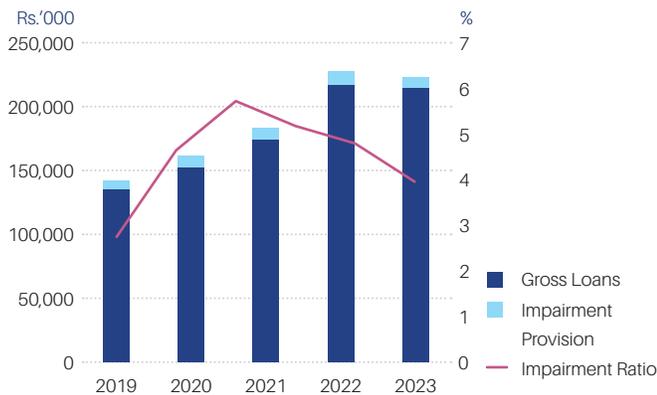


During the FY2022/23, the total loan book had declined resulted in change in the portfolio composition. Due to the economic crisis, the demand for credit of leases and other loans have declined and the demand for gold loans have increased. The loss ratio for the Gold Loan product has consistently been considerably lower than that of the lease and loan products resulted in lower impairment provision.

### Stage Analysis of Impairment Provision

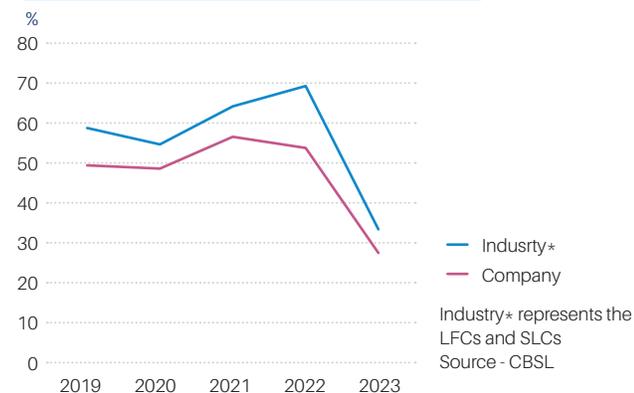


### Gross Loans and Impairment Provision



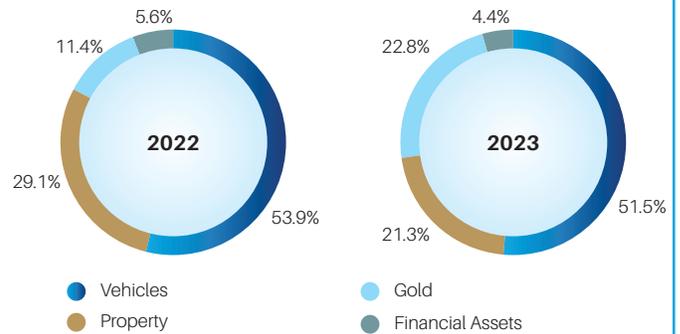
Throughout the financial year 2022/23, the Company managed to strategically swap out portfolios with high loss ratios for those with lower loss ratios.

### Provision Coverage Ratio



The pivotal shift in the portfolio composition has contributed to a commensurate reduction in the total impairment coverage.

### Main Types of Collaterals



Out of the total loan book, 91.9% is backed by either physical or financial collaterals as at 31 March 2023.

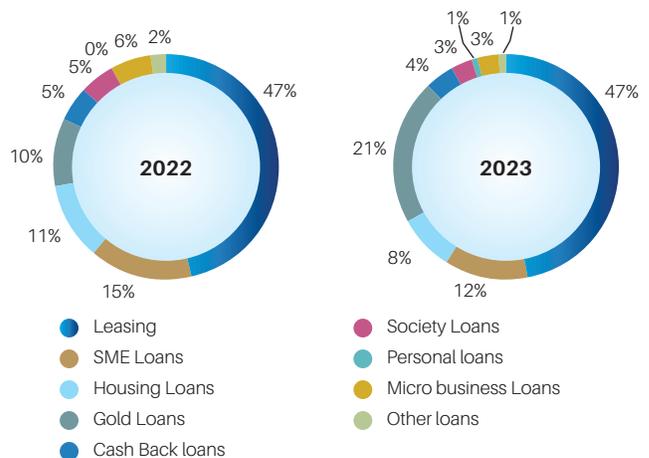
### Trend Analysis - Credit Concentration Risk

#### Concentration on Top 20 customers



During the year under review, the Company adopted a conservative risk approach and did not encourage large loan facilities, and as a result, there is no significant change in the top 20 borrowers' exposure.

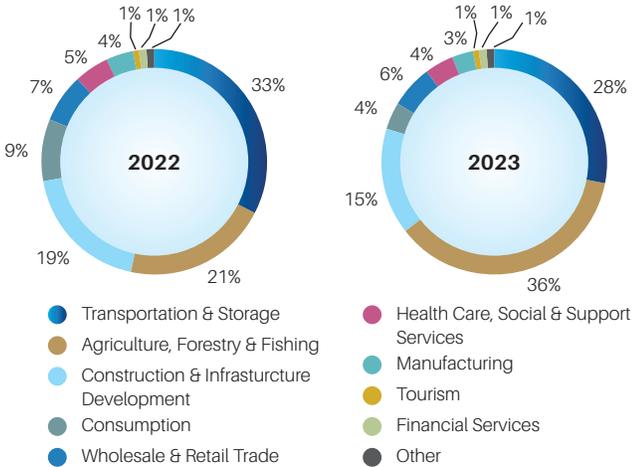
### Product wise Concentration



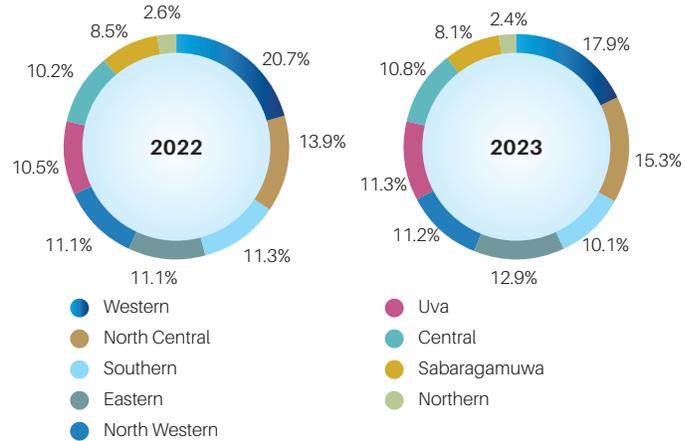
# Integrated Risk Management Report

During the year under review, concentration on agro equipment, machinery and vehicle Leasing and Gold Loans have been increased.

### Industry wise Concentration



### Province wise Concentration



In terms of industry wise concentration, Agriculture, Forestry and Fishing sector has significantly increased. In order to mitigate the risk associated with the agricultural sector stemming from climate changes, SDF has registered under the Agricultural and Agrarian Insurance Board thus reducing the impact of catastrophic production losses. In addition, the Company has signed MOUs and have arranged buy-back agreements with the main suppliers of the agro-equipment and machineries.

SDF has maintained a well-diversified portfolio sphered across the country. Western province remains to be having the highest concentration in terms of geographical wise concentration whilst its contribution has declined due to the disturbed economic activities prevailed during the year.

Governance and Risk Management



### LIQUIDITY RISK

The possibility of the Company being unable to meet its contractual or contingent obligations, or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets is defined as the liquidity risk. In other words, it is the possibility that the Company does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

This is carefully managed by the Asset - Liability Committee (ALCO). ALCO is the monitoring body responsible for overseeing our liquidity management policies. The Treasury Department receives direction from ALCO and is responsible for managing liquidity limits. Liquidity risk is a standard agenda item at our ALCO meetings.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective, the Company regularly monitors the liquidity position and maintains an adequate buffer of liquid assets. The Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements.

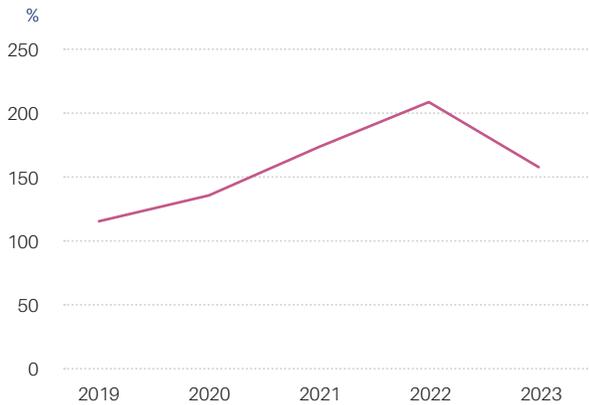
### Trend Analysis - Liquidity Risk

#### Deposit Renewal Ratio



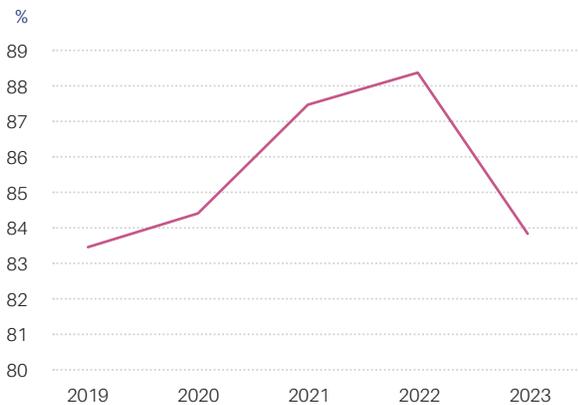
Except in November 2022, the renewal ratio was maintained above 75%, despite the economic shocks engulfing the country.

### Loans to Deposits Ratio



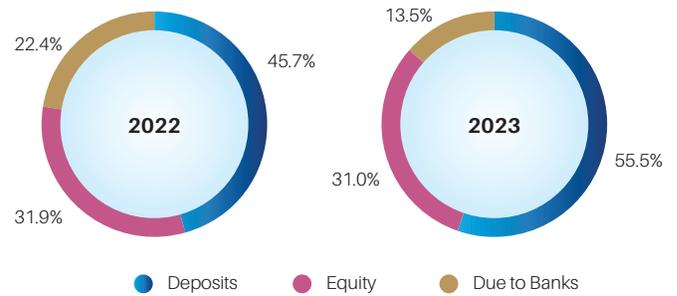
The SDF's loan book is predominately financed through the deposits placed by the customers. The Loans to Deposits ratio over 100%, indicates that the Company is utilizing the deposits to transform them into interest earning assets at optimal level.

### Net Loans to total assets Ratio



During the year, the nation faced its worst economic crisis and sharp increase in market interest rates resulted in low credit demand. Also, the Company had strategically curtailed its lending and as a result, net loans has a drop of 1%.

### Funding Mix



The SDF's loan book is predominately financed through the deposits placed by the customers.

### Interest Bearing Liability Mix



During the year under review, SDF has repaid its bank borrowings and settled its commitments while attracting more deposits from the general public.

## Integrated Risk Management Report



### CAPITAL MANAGEMENT

Capital risk is the risk of the Company having insufficient capital resources to meet minimum regulatory requirements and to support the credit rating, growth and strategic direction of the Company. BIRMC monitors the capital position and the capital management activities undertaken by the Company.

Capital Adequacy Ratio (CAR) is a key indicator which measures the financial strength of a finance company. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of the financial system. A higher capital adequacy ratio indicates that the Company can handle losses and fulfil its obligations to account holders without ceasing operations.

Components of Capital	01-07-18	01-07-19	01-07-20	01-07-21	01-07-22
Tier 1 Capital	6.00%	6.50%	6.50%	7.00%	8.50%
Total Capital	10.00%	10.50%	10.50%	11.00%	12.50%

	01-01-18	01-01-19	01-01-20	01-01-21	01-01-22
Unimpaired Core Capital Requirement	1Bn	1.5Bn	1.5Bn	2.0Bn	2.5Bn

### Capital Adequacy position was as follows

Category	March 2022	March 2023
Risk Weighted Assets	11,071,176	10,095,254
Total Capital Base	3,367,770	3,433,245
Tier I Capital Ratio (Minimum requirement- 8.5%)	29.17%	32.75%
Tier II Capital Ratio (Minimum requirement- 12.5%)	30.42%	34.01%

(Refer Capital Adequacy Ratio calculation on page 270 for more information)



### MARKET RISK

Market risk can be defined as the possible losses to the Company which are associated with adverse movements in market variables. Assessment of market risk is based on the volatility of the market parameters such as interest rates, stock prices, Forex rates and commodity prices.

#### Interest Rate Risk

Interest rate risk is the risk of declining earnings (profitability) due to the movement of interest rates. Impact on the Company's Net Interest Income due to fluctuations in market interest rates is closely monitored. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact.

The Table Below Illustrates the Impact on Net Interest Income from Different Interest Rate Scenarios.

#### Stress Test on NII from Parallel Interest Rate Shocks

Annual impact on NII	2022		2023	
	Parallel Increase	Parallel Decrease	Parallel Increase	Parallel Decrease
1%	(15.0)	15.0	(12.5)	12.5
2%	(30.0)	30.0	(25.0)	25.0
3%	(45.0)	45.0	(37.5)	37.5

#### Commodity Price Risk

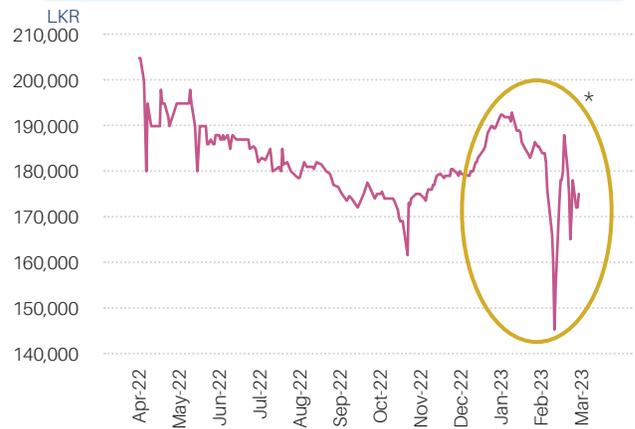
In the context of SDF, the price of global gold prices can impact our gold loans. The Company is managing healthy safety margin levels and Loan-To-Value (LTV) ratios, to mitigate this risk.

**Trend Analysis - Gold Market Price Movements**

**Global Gold Price Movement**



**Local 24K Suv Price Movement**



\* There has been high volatility in the local gold prices during the month of the March 2023, and local gold prices have dropped (from 22nd Feb 23 to 22nd March 23, 22K gold price has dropped by Rs. 22,200 while 24K gold price has dropped by Rs. 21,000) which mainly stems from the LKR appreciation against USD.

**Foreign Exchange Risk**

The risk of loss due to unfavourable significant movements in the local currency (LKR) against other currencies. Even though the Company does not have exposure to foreign currency borrowing during the year under view, it has an indirect impact on the local gold prices. However, this is also at a very minimum level due to restrictions on gold imports that prevailed during the year.

**Equity Price Risk**

The potential loss due to adverse movements in share prices of investments. The Company is not exposed to Equity Price Risk as it has not invested in the share market.



**OPERATIONAL RISK**

Operational Risk arises due to the disruptions, breakdown of systems, failed or incomplete processes, people related issues and external events that could have an impact on the Company's performance and future prospects.

SDF seeks to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Some of the key controls related to operational risk management are;

- Operational Risk Management Policy
- Fraud Prevention Policy
- Internal Policies, Procedures, along with MOUs, Service Level Agreements and Non-Disclosure Agreements to effectively manage relationships with external service providers
- Internal IT controls
- Operational Risk Self-Assessment (ORSA) Declaration

All business units are responsible for setting and maintaining standards for operational risk management. Possible losses to the Company's assets due to unforeseen events have been covered with comprehensive insurance policies.

# Integrated Risk Management Report



## STRATEGIC RISK

Strategic Risks can be defined as risks that affect, or are created by the Company's business strategy and strategic objectives. Strategic Risks are created internally as well as externally. The failure to take action where needed, to address challenges, or make timely changes in response to macroeconomic trends also constitute strategic risk.

The Company continuously follows developments taking place in the business environment and adjusts its strategies to optimise the opportunities available, whilst attempting to manage risks associated with such strategies. Business strategies are adopted after evaluating the overall risks associated with such strategies. A comprehensive strategic plan for the next three years is in place with quantitative indicators which are monitored continuously.

Key controls which are in place are;

- Budgeting Process
- Strategic Planning Process
- Environmental Scan through PESTLE Analysis and SWOT Analysis



## IT AND INFORMATION SECURITY RISK

This can be defined as potential threats to the Confidentiality, Integrity, and Availability of sensitive data and IT systems, which may include customer financial information, transaction records, and other proprietary data.

In today's rapidly digitising environment, it is imperative that Information Security and affiliated risks are identified and mitigated. This, in-turn, will reduce several attack vectors (by malicious users), the risk of service unavailability and exposure of important information (which could lead to the loss of customer confidence). Some of these risks are indicated below (at a high-level);

- Cyber attacks
- Sensitive data leakages
- System(s) downtime
- Insufficient and ineffective IT infrastructure
- Frauds and malpractices
- Malware

As an institution which provides financial solutions to a diverse clientele, SDF appreciates the importance of Information Security to meet its business objectives and for providing "best-in-class" services to its business, in a secure manner. SDF closely follow the "C.I.A Triad Methodology" and believe that all facets of Information Security will be encompassed within these three domains of Confidentiality, Integrity and Availability. Sufficient controls, procedures and best-practices need to be implemented in these domains so as to make it effective and efficient.

**Confidentiality** ensures data is kept secret or private. To accomplish this, access to information through any of Company's systems is controlled, in order to prevent the unauthorised use of data / sharing of data — whether intentional, or accidental.

**Integrity** involves making sure Company's data is trustworthy and free from tampering and is only maintained if the data is authentic, accurate, and reliable. Even if Company's data is kept confidential and its integrity maintained, it is often useless unless it is **A**vailable to authorised staff who work at SDF as well as the customers it serves. This means that systems, networks, and infrastructure must be functioning as intended and are closely monitored.

To further ascertain the effectiveness of SDF's Information Security initiatives, Company has conducted a VAPT ("Vulnerability Assessments and Penetration Testing"), coupled with SRA ("System Reviews / Audits") whose findings and rectifications are closely monitored by several stakeholders / Committees. Information Security is an ever-evolving area and constantly requires monitoring and assessments to cater to the multitude of threats which emanate from the Internet (and the Dark Web). This is especially true in the recent past with the emergence of ransomware, which has crippled organisations locally and globally.

SDF is introducing more initiatives to further strengthen the Information Security. As an organisation, SDF will continue to provide dynamic and versatile financial solutions to its customers (with the use of technology wherever and whenever possible) which will only be introduced after stringent security assessments, to ensure that the Company keeps upholding the C.I.A Triad Methodology.

(Refer Intellectual Capital report on page 74 for more information)



### LEGAL/REGULATORY RISK

Legal/regulatory risk is the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations. Furthermore, legal risk includes losses due to ambiguity of laws or unfavourable contract clauses and loose contracts.

The Company conducts its business in accordance with the Company's code of conduct, laws and regulations imposed by the regulatory authorities with zero tolerance for failure, or breach, of such obligations. SDF has a zero tolerance approach towards non-compliance and has implemented a comprehensive corporate governance framework to support the achievement of this target. Compliance function regularly reviews the Company's compliance with rules, directions and determinations of regulatory bodies. The Integrated Risk Management Committee has established a compliance function to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls, and other prescribed practices.



### HUMAN RESOURCES RISK

Employees play a pivotal role in determining the success of a company. HR risk management focuses on the specific risks employees pose to the business. This could involve risks around improper employee management, employee behaviour, or the way the Company hire and lose employees.

SDF identifies its Human Resources as a key asset of the Company and following are few measures taken by the Company to mitigate HR risks.

- ⇒ Conducting various programs to enhance employee engagement
- ⇒ Promote employee work stress managing activities to enhance efficiency and effectiveness
- ⇒ Identifying gaps in the skill level and provide required trainings to enhance the capability of the staff
- ⇒ Closely monitors the employee turnover ratios
- ⇒ Succession planning is carried out by identifying the potential staff to strengthen the second line
- ⇒ Conducting stay interviews to understand why employees stay and what might cause them to leave
- ⇒ Identifying the causes of resignations via exit interviews and taking insights for further improvements

(Refer Human Capital report on page 78 for more information)



### REPUTATIONAL RISK

Reputational risk is any sort of threat that can damage the good standing of the business and negatively impact the Company's reputation with customers and overall business success. Reputational risk can arise as an outcome of previously mentioned risk or combination of few risks. Popularity of social media has made reputational risk scenarios even more sensitive for businesses as they can swiftly reach a wider community of stakeholders at the same time.

SDF closely monitors the possible risks events which can harm its reputation and take proactive and corrective measures promptly. Continuous trainings are being conducted for the employees on business ethics, values and professional behaviour to mitigate instances which will lead to reputational risks. Customer complaints are given a high priority and are resolving with due care and also SDF actively involved in community development through its community integration strategy. (Refer Social and Relationship Capital section on page 86 for more information)

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditors' Report from page 190 to 192 of this Annual Report.

As per the Sections 148 (1), 150 (1) and 151 of the Companies Act No. 07 of 2007, Directors of the Company have responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the state of affairs of the Company as at the Statement of Financial Position date and of the profit or loss for the year and place the same before the Annual General Meeting.

The Directors consider that the Financial Statements of the Company for the year ended 31 March 2023, exhibited from pages 194 to 197 in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the listing rules of Colombo Stock Exchange, the Finance Business Act No. 42 of 2011 and the relevant Directions, Guidelines etc., issued by the Central Bank of Sri Lanka for Licensed Finance Companies. The Directors also ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the Financial Statements have been prepared as aforesaid. Further, the Directors have responsibility to ensure that the Company maintains adequate general supervision, control and administration of the affairs of the business to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. The Directors have instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it has been under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business in an orderly manner. The Directors are satisfied that proper accounting records have been maintained with proper internal controls being set up to prevent and detect frauds and irregularities in the Company operation to safeguard the assets of the Company.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion. To the best of the knowledge and belief of the Directors, the Company's Auditor Messrs Ernst & Young, have carried out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

The Directors have provided the Auditor with all the financial records, related data and minutes of shareholders' and Directors' meetings and given them every opportunity to carry out and reviews and tests that they consider appropriate and necessary for the performance of their responsibilities. Messrs Ernst & Young has examined the Financial Statements made available together with all other financial records, minutes of shareholders' and Directors' meetings and related information and have expressed their opinion which appears from pages 190 to 192 of this Annual Report.

### COMPLIANCE REPORT

The Directors confirm, the Company has complied with the requirement of Section 151(1) of the Companies Act No. 07 of 2007, and the Financial Statements of the Company give a true and fair view of;

- The state of affairs of the Company as at 31 March 2023 and;
- The profit or loss of the Company for the financial year then ended.

The Directors also confirm, the Company has complied with the requirement of Section 148(1) of the Companies Act No. 07 of 2007, and that the Company has kept accounting records which correctly record and explain the Company's transactions, and at any time enabled;

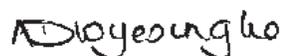
- The financial positions of the Company to be determined with reasonable accuracy,
- The Directors to prepare Financial Statements in accordance with the Companies Act No.7 of 2007, and;
- The Financial Statements of the Company to be readily and properly audited.

The Directors to the best of their knowledge and belief, are satisfied that all taxes, statutory dues and levies payable by the Company as at the Statement of Financial Position date relating to employees and the Government and other statutory bodies, have been paid or, where relevant, provided for.

The Financial Statements of the Company have been certified by the Chief Executive Officer and the Head of Finance, as the officers responsible for their preparation as required by the Section 150(1)(b) and they have also signed by two Directors of the Company as required by Section 150(1)(c) of the Companies Act No.7 of 2007.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



**P W Corporate Secretarial (Pvt) Limited**  
*Company Secretaries*

29 May 2023

## CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Sarvodaya Development Finance PLC (the Company) as at 31 March 2023 are prepared and presented in conformity with the requirements of the followings;

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (SLFRSs/LKs)
- Companies Act No. 07 of 2007 and amendments thereto
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Directions issued to Licensed Finance Companies by Central Bank under the Finance Business Act No. 42 of 2011
- Listing rules of the Colombo Stock Exchange and
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka

The Company on a quarterly basis presents Interim Financial Statements to its shareholders in compliance with listing rules of the Colombo Stock Exchange.

The Significant Accounting Policies have been constantly applied by the Company. Application of Significant Accounting Policies and Estimates that involve a high degree of judgement and complexity were discussed with the Board Audit Committee and the Company's External Auditors. Comparative information has been reclassified where applicable to comply with the current presentation and material departures, if any, have been disclosed and explained.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and Estimates and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Company during the year under review. We also confirm that the Company has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for establishing, implementing and managing Internal Controls and Procedures within the Company. We confirm based on our evaluations that the estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis in order to ensure that the Financial Statements are reflected in a true and fair manner, the form and substance of transactions and the Company's state of affairs is reasonably presented. To ensure this, we have taken proper and sufficient care in implementing effective Internal Controls and Procedures for ensuring that material information relating to the Company are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Company for the financial year under review and are satisfied that there were no significant deficiencies and weaknesses in the design or the operation of Internal Controls and Procedures to the best of our knowledge. The Company's Internal Audit Department conducts periodic reviews to provide reasonable assurance that the established policies and the procedures of the Company were consistently followed.

The Company's Board Audit Committee, internally, reviewed all the internal and external audit and inspection programs, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the 'Board Audit Committee Report' from pages 156 to 157 of this Annual Report. The Board Audit Committee meets periodically with the internal audit team and the independent external auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of Internal Controls and Procedures.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given from pages 190 to 192 of this Annual Report. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs Ernst & Young in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Ernst & Young's independence and objectivity.

We confirm to the best of our knowledge that;

- The Company has complied with all applicable laws, regulations and prudential requirements;
- There are no material non-compliances other than those disclosed on page 101 to 145 the Corporate Governance of this Annual Report;
- There are no material litigations that are pending against the Company other than those disclosed in the note 38 on page 230 to the Financial Statements of this Annual Report, and;
- All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the reporting date have been paid, or where relevant provided for.



**Kalani Dharmadasa**  
Head of Finance



**Nilantha Jayanetti**  
Chief Executive Officer

29 May 2023

# INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SARVODAYA DEVELOPMENT FINANCE PLC



Ernst & Young  
Chartered Accountants  
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PNS/WDPL/MSK/AD

## INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SARVODAYA DEVELOPMENT FINANCE PLC

### Report on the Statement on Internal Control Over Financial Reporting included in the Director's Statement on Internal Control

We were engaged by the Board of Directors of Sarvodaya Development Finance PLC (the "Company") to provide assurance on the Statement of Internal Control Over Financial Reporting included in the Director Statement on Internal Control for the year ended 31 March 2023 (the "Statement") included in the annual report.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 16 (1) (ix) of the Finance Companies Corporate Governance Direction no. 05 of 2021, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirement 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 responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects,

the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

### Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

29 May 2023  
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSC-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

## DIRECTORS' STATEMENT ON INTERNAL CONTROL

### DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

#### REPORTING RESPONSIBILITY

The Board of Directors ("the Board") of Sarvodaya Development Finance PLC (the Company) presents this report on internal control over Financial Reporting, in compliance with Section 16 (1) (ix) of the Finance Business Act Direction No. 05 of 2021-Corporate Governance.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the system of Internal Control in place at Sarvodaya Development Finance PLC. ("the Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting which is regularly reviewed and enhanced by the Board taking into account the changes in business environment and regulatory guidelines.

The Board is of the view that the system of Internal Control 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 relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures pertaining to risks and controls over Financial Reporting by identifying and assessing the risks faced, and in the design, operation, and monitoring of suitable internal controls to mitigate and control these risks.

#### KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING.

The key mechanisms that have been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- ➔ The Board has appointed various sub-committees to assist in ensuring the effectiveness of the Company's day-to-day operations and to ensure that all such operations are carried out in accordance with the corporate objectives, strategies and the annual budget as well as the policies and the business directions approved by the Board.
- ➔ Key functional areas of the Company are governed by policies/charters that are approved by the Board. The board appointed committees review and recommend such policies/charters before seeking the approval of the board. Such policies/charters are regularly reviewed, updated and approved by the board.

- ➔ The company's Internal Audit Department checks compliance with policies and procedures and the effectiveness of the internal control systems/information system controls on an ongoing basis using samples and rotational procedures. This helps to highlight significant findings of non-compliance. Audits are carried out according to the annual audit plan which is reviewed and approved by the Board Audit Committee. The type and frequency of audits of business units/processes are determined by the level of risk assessed, in order to provide an independent and objective report. All significant findings identified by the Internal Audit Department are submitted to the Board Audit Committee.
- ➔ The Board Audit Committee reviews internal control issues identified by the Internal Audit Department, regulatory authorities, External Auditors and the Management. The BAC also evaluates the effectiveness of the internal audit function with particular emphasis on the scope, independence of internal audit and resources. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Details of the activities undertaken by the Board Audit Committee are set out in the "Board Audit Committee Report".
- ➔ 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 are being observed and checked by the Internal Audit Department of the Company for suitability of the design, implementation and effectiveness, on an on-going basis.

The Company adopts Sri Lanka Accounting Standards comprising SLFRSs and LKASs and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will continue in its financial reporting and management information.

The Board has given due consideration for requirements of SLFRS 9 "Financial Instruments". The required modules have been implemented and progressive improvements on processes and controls are being made to strengthen the processes and reports required for model validation and compliance in line with SLFRS 9.

#### REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The External Auditor has reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31 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 their understanding of the process adopted by the Board in the review of the design and effectiveness of the system of Internal Control of the Company.

#### STATEMENT ON PRUDENTIAL REQUIREMENTS, REGULATIONS AND LAWS

There are no material non-compliance to prudential requirements regulations, laws and internal controls affecting the Company.

There were no lapses which caused supervisory concern on the Company's Risk Management Systems or non-compliance with these directions which led to them being pointed out by the Director of Non-Bank Supervision of the Central Bank of Sri Lanka and which have caused the Monetary Board to give directions that they be disclosed to the public. Since there have been no such lapses or instances of non-compliance and since no such directions have been given by the Monetary Board, the issue of measures to be taken does not arise and there is nothing to disclose in this regard.

#### CONFIRMATION

Based on the above processes, the Board of Directors confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka and the Colombo Stock Exchange.



**Mr. Ramesh Schaffter**  
*Chairman - Board Audit Committee*

29 May 2023

# INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY REPORTING



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Chartered Accountants  
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## Independent Assurance Report to the Board of Directors of Sarvodaya Development Finance PLC

### Scope

We have been engaged by Sarvodaya Development Finance PLC ("the Entity") to perform a 'limited assurance engagement,' as defined by Sri Lanka Standard on Assurance Engagements, here after referred to as the engagement, to report on the Economic, Environment, Social and Governance (EESG) indicators of the Entity's Integrated Annual Report (the "Subject Matter") as of 31st March 2023.

### Criteria applied by Sarvodaya Development Finance PLC

In preparing the Subject Matter, Sarvodaya Development Finance PLC applied the following criteria ("Criteria"):

- The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website [www.globalreporting.org](http://www.globalreporting.org).

Such Criteria were specifically designed for purpose of assisting you in determining whether Entity's Economic, Environment, Social and Governance (EESG) indicators of the Entity's Integrated Annual Report FY 2022/23 is in accordance with the relevant criteria; As a result, the subject matter information may not be suitable for another purpose.

### Sarvodaya Development Finance PLC's responsibilities

Sarvodaya Development Finance PLC's management is responsible for selecting the Criteria, and for presenting the EESG indicators contained in the Integrated Annual Report in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

### Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the *Sri Lanka Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SLSAE 3000 (Revised))*, and the terms of reference for this engagement as agreed with the Sarvodaya Development Finance PLC on 02 May 2023. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

### Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Professional Accountants issued by CA Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, 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.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA FCMA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSC-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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### Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. 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. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

Our procedures included:

- Validated the information presented and checked the calculations performed by the organization through recalculation
- Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks.
- Conducted interviews with relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff
- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

We also performed such other procedures as we considered necessary in the circumstances.

### Emphasis of matter

Economic, Environment, Social management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Integrated Annual Report.

### Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the Economic, Environment, Social and Governance (EESG) indicators of the Entity's Integrated Annual Report as of 31st March 2023 in order for it to be in accordance with the Criteria.

29 May 2023  
Colombo

## GRI CONTENT INDEX WITH REFERENCE

Statement of use	Sarvodaya Development Finance PLC has reported for the period April 1, 2022 to March 31 2023 with reference to the GRI Standards.
GRI 1 used	GRI 1: Foundation 2021

GRI Standard	Disclosure	Location (Chapter and page number)
<b>General disclosures</b>		
GRI 2: General Disclosures 2021	2-1 Organizational details	About us page 7
	2-2 Entities included in the organization's Sustainability reporting	About this report page 5
	2-3 Reporting period, frequency and contact point	About this report page 5
	2-4 Restatements of information	About this report page 5
	2-5 External assurance	About this report page 5
	2-6 Activities, value chain and other Business relationships	About us : Value creation Model from pages 7 to 8
	2-7 Employees	Human Capital page 79
	2-8 Workers who are not employees	Human Capital page 80
	2-9 Governance structure and composition	Governance and compliance from pages 101 to 105
	2-10 Nomination and selection of the highest governance body	Governance and compliance page 103
	2-11 Chair of the highest governance body	Governance and compliance page 103
	2-12 Role of the highest governance body in overseeing the management of impacts	Governance and compliance page 106
	2-13 Delegation of responsibility for managing impacts	Governance and compliance page 107
	2-14 Role of the highest governance body in sustainability reporting	Governance and compliance page 105
	2-15 Conflicts of interest	Governance and compliance page 106
	2-16 Communication of critical concerns	Governance and compliance page 103, 107
	2-17 Collective knowledge of the highest governance body	Governance and compliance page 103, 107
	2-18 Evaluation of the performance of the highest governance body	Governance and compliance page 104
	2-19 Remuneration policies	Governance and compliance page 104 Remuneration Committee Report page 104
	2-20 Process to determine remuneration	Governance and compliance page 104
	2-21 Annual total compensation ratio	Human Capital page 80,107
	2-22 Statement on sustainable development strategy	Chairman's Message page 17 to 18, 36 Our strategies policies and practices page 36
	2-23 Policy commitments	Our strategies policies and practices page 38 - 39
	2-24 Embedding policy commitments	Our strategies policies and practices page 39
	2-25 Processes to remediate negative impacts	Our strategies policies and practices page 39
	2-26 Mechanisms for seeking advice and raising concerns	Our strategies policies and practices page 39
	2-27 Compliance with laws and regulations	Our strategies policies and practices page 39
	2-28 Membership associations	Our strategies policies and practices page 39
	2-29 Approach to stakeholder engagement	Social Capital: Engaging with our stakeholders page 87
	2-30 Collective bargaining agreements	Social Capital: Engaging with our stakeholders page 89

GRI Standard	Disclosure	Location (Chapter and page number)
<b>GRI 3: Material Topics 2021</b>		
GRI 3: Material Topics 2021	3-1 Process to determine material topics	Materiality assessment and material topics page 40
	3-2 List of material topics	Materiality assessment and material topics from pages 41 to 45
	3-3 Management of material topics	Materiality assessment and material topics from pages 41 to 45
<b>GRI 201: Economic Performance 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 41
Disclosure Title	201-1 Direct economic value generated and distributed	Economic Impacts pages 60 to 61
<b>GRI 203: Indirect Economic Impacts 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 41
Disclosure Title	203-2 Significant indirect economic impacts	Economic Impacts page 62
<b>GRI 207 Tax 2019</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 41
Disclosure Title	207-1 Approach to tax	Economic Impacts page 63
<b>GRI 302: Energy 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics from pages 42 to 43
Disclosure Title	302-1 Energy consumption within the organization	Natural Capital page 98
	302-4 Reduction of energy consumption	Natural Capital page 98
<b>GRI 303: Water and Effluents 2018</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics from pages 42 to 43
Disclosure Title	303-5 Water consumption	Natural Capital page 99
<b>GRI 306: Waste 2020</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics from pages 42 to 43
Disclosure Title	306-3 Waste generated	Natural Capital page 99
<b>GRI 401: Employment 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 44
Disclosure Title	401-1 New employee hires and employee turnover	Human Capital pages 80 to 81
<b>GRI 404: Training and Education 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 44
Disclosure Title	404-1 Average hours of training per year per employee	Human Capital page 80 to 81
<b>GRI 405: Diversity and Equal Opportunity 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 44
Disclosure Title	405-1 Diversity of governance bodies and employees	Human Capital page 82

## GRI Content Index with Reference

GRI Standard	Disclosure	Location (Chapter and page number)
<b>GRI 406: Non-discrimination 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 44
Disclosure Title	406-1 Incidents of discrimination and corrective actions taken	Human Capital page 82
<b>GRI 411: Rights of Indigenous Peoples 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 45
Disclosure Title	411-1 Incidents of violations involving rights of indigenous peoples	Social Capital page 94
<b>GRI 413: Local Communities 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 45
Disclosure Title	Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs	Social Capital page 94
<b>GRI 417: Marketing and Labeling 2016</b>		
Disclosure Title	3-3 Management of material topics	Materiality assessment and material topics page 45
Disclosure Title	417-2 Incidents of non-compliance concerning product and service information and labeling	Social Capital page 94

## FINANCIAL CALENDAR

		2022/23	2023/24
Interim Financial Statements publication	Q1 ended 30 June	12 August 2022	Before 15 August 2023
	Q2 ended/ending 30 September	10 November 2022	Before 15 November 2023
	Q3 ended/ending 31 December	14 February 2023	Before 15 February 2024
	Q4 ended/ending 31 March	30 May 2023	Before 30 May 2024
Financial statements publication	Six months ended 30 September 2022	22 November 2022	
	Year ended 31 March 2023	29 June 2023	
	Six months ending 30 September 2023		Before 31 December 2023
	Year ending 31 March 2024		Before 30 June 2024
Annual Report Publication	Annual Report and Accounts signed/to be signed	On 29 May 2023	In May 2024
	Publication of Annual Report	June 2023	In June 2024
Annual General Meeting	Annual General Meeting	13th Annual General Meeting on 26 June 2023	14th Annual General Meeting on or before 30 June 2024
Dividend Payment	Interim Dividend for the financial year		In the 4th Quarter of 2024

# INDEPENDENT AUDITORS' REPORT



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PNS/WDPL/MSK/AD

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SARVODAYA DEVELOPMENT FINANCE PLC

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Sarvodaya Development Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2023, and of its financial performance and its 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 responsibilities for the audit of the financial statements section of our report. We are independent of the Company 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 the audit of the financial statements of the current period. These matters were addressed in the context of the 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, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### Key audit matter

##### Allowances for impairment charges on financial assets at amortised cost - loans and receivables and lease rentals receivables:

As at 31 March 2023, allowances for impairment charges on financial assets at amortised cost - loans and receivables and lease rentals receivables net of allowances for impairment amounted to LKR 9,780 Mn and is disclosed in notes 20 & 21 to the financial statements.

#### How our audit addressed the key audit matter

In addressing the adequacy of the allowances for impairment charges on financial assets at amortised cost - loans and receivables and lease rentals receivables, our audit procedures included the following key procedures;

- ⇒ We assessed the alignment of the Company's impairment allowance computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.

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**Key audit matter**

This was a key audit matter due to the materiality of the reported allowances for impairment charges which involved complex calculations; degree of significant judgements and assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.

Key areas of significant judgments, estimates and assumptions used by management in the assessment of the allowances for impairment charges included the following;

- ⇒ Management overlays to incorporate the current economic contraction
- ⇒ The Incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios.

**How our audit addressed the key audit matter**

- ⇒ We evaluated the Internal controls over estimation of allowances for impairment charges, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management
- ⇒ We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company
- ⇒ In addition to the above, following procedures were performed.

**For financial assets at amortised cost - loans and receivables and lease rentals receivables assessed on a collective basis for Impairment:**

- ⇒ We tested key inputs as disclosed in Note 22, and the calculations used in the impairment allowances.
- ⇒ We assessed whether judgements used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable. Our assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each scenario.

We assessed the adequacy of the related financial statement disclosures set out in notes 20 & 21 of the financial statements.

**Key audit matter**

**Information Technology (IT) system and internal controls over financial reporting**

Company's financial reporting process is significantly reliant on IT system with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT system, that are compiled and formulated with the use of spreadsheets.

Accordingly, IT system and related internal controls over financial reporting were considered a key audit matter.

**How our audit addressed the key audit matter**

Our audit procedures included the following;

- ⇒ We obtained an understanding of the Internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures.
- ⇒ We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT system and relevant controls, including those related to user access and change management.
- ⇒ We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks.
- ⇒ We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations

**Other information included in the 2023 Annual Report**

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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 management and those charged with governance for the financial statements**

Management is 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 management 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, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### Auditor's responsibilities for the audit of the financial statements

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 audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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:

1. 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.
2. 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 Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's 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 Company'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 Company to cease to continue as a going concern.

5. 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 2965.

29 May 2023  
Colombo

## FINANCIAL REPORTING

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## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March			2023	2022
	Notes	Page	LKR	LKR
Income	5	205	2,597,491,955	1,930,409,278
Interest Income			2,461,331,443	1,822,315,188
Interest Expenses			(1,221,614,731)	(562,116,108)
<b>Net Interest Income</b>	6	205	<b>1,239,716,712</b>	1,260,199,080
Net Fee and Commission Income	7	206	114,185,258	63,587,270
Other Operating Income	8	206	21,975,253	44,506,819
<b>Total Operating Income</b>			<b>1,375,877,224</b>	1,368,293,170
Impairment Charges for Loans and Other Losses	9	207	(63,092,109)	(192,618,588)
Net Operating Income			1,312,785,115	1,175,674,582
<b>Operating Expenses</b>				
Personnel Expenses	10	208	(464,026,483)	(440,417,817)
Depreciation of Property, Plant and Equipment			(29,034,587)	(33,428,444)
Amortisation of Right of Use Assets			(70,140,299)	(64,393,112)
Amortisation of Intangible Assets			(1,164,233)	(2,947,501)
Other Operating Expenses	11	209	(302,342,543)	(259,224,168)
<b>Operating Profit before Tax on Financial Services</b>			<b>446,076,970</b>	375,263,540
Tax on Financial Services	12	209	(145,945,075)	(106,552,907)
<b>Profit before Taxation</b>			<b>300,131,895</b>	268,710,633
Income Tax Expenses	13	210	(78,482,446)	(53,244,387)
<b>Profit for the Year</b>			<b>221,649,449</b>	215,466,246
<b>Other Comprehensive Income</b>				
Actuarial Gains/(Losses) on Defined Benefit Plans	33	237	(2,939,318)	3,420,601
Gain/(Loss) due to changes in Assumptions	33	237	(144,710)	32,703,154
Deferred Tax (Charge)/Reversal on above items			925,208	(4,334,851)
<b>Net Other Comprehensive Income/(Expenses) not to be Reclassified to Profit or Loss</b>			<b>(2,158,820)</b>	31,788,904
Surplus from Revaluation of Property, Plant & Equipment			-	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment			-	-
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>			<b>-</b>	-
<b>Other Comprehensive Income/(Expenses) for the Year, Net of Tax</b>			<b>(2,158,820)</b>	31,788,904
<b>Total Comprehensive Income/(Expenses) for the Year</b>			<b>219,490,629</b>	247,255,150
Earning per Share - Basic /Diluted * (LKR)	14	211	1.48	1.86
Dividend per Share (LKR)	15	212	-	1.00

\* Calculated based on profit/(loss) for the year

Accounting Policies and Notes from pages 198 to 263 form an integral part of these Financial Statements.

## STATEMENT OF FINANCIAL POSITION

As at 31 March			2023 LKR	2022 LKR
	Notes	Page		
<b>Assets</b>				
Cash and Cash Equivalents	17	213	664,043,703	92,132,395
Financial Investments	18	214	576,027,374	532,667,038
Other Financial Assets	19	214	874,494	814,391
Financial Assets at Amortised Cost - Loans and Receivables	20	215	5,105,311,168	5,110,595,093
Financial Assets at Amortised Cost - Lease Rentals Receivables	21	217	4,674,862,363	4,768,166,996
Other Non Financial Assets	23	223	155,939,726	162,122,503
Investment Property	24	224	234,257,500	234,257,500
Property, Plant and Equipment	25	226	147,095,459	139,267,592
Right-of-use Lease Assets	26	229	105,241,220	129,533,191
Intangible Assets	27	230	4,686,053	4,927,786
Deferred Tax Assets	34	239	1,954,498	-
<b>Total Assets</b>			<b>11,670,293,558</b>	<b>11,174,484,484</b>
<b>Liabilities</b>				
Due to Banks and Other Institutions	28	231	1,508,114,678	2,320,184,829
Financial Liability at Amortised Cost - Due to Customers	29	234	6,193,431,026	4,729,097,119
Lease Liability	30	235	119,947,887	149,951,692
Other Non Financial Liabilities	31	236	291,925,223	596,809,388
Current Tax Liabilities	32	236	71,709,569	21,170,445
Post Employment Benefit Liability	33	237	35,677,457	32,066,158
Deferred Tax Liabilities	34	239	-	20,409,737
<b>Total Liabilities</b>			<b>8,220,805,840</b>	<b>7,869,689,368</b>
<b>Shareholders' Funds</b>				
Stated Capital	35	240	2,696,113,032	2,696,113,032
Reserves	36	241	182,448,021	171,365,549
Retained Earnings	37	241	570,926,665	437,316,534
<b>Total Shareholders' Funds</b>			<b>3,449,487,718</b>	<b>3,304,795,115</b>
<b>Total Liabilities and Shareholders' Funds</b>			<b>11,670,293,558</b>	<b>11,174,484,484</b>
Commitments and Contingencies	38	242	7,433,330	4,290,100
Net Assets Value per Share	39	243	23.06	22.09

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

**Kalani Dharmadasa**  
Head of Finance

**Nilantha Jayanetti**  
Chief Executive Officer

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board of Directors by;

**Channa de Silva**  
Chairman

**Dammika Ganegama**  
Senior Director

Accounting Policies and Notes from pages 198 to 263 form an integral part of these Financial Statements.

29 May 2023  
Colombo

## STATEMENT OF CHANGES IN EQUITY

	Stated Capital LKR	Statutory Reserves LKR	Revaluation Reserves LKR	Retained Earnings LKR	Total Equity LKR
<b>Balances as at 1 April 2021</b>	1,696,113,020	104,077,475	56,514,761	324,679,970	2,181,385,226
<b>Comprehensive Income for the year</b>					
Profit for the Year	-	-	-	215,466,246	215,466,246
Other Comprehensive Income	-	-	-	31,788,904	31,788,904
<b>Total Comprehensive Income for the year</b>	-	-	-	247,255,150	247,255,150
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>					
Transfer to Statutory Reserves Fund	-	10,773,312	-	(10,773,312)	-
Share Issue	1,000,000,012	-	-	-	1,000,000,012
Expenses related to the Share Issue	-	-	-	(49,047,249)	(49,047,249)
Interim Dividend	-	-	-	(74,798,026)	(74,798,026)
<b>Total transaction with equity holders</b>	1,000,000,012	10,773,312	-	(134,618,587)	876,154,737
<b>Balances as at 31 March 2022</b>	2,696,113,032	114,850,787	56,514,761	437,316,534	3,304,795,115
<b>Balances as at 1 April 2022</b>	2,696,113,032	114,850,787	56,514,761	437,316,534	3,304,795,115
<b>Comprehensive Income for the year</b>					
Profit for the Year	-	-	-	221,649,449	221,649,449
Other Comprehensive Income	-	-	-	(2,158,820)	(2,158,820)
Total Comprehensive Income for the year	-	-	-	219,490,629	219,490,629
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>					
Transfer to Statutory Reserves Fund	-	11,082,472	-	(11,082,472)	-
Final Dividend	-	-	-	(74,798,026)	(74,798,026)
<b>Total transaction with equity holders</b>	-	11,082,472	-	(85,880,498)	(74,798,026)
<b>Balances as at 31 March 2023</b>	2,696,113,032	125,933,259	56,514,761	570,926,665	3,449,487,718

Accounting Policies and Notes from pages 198 to 263 form an integral part of these Financial Statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 March

	Notes	Page	2023 LKR	2022 LKR
<b>Cash Flows From / (Used in) Operating Activities</b>				
Profit before Income Tax Expense			300,131,895	268,710,633
<b>Adjustments for</b>				
Impairment Charges for Loans and Other Losses	9.	207	63,092,109	192,618,588
Changing Fair Value of Investment Property			-	(18,578,750)
Loss/(Profit) on Disposal of Property, Plant and Equipment			3,601,501	1,744,069
Profit/(Loss) on ROU assets			31,067	(672,002)
Provision for Defined Benefit Plans	10.	237	10,021,516	20,456,300
Depreciation of Property, Plant and Equipment	25.1	227	29,034,587	33,428,444
Amortisation of Intangible Assets			1,164,233	2,947,501
Amortisation of Right-to-Use Assets			70,140,299	64,393,112
Interest Expenses on Lease Creditor			17,758,693	18,005,565
<b>Operating Profit before Working Capital Changes</b>			<b>494,975,900</b>	<b>583,053,459</b>
(Increase)/Decrease in Loans and Receivables	20.	215	125,563,957	(173,355,281)
(Increase)/Decrease in Lease Rentals Receivables	21.	217	(92,482,507)	(1,983,759,093)
(Increase)/Decrease in Other Financial Assets			(60,103)	(34,885)
(Increase)/Decrease in Other Non Financial Assets			8,597,776	(70,463,433)
Increase/(Decrease) in Amounts Due to Customers	29.	234	1,464,333,905	177,151,935
Increase/(Decrease) in Other Non Financial Liabilities			(230,546,093)	239,354,827
<b>Cash Generated from Operations</b>			<b>1,770,382,834</b>	<b>(1,228,052,469)</b>
Retirement Benefit Liabilities Paid			(9,494,245)	(8,095,000)
Net Collection of LRAB Fund			123,525	104,435
Income Tax Paid	32.	236	(49,382,348)	(90,062,673)
Repayment of Lease Liability			(93,525,230)	(79,694,785)
<b>Net Cash From/(Used in) Operating Activities</b>			<b>1,618,104,536</b>	<b>(1,405,800,491)</b>
<b>Cash Flows from / (Used in) Investing Activities</b>				
Sales of Property, Plant and Equipment			402,068	274,301
Acquisition of Property, Plant and Equipment	25.1	227	(40,865,923)	(13,830,036)
Acquisition of Intangible Assets	27.2	231	(922,500)	(2,820,000)
Financial Investment			(43,360,336)	(158,075,850)
<b>Net Cash Flows from/(Used in) Investing Activities</b>			<b>(84,746,691)</b>	<b>(174,451,586)</b>
<b>Cash Flows from / (Used in) Financing Activities</b>				
Funds received from bank and other institutional borrowings	28.2	232	512,961,416	1,560,350,000
Repayment of bank and other institutional borrowings	28.2	232	(1,076,151,729)	(1,075,832,549)
Funds Received from Share Issue			-	1,000,000,012
Dividend Payment			(149,376,386)	-
Expenses related to the Share Issue			-	(49,047,249)
<b>Net Cash Flows from/(Used in) Financing Activities</b>			<b>(712,566,699)</b>	<b>1,435,470,215</b>
<b>Net Increase in Cash and Cash Equivalents</b>			<b>820,791,146</b>	<b>(144,781,862)</b>
Cash and Cash Equivalents at the beginning of the year			(241,120,008)	(96,338,146)
<b>Cash and Cash Equivalents at the end of the year</b>	A		<b>579,671,138</b>	<b>(241,120,008)</b>
<b>A. Cash and Cash Equivalents at the end of the year</b>				
Favorable Cash & Cash Equivalents			664,043,703	92,132,395
Unfavorable Cash & Cash Equivalents			(84,372,565)	(333,252,403)
<b>Total Cash and Cash Equivalents at the end of the year</b>	17.1	213	<b>579,671,138</b>	<b>(241,120,008)</b>

Accounting Policies and Notes from pages 198 to 263 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENT

## 1. CORPORATE INFORMATION

### 1.1 General

Sarvodaya Development Finance PLC (The 'Company') is a public limited liability company incorporated and domiciled in Sri Lanka and is a Licensed Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto. The shares of the Company have a primary listing on the Colombo Stock Exchange (CSE).

The registered office of the Company is located at No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 and the principal place of business is situated at the same place.

### 1.2 Principal Activities of the Company

The principal activities of the Company consist of Acceptance of Deposits, Granting Micro Finance Loans, SME Loans, Leasing, Housing Loans, Business Loans, Pawning and other credit facilities and related services.

### 1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2023 (including comparatives) have been approved and authorized for issue by the Board of Directors on 29 May 2023.

### 1.4 Number of Employees

The staff strength of the Company as at 31 March 2023 and 31 March 2022 is 453 and 508 respectively.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 2.1. Statement of Compliance

The Financial Statements of the Company which comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Significant Accounting Policies and Notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007 and the listing rules of the Colombo Stock Exchange. The presentation of Financial Statements is also in compliance with the requirements of Finance Business Act No. 42 of 2011 and amendments thereto. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Sri Lanka Accounting Standards are available at 'www.casrilanka.com / www.slaasc.lk'.

### 2.2. Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs/LKASs.

The Board of Directors acknowledges their responsibility as set out in the 'Report of the Board of Directors on the Affairs of the

Company', 'Directors' Responsibility for Financial Reporting' and 'Directors' Statement on Internal Control over Financial Reporting' and the certification given on the 'Statement of Financial Position' of the Annual Report

These Financial Statements include the following components;

- ⇒ A Statement of Profit or Loss and Other Comprehensive Income provides the information on the performance for the year under review (Refer page 194).
- ⇒ A Statement of Financial Position provides the information on the financial position of the Company as at the year end (Refer page 195).
- ⇒ A Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 196).
- ⇒ A Statement of Cash Flows provides the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs for entities to utilize those cash flows (Refer page 197) and
- ⇒ Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 198 to 263).

### 2.3. Preparation of Financial Statements

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & Buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 25	Page 226
Defined Benefit Obligations	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	Note 33	Page 237
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment. Subsequently valued at fair value.	Note 24	Page 224

#### 2.4. Presentation of Financial Statements

The Company present its Statement of Financial Position broadly by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42 to these Financial Statements. No adjustments have been made for inflationary factors affecting the Financial Statements.

#### 2.5. Use of Materiality, Aggregation, Offsetting and Rounding

##### Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – LKAS 01 on ‘Presentation of Financial Statements’, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

##### Offsetting

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 recognised amounts and there is an intention to settle on a net basis, or to realise 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 an Accounting Standard or interpretation, and specifically disclosed in the accounting policies of the Company.

##### Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

#### 2.6. Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company’s functional currency, unless indicate otherwise.

#### 2.7. Going Concern

The Board of Directors of the Company has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. The Company has raised LKR 1 Bn new share capital through an IPO to comply with the CBSL minimum core capital requirement of LKR 2.5 Bn. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

#### 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.

#### 2.9. Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related Notes.

##### Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Company provides scope for Financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

- ⇒ The entity’s business model for managing the Financial assets as set out in Note 3.2.2 on page 201.
- ⇒ The contractual cash Flow characteristics of the Financial assets as set out in Note 3.2.2 on page 202.

##### Impairment losses on financial Assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash Flows and collateral values when determining impairment losses.

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired.

##### Impairment losses on loans and lease receivables

The Company use number of estimates and assumptions for the calculation of impairment losses on loans and lease receivables. 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.

Details of the ‘impairment losses on loans and receivables’ are given in Note 22 on page 220 to the financial statements.

## Notes to the Financial Statement

### Impairment charges on financial investments

Financial investments are categorised under amortised cost subject to Impairment in accordance with SLFRS 9 -Financial Investment. The Company does not have historical loss experience on debt instruments at amortised cost. The Company does not have financial investments that required impairment charges.

### Useful life time of Property, Plant and Equipment

The Company reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. Details of the 'useful life-time of the Property, Plant and Equipment' are given in Note 25 on page 226 to the financial statements.

### Useful life time of the Intangible Assets

Details of the 'useful life-time of the intangible assets' are given in Note 27 on page 230 to the financial statements.

### Deferred tax

Details of the 'deferred tax' are given in Note 34 on page 239 to the financial statements.

### Post-Employment Benefit obligation

Details of the 'Post-Employment benefit obligation' are given in Note 33 on page 237 to the financial statements.

### Related Party Transactions

Details of the 'Related Party Transactions' are given in Note 43 on page 245 to the financial statements.

## 3. GENERAL ACCOUNTING POLICIES

### 3.1 Changes In Accounting Standards

In these financial statements, the Company has applied Sri Lanka Accounting Standard - Amendments to SLFRS 16: Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 and Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2 which became effective for the annual reporting periods beginning on or after 1 January 2021, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

In 4 December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this

election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

### Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

#### IBOR reform Phase 1

In 15 January 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

**Highly Probable Requirement:** when determining whether a forecast transaction is highly probable to be designated as a hedged item, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform

**Prospective assessments:** when performing prospective assessments to evaluate whether a hedging relationship qualifies for hedge accounting, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform

**LKAS 39 retrospective assesment:** an entity is not required to undertake the 'LKAS 39 retrospective assesment' for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assesment

**Separately identifiable risk components:** For hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement of risk component (or a portion) to be separately identifiable to be eligible for hedge accounting, only at the inception of such hedging relationships

#### IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include several practical expedients.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context

### 3.2 Financial Instruments - initial recognitions and subsequent measurement

#### 3.2.1 Date of recognition

All financial assets and liabilities except 'regular way trades' are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. 'Regular way trades' means purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

#### 3.2.2 Classification and subsequent measurement of financial assets

As per SLFRS 9, the Company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- ⇒ Amortised cost
- ⇒ Fair value through other comprehensive income (FVOCI)
- ⇒ Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

#### Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by-instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- ⇒ the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- ⇒ how the performance of the portfolio is evaluated and reported to the Company's management;
- ⇒ the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- ⇒ how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- ⇒ the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. 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.

#### Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI test)

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on 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).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than the minimise exposure to risks or 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 principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- ⇒ Contingent events that would change the amount and timing of cash flows;
- ⇒ Leverage features;
- ⇒ Prepayment and extension terms;
- ⇒ Terms that limit the Company's claim to cash flows from specified assets; and
- ⇒ Features that modify consideration of the time value of money.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are

## Notes to the Financial Statement

solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Details on different types of financial assets recognised on the Statement of Financial Position.

### Financial assets measured at amorised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- ⇒ The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ⇒ 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.

Financial assets measured at amortised cost are given in Note 16 on page 213.

### Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income. The Company do not have financial assets measured at FVOCI as at 31 March 2023.

### Financial assets measured at FVTPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. The Company do not have financial assets measured at FVTPL as at 31 March 2023.

### 3.2.3 Derecognition of financial assets and financial liabilities

#### Financial Assets

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 which have expired;
- ⇒ The Company 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 Company has transferred substantially all the risks and rewards of the asset; or
- ⇒ The Company 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 amount of the asset and consideration received and any cumulative gain or loss that has been recognised in Statement of Comprehensive Income is recognised in Statement of Profit or Loss.

When the Company 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 recognized to the extent of the company's continuing involvement in the asset. In that case, the company 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 company 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 company could be required to repay.

### 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 is recognised in Statement of Profit or Loss.

### 3.2.4 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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 Company's trading activity.

### 3.2.5 Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 46 on page 248.

### 3.3 Impairment of non-financial assets

The carrying amounts of the Company's non financial assets, other than deferred tax assets are reviewed at each Reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use.

Where the carrying amount of an asset or cash - generating unit 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 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 price for publicly traded subsidiaries or other available fair value indicators.

### 3.4 Provisions

Provisions are recognised in the Statement of Financial Position when the Company 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 of the amount of the obligation in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

### 3.5 Borrowing cost

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the Company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Statement of Profit or Loss in the period in which they occur.

### 3.6 Income tax

Details of the 'income tax expense' are given in Note 13 on page 210 to the financial statements.

### 3.7 Deferred tax

Details of the 'deferred tax' are given in Note 34 on page 239 to the financial statements.

### 3.8 Crop Insurance Levy

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

### 3.9 Tax on financial services

Details of the 'VAT, Social Security Contribution Levy on financial services are given in Note 12 on page 209 to the financial statements.

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards and interpretations were issued by The Institute of Chartered Accountants of Sri Lanka but not yet effective as at 31 March 2023. Accordingly, these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 March 2023. Following amendment is not expected to have a material impact on the Financial Statements of the Company in the foreseeable future.

### 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

## Notes to the Financial Statement

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.

### 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.

### 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.

### 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.

### Classification of Liabilities as Current or Non-current - Amendments to LKAS 1

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify -

- ⇒ What is meant by a right to defer settlement
- ⇒ That a right to defer must exist at the end of the reporting period
- ⇒ That classification is unaffected by the likelihood that an entity will exercise its deferral right
- ⇒ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- ⇒ Disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

## 5. INCOME

### Accounting Policy

Gross income (Revenue) is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

Year ended 31 March	Note	Page	2023 LKR	2022 LKR
Interest Income	6.1	205	2,461,331,443	1,822,315,188
Net Fee and Commission Income	7	206	114,185,258	63,587,270
Other Operating Income (net)	8	206	21,975,253	44,506,819
<b>Total Income</b>			<b>2,597,491,955</b>	<b>1,930,409,278</b>

### Recognition of interest income for credit facilities under moratoriums

The adjusted Effective Interest Rate (EIR) has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

## 6. NET INTEREST INCOME

### Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Company use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

### Recognition of interest income for credit facilities under moratoriums

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

Year ended 31 March	2023 LKR	2022 LKR
<b>6.1 Interest Income</b>		
Financial Assets at Amortised Cost - Loans and Receivables	1,204,123,623	917,956,222
Financial Assets at Amortised Cost - Lease Rentals Receivables	1,089,564,946	867,285,943
Financial Investments	117,769,541	29,888,102
Cash and cash equivalent - Savings Deposits	36,615,343	7,145,578
Other Financial Assets	13,257,990	39,343
<b>Total Interest Income</b>	<b>2,461,331,443</b>	<b>1,822,315,188</b>
<b>6.2 Interest Expenses</b>		
Due to Bank and Other Institution	431,967,924	219,495,225
Financial Liabilities at Amortised Cost - Due to Customers	771,888,114	324,615,318
Lease Liabilities	17,758,693	18,005,565
<b>Total Interest Expenses</b>	<b>1,221,614,731</b>	<b>562,116,108</b>
<b>Net Interest Income</b>	<b>1,239,716,712</b>	<b>1,260,199,080</b>

## Notes to the Financial Statement

**7. NET FEES AND COMMISSION INCOME****Accounting Policy**

The Company earns fee and commission income from a diverse range of services it provides to its customers.

The Company recognises Fees and Commission income net of directly attributable expenses.

**Credit Related Fees and Services**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, CRIB charges, Insurance commission and Other credit related charges.

**Other Fee and Commission Expense**

Other Fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expense are recognised on an accrual basis.

**7.1 Fee and Commission Income**

For the Year ended 31 March	2023 LKR	2022 LKR
Credit Related Fees and Commissions	54,448,052	28,349,729
Documentation Charges	28,987,242	35,423,082
Service Charge	63,843,877	15,651,465
<b>Total Fees and Commission Income</b>	<b>147,279,170</b>	<b>79,424,276</b>

**7.2 Fees and Commission Expenses**

For the Year ended 31 March	2023 LKR	2022 LKR
Credit Related Fees and Commissions	21,720,448	8,226,185
Documentation Charges	2,658,352	575,857
Service Charge	8,715,112	7,034,965
<b>Total Fees and Commission Expenses</b>	<b>33,093,912</b>	<b>15,837,006</b>
<b>Total Net Fees and Commission Income</b>	<b>114,185,258</b>	<b>63,587,270</b>

**8. OTHER OPERATING INCOME****Accounting Policy**

Income earned on other sources, which are not directly related to the normal operations of the Company is recognised as other operating income on an accrual basis.

Other operating income includes recoveries of written-off loans and receivables, gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

For the Year ended 31 March	Note	Page	2023 LKR	2022 LKR
Recoveries of Written-Off Loans & Receivables			12,488,335	11,691,105
Profit/(Loss) on Disposal of Property Plant & Equipment			(3,601,501)	(1,744,069)
Gain from Fair Value of Investment Property			-	18,578,750
Rent income from investment property			8,290,200	8,290,200
Other Sundry Income	8.1	206	4,798,219	7,690,833
<b>Total Other Operating Income</b>			<b>21,975,253</b>	<b>44,506,819</b>

**8.1 Other Sundry Income included savings accounts threshold charges, income from solar project, stationery income and other.**

## 9. ALLOWANCES FOR IMPAIRMENT CHARGES /(REVERSAL) FOR LOANS /LEASE AND OTHER RECEIVABLES

### Accounting Policy

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 9: Financial Instruments. The methodology adopted by the Company is explained in Note 22 to these Financial Statements.

For the Year ended 31 March	2023 LKR	2022 LKR
Loans and Receivables	23,835,675	126,032,417
Lease Rental Receivables	41,671,434	59,019,063
Provision for Other Assets	(2,415,000)	7,567,108
<b>Total Impairment Charges for Loans / Lease and Other Receivables</b>	<b>63,092,109</b>	<b>192,618,588</b>

### 9.1 Impairment charge/(reversal) for Loans / Lease and Other Receivables (Detailed breakdown)

For the year ended 31 March	2023			
	Disposal loss/ Write-offs LKR	Charge LKR	(Reversal) LKR	Net Amount LKR
Loans and Receivables	(144,115,706)	246,982,727	(79,031,346)	23,835,675
Lease Rentals Receivables	-	102,440,483	(60,769,049)	41,671,434
Other receivables	-	-	(2,415,000)	(2,415,000)
<b>Total</b>	<b>(144,115,706)</b>	<b>349,423,210</b>	<b>(142,215,395)</b>	<b>63,092,109</b>

For the year ended 31 March	2022			
	Disposal loss/ Write-offs LKR	Charge LKR	(Reversal) LKR	Net Amount LKR
Loans and Receivables	(108,931,128)	414,635,895	(179,672,350)	126,032,417
Lease Rentals Receivables	-	106,333,876	(47,314,814)	59,019,062
Other receivables	-	7,567,108	-	7,567,108
<b>Total</b>	<b>(108,931,128)</b>	<b>528,536,880</b>	<b>(226,987,164)</b>	<b>192,618,588</b>

## Notes to the Financial Statement

**9. ALLOWANCES FOR IMPAIRMENT CHARGES /(REVERSAL) FOR LOANS /LEASE AND OTHER RECEIVABLES (CONTD.)****9.2 Impairment charges to the Statement of Profit or Loss- Stage wise analysis**

For the year ended 31 March	2023			Total LKR
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	
Loans and Receivables	44,738,366	(9,949,960)	(10,952,732)	23,835,675
Lease Rentals Receivables	71,544,813	(13,140,449)	(16,732,930)	41,671,434
Other receivables	-	-	(2,415,000)	(2,415,000)
<b>Total</b>	<b>116,283,179</b>	<b>(23,090,409)</b>	<b>(30,100,661)</b>	<b>63,092,109</b>

For the year ended 31 March	2022			Total LKR
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	
Loans and Receivables	125,491,296	(7,053,832)	7,594,952	126,032,416
Lease Rentals Receivables	32,976,977	15,375,037	10,667,049	59,019,063
Other receivables	-	-	7,567,108	7,567,108
<b>Total</b>	<b>158,468,273</b>	<b>8,321,204</b>	<b>25,829,110</b>	<b>192,618,588</b>

**10. PERSONNEL EXPENSES****Accounting Policy**

Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges and other related expenses. The provisions for bonus is recognised when 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 of the amount of the obligation.

**Employees' Provident Fund and Employees' Trust Fund**

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Company contributes 12% and 3% of gross salaries of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

Contributions to defined benefit plans are recognised in the Statement of Profit or Loss and Other Comprehensive Income based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19, Defined benefit Obligations.

For the Year ended 31 March	2023 LKR	2022 LKR
Salaries and Other Related Expenses	397,342,303	373,311,469
Employer's Contribution to Employees' Provident Fund	31,335,607	28,074,814
Employer's Contribution to Employees' Trust Fund	7,836,599	7,018,704
Gratuity Charge for the Year	10,141,516	19,897,300
Other Staff Related Expenses	17,370,458	12,115,531
<b>Total Personnel Expenses</b>	<b>464,026,483</b>	<b>440,417,817</b>

## 11. OTHER OPERATING EXPENSES

### Accounting Policy

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 earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

### Crop Insurance Levy

As per provisions of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy was introduced with effect from 01 April 2013 and is payable to the National Insurance Trust Fund. Currently, the crop insurance levy is payable at 1 percent of profit after tax.

For the Year ended 31 March	2023 LKR	2022 LKR
Directors' Emoluments	7,940,000	9,924,000
Auditors Remuneration	3,939,887	2,559,978
Professional and Legal Expenses	3,972,321	5,290,133
Deposit Insurance Premium	7,563,729	6,019,843
General Insurance Expenses	5,862,074	3,510,287
Office Administration and Establishment Expenses	168,689,416	139,551,105
Travelling & Transport Expenses	52,617,575	45,545,293
Other Expenses	1,611,833	2,394,738
Marketing and Promotional Expenses	50,145,708	44,428,791
<b>Total Other Operating Expenses</b>	<b>302,342,543</b>	<b>259,224,168</b>

## 12. TAX ON FINANCIAL SERVICES

### Accounting Policy

#### Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT and Social Security Contribution Levy (SSCL) on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT on Financial Services is charged as 18% with effect from 01 January 2022

#### Social Security Contribution Levy (SSCL)

As per provisions of the Social Security Contribution Levy (SSCL) Act No 5 of 2022, SSCL on Financial Services was payable at 2.5% on Company's value additions attributable to financial services with effect from 1 October 2022. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services.

For the Year ended 31 March	2023 LKR	2022 LKR
Value Added Tax on Financial Services	136,773,929	106,552,907
Social Security Contribution Levy	9,171,146	-
<b>Total Tax on Financial Services</b>	<b>145,945,075</b>	<b>106,552,907</b>

## Notes to the Financial Statement

## 13. INCOME TAX EXPENSES

**Accounting Policy**

As per the Sri Lanka Accounting Standard - LKAS 12 on Income Taxes, the tax expense/tax income is the aggregate amount included in determination of profits or loss for the period in respect of income tax and deferred tax. The tax expense/Income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognized in Equity or OCI.

**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 reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 13.1 to these Financial Statements.

**Deferred Taxation**

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 34 to the Financial Statements.

The tax rates and laws utilized for computing the amount are based on those enacted or substantively enacted by the reporting date. According to the new budget proposal, the Company was eligible for a concessionary tax rate of 14% due to its listing on the Colombo Stock Exchange before December 31, 2021. However, it is important to note that the concessionary rate has been discontinued by the Inland Revenue Department (IRD) effective from October 1, 2022. As a result, the company is now liable for income tax at a rate of 30% from that date onwards.

The components of the income tax expense for the years ended 31 March 2023 and 2022 are:

For the Year ended 31 March	Note	Page	2023 LKR	2022 LKR
<b>Income Taxation</b>				
Taxation based on Profits for the Year	13.1	211	102,446,165	55,736,127
Under/(Over) Provision of Current Taxes in respect of Previous Years			(2,524,693)	1,831,667
<b>Deferred Taxation</b>				
Amount of Deferred Tax expense/ (Income)			(46,954,058)	(4,323,406)
Amount of Deferred Tax expense/ (Income) relating to changes in tax rates			25,515,032	-
<b>Total Tax Expenses</b>			<b>78,482,446</b>	<b>53,244,387</b>
Deferred tax charge/(reversal) for other comprehensive income			925,208	(4,334,851)
<b>Income tax charge / (reversal) recognised in statement of comprehensive income</b>			<b>925,208</b>	<b>(4,334,851)</b>

### 13.1 Reconciliation of Accounting Profit And Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2023 and 2022 are as follows.

For the Year ended 31 March	2023 LKR	2022 LKR
Profit Before Tax	300,131,895	268,710,633
Add : Disallowable Expenses	255,415,248	362,760,697
Taxable Loss on Leasing Business	19,328,496	20,744,674
Adjustment on SLFRS 16	(4,141,642)	2,551,873
Less: Tax Deductible Expenses	(108,671,111)	(172,112,105)
Disallowable Income	3,601,501	(18,188,051)
<b>Adjusted Profit / (Loss) for Tax Purposes</b>	<b>465,664,388</b>	<b>464,467,722</b>
Assessable Income	465,664,388	464,467,722
Less - Allowable Losses	-	-
<b>Taxable Income</b>	<b>465,664,388</b>	<b>464,467,722</b>
Income Tax @ 30%	69,849,658	-
Income Tax @ 14%	32,596,507	55,736,127
<b>Income Tax on Current Year's Profit</b>	<b>102,446,165</b>	<b>55,736,127</b>
Effective tax rate (excluding deferred tax) (%)	22.97%	14.85%
Effective tax rate (%)	17.59%	14.19%

### 13.2 Under/(Over) Provision of Current Taxes in respect of Previous Years

The Company recorded an income tax over provision Rs 2,524,693/- for Y/A 2021/22 based on the submitted annual income tax return.

### 13.3 Differed Tax on Concessionary Rate

Due to the change in the concessional tax rate from 12% to 30%, the Company has made adjustments to account for the deferred tax based on the new tax rate

## 14. EARNINGS PER SHARE (EPS)

#### Accounting Policy

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share'. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time-weighting factor.

For the Year ended 31 March	2023 LKR	2022 LKR
<b>Amount used as the numerator</b>		
Profit attributed to ordinary shareholders (LKR)	221,649,449	215,466,246
<b>Amount used as the denominator</b>		
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	149,596,052	116,096,674
<b>Basic / Diluted Earnings per Share (LKR)</b>	<b>1.48</b>	<b>1.86</b>

## Notes to the Financial Statement

## 15. DIVIDEND PAID AND PROPOSED

**Accounting Policy**

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when Board approves such dividends in accordance with the Companies Act No. 07 of 2007 and guide lines of Central Bank of Sri Lanka.

For the Year ended 31 March	Note	Page	2023 LKR	2022 LKR
<b>15.1 Dividend per Share</b>				
<b>Dividends for Ordinary Shares:</b>				
Interim Dividend for the financial year 2021/22 (LKR 0.50 per share)	15.2.1	212	-	74,798,026
Final Dividends for the financial year 2021/22 (LKR 0.50 per share)	15.2.2	212	-	74,798,026
<b>Total Dividends</b>			-	149,596,052
No of Ordinary Shares at the End of the Year			-	149,596,052
Divided per Share (LKR)			-	1.0

**15.2 Dividend for the year 2021/22****15.2.1 Interim dividend**

The Company was paid an interim dividend of 50 cents per share in respect of the financial year 2021/22 on the then issued shares of 149,596,052 after obtaining the requisite approval of the Central Bank of Sri Lanka.

**15.2.2 Final Dividend**

The Company was paid an final dividend of 50 cents per share in respect of the financial year 2021/22 on the then issued shares of 149,596,052 after obtaining the requisite approval of the Central Bank of Sri Lanka.

## 16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### Accounting Policy

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

### 16.1 Analysis of Financial Instruments by Measurement Basis

As at 31 March	2023		2022	
	Amortised Cost LKR	Total LKR	Amortised Cost LKR	Total LKR
<b>Financial Assets</b>				
Cash and Cash Equivalents	664,043,703	664,043,703	92,132,395	92,132,395
Financial Investments	576,027,374	576,027,374	532,667,038	532,667,038
Other Financial Assets	874,494	874,494	814,391	814,391
Financial Assets at Amortised Cost - Loans and Receivables	5,105,311,168	5,105,311,168	5,110,595,093	5,110,595,093
Financial Assets at Amortised Cost - Lease Rentals Receivables	4,674,862,363	4,674,862,363	4,768,166,996	4,768,166,996
<b>Total Financial Assets</b>	<b>11,021,119,101</b>	<b>11,021,119,101</b>	<b>10,504,375,912</b>	<b>10,504,375,912</b>
<b>Financial Liabilities</b>				
Due to Banks and Other Institutions	1,508,114,678	1,508,114,678	2,320,184,829	2,320,184,829
Due to Customers	6,193,431,026	6,193,431,026	4,729,097,119	4,729,097,119
Lease Liabilities	119,947,887	119,947,887	149,951,692	149,951,692
<b>Total Financial Liabilities</b>	<b>7,821,493,590</b>	<b>7,821,493,590</b>	<b>7,199,233,640</b>	<b>7,199,233,640</b>

## 17. CASH AND CASH EQUIVALENTS

### Accounting Policy

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The cash in hand comprises of local currency only.

As at 31 March	2023 LKR	2022 LKR
Cash in Hand	60,741,765	51,260,357
Balances with Banks	603,301,938	40,872,038
<b>Total Cash and Cash Equivalents</b>	<b>664,043,703</b>	<b>92,132,395</b>

### 17.1 Net cash and Cash Equivalents for the Purpose of the Cash Flow Statement

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

As at 31 March	Note	Page	2023 LKR	2022 LKR
Favorable Cash & Cash Equivalents	17	213	664,043,703	92,132,395
Unfavorable Cash & Cash Equivalents	28	232	(84,372,565)	(333,252,403)
<b>Cash &amp; Cash Equivalents for Cash Flow Purposes</b>			<b>579,671,138</b>	<b>(241,120,008)</b>

## Notes to the Financial Statement

## 18. FINANCIAL INVESTMENTS

**Accounting Policy**

Financial investments include Government Securities and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31 March	2023 LKR	2022 LKR
Sri Lanka Government Securities - REPO	576,027,374	532,667,038
<b>Total Financial Investments</b>	<b>576,027,374</b>	<b>532,667,038</b>

## 19. OTHER FINANCIAL ASSETS

**Accounting Policy**

Financial investments include Fixed Deposit. After initial measurement, these are subsequently measured at amortized cost using the EIR. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31 March	2023 LKR	2022 LKR
Fixed Deposits	874,494	814,391
<b>Total Other Financial Assets</b>	<b>874,494</b>	<b>814,391</b>

## 19.1 Contractual Maturity Analysis of Other Financial Assets

As at 31 March 2023	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	874,494	-	-	874,494
<b>Total Other Financial Assets</b>	<b>874,494</b>	<b>-</b>	<b>-</b>	<b>874,494</b>

As at 31 March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	814,391	-	-	814,391
<b>Total Other Financial Assets</b>	<b>814,391</b>	<b>-</b>	<b>-</b>	<b>814,391</b>

## 20. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

### Accounting Policy

Loans and receivables include financial assets measured at amortized cost if both following conditions are met ;

- ⇒ Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- ⇒ Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the Statement of Comprehensive Income.

As at 31 March	Note	Page	2023 LKR	2022 LKR
SME Loans			1,153,495,295	1,534,108,034
Micro Loans			436,241,761	794,848,779
Housing Loans			795,299,071	1,086,822,278
Society Loans			360,287,974	488,031,599
Gold Loans			2,170,424,108	1,047,191,832
Loan on Deposits			422,151,402	512,461,047
<b>Gross Loan and Receivables</b>			<b>5,337,899,612</b>	<b>5,463,463,569</b>
Less : Allowance for Impairment Charges	22.1	222	(232,588,444)	(352,868,476)
<b>Net Loans and Receivables</b>			<b>5,105,311,168</b>	<b>5,110,595,093</b>

### 20.1 Analysis

#### 20.1.1 Analysis by stage wise

As at 31 March 2023	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impaired loans and receivables	3,247,103,302	876,803,346	1,213,992,964	5,337,899,612
Less : Allowance for Impairment Charges	(50,395,310)	(39,934,813)	(142,258,321)	(232,588,444)
<b>Total</b>	<b>3,196,707,992</b>	<b>836,868,533</b>	<b>1,071,734,643</b>	<b>5,105,311,168</b>

As at 31 March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impaired loans and receivables	3,391,277,669	686,278,213	1,385,907,686	5,463,463,569
Less : Allowance for Impairment Charges	(64,973,956)	(31,216,052)	(256,678,469)	(352,868,476)
<b>Total</b>	<b>3,326,303,714</b>	<b>655,062,162</b>	<b>1,129,229,217</b>	<b>5,110,595,092</b>

## Notes to the Financial Statement

**20. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES (CONTD.)****20.1.2 Analysis by Currency**

As at 31 March	2023 LKR	2022 LKR
Sri Lankan Rupee	5,337,899,612	5,463,463,569
<b>Gross total</b>	<b>5,337,899,612</b>	<b>5,463,463,569</b>

**20.1.3 Analysis by Industry**

Agriculture & Fishing	2,677,367,350	2,223,347,911
Manufacturing	717,159,072	322,348,247
Tourism	16,539,660	23,115,059
Transport	10,651,107	9,287,478
Constructions	882,012,455	879,941,218
Trades	230,183,797	243,311,618
New Economy	5,279,288	4,770,773
Financial and Business Services	15,422,172	7,359,446
Infrastructure	30,239,343	31,472,375
Other Services	753,045,368	1,718,509,443
<b>Gross total</b>	<b>5,337,899,612</b>	<b>5,463,463,569</b>

**20.2 Movement in gross loan and receivables during the year (Under SLFRS 9)**

As at 31 March 2023	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2022	3,391,277,669	686,278,213	1,385,907,686	5,463,463,569
New assets originated or purchased	6,235,735,659	-	-	6,235,735,659
Assets derecognised or repaid (excluding write offs)	(5,984,676,970)	(190,525,132)	(24,404,486)	(6,199,606,588)
Transfers to Stage 1	439,918,569	(309,818,595)	(130,099,974)	-
Transfers to Stage 2	(56,691,588)	182,631,763	(125,940,175)	-
Transfers to Stage 3	(34,586,023)	(42,937,420)	77,523,443	-
Amounts written off	-	-	(161,693,028)	(161,693,028)
<b>Gross carrying amount as at 31 March 2023</b>	<b>3,990,977,317</b>	<b>325,628,828</b>	<b>1,021,293,466</b>	<b>5,337,899,612</b>

**20.3 Movement in gross loan and receivables during the year (Under SLFRS 9)**

As at 31 March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2021	2,976,531,498	908,406,104	1,405,170,686	5,290,108,288
New assets originated or purchased	5,096,031,378	-	-	5,096,031,378
Assets derecognised or repaid (excluding write offs)	(3,072,058,840)	(987,126,076)	(754,550,122)	(4,813,735,039)
Transfers to Stage 1	207,674,487	(145,245,767)	(62,428,720)	-
Transfers to Stage 2	(1,298,692,760)	1,345,034,730	(46,341,970)	-
Transfers to Stage 3	(518,208,093)	(434,790,778)	952,998,871	-
Amounts written off	-	-	(108,941,059)	(108,941,059)
<b>Gross carrying amount as at 31 March 2022</b>	<b>3,391,277,669</b>	<b>686,278,213</b>	<b>1,385,907,686</b>	<b>5,463,463,569</b>

## 21. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES

### Accounting Policy

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the statement of financial position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease rental receivable include financial assets measured at amortized cost if both following conditions are made ;

- ⇒ Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- ⇒ Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement, lease rental receivable is subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses or profit arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

As at 31 March	Note	Page	2023 LKR	2022 LKR
<b>21.1 Lease Rentals Receivable</b>				
Gross Lease Rentals Receivables			7,137,064,921	7,124,329,857
Less: Unearned Income			(2,222,883,954)	(2,158,515,690)
Total Lease Rentals Receivables			4,914,180,967	4,965,814,166
(Less): Allowance for Impairment Charges	22.1	222	(239,318,604)	(197,647,170)
Net Lease Rentals Receivables			4,674,862,363	4,768,166,996

### 21.1 Analysis

#### 21.1.1 Analysis by stage wise

As at 31 March 2023	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impaired loans and receivables	3,048,303,333	1,099,314,762	766,562,872	4,914,180,967
Less - Allowance for Impairment Charges	(67,376,847)	(55,668,654)	(116,273,103)	(239,318,604)
	2,980,926,486	1,043,646,108	650,289,769	4,674,862,363

As at 31 March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impaired loans and receivables	3,584,322,392	896,035,111	485,456,663	4,965,814,166
Less - Allowance for Impairment Charges	(69,828,019)	(46,924,868)	(80,894,283)	(197,647,170)
	3,514,494,374	849,110,244	404,562,380	4,768,166,997

## Notes to the Financial Statement

**21. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES (CONTD.)****21.2.2 Analysis by Currency**

As at 31 March	2023 LKR	2022 LKR
Sri Lankan Rupee	4,914,180,967	4,965,814,166
<b>Gross total</b>	<b>4,914,180,967</b>	<b>4,965,814,166</b>

**21.2.3 Analysis by Industry**

As at 31 March	2023 LKR	2022 LKR
Agriculture & Fishing	2,862,975,229	3,553,462,141
Manufacturing	468,670,165	326,592,322
Tourism	39,916	1,708,710
Transport	209,273,028	108,823,916
Construction	529,774,371	34,277,312
Trades	9,409,927	18,134,474
New Economy	335,084	1,601,784
Financial and Business Services	1,110,671	1,272,963
Infrastructure	214,446	731,825
Other Services	832,378,130	919,208,720
<b>Gross total</b>	<b>4,914,180,967</b>	<b>4,965,814,166</b>

**21.4 Maturity of Lease Rentals Receivables**

As at 31 March 2023	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Lease Rental Receivables	415,000,699	6,722,064,222	-	7,137,064,921
Less: Unearned Income	(67,574,250)	(2,155,309,704)	-	(2,222,883,954)
<b>Total Lease Rental Receivables</b>	<b>347,426,450</b>	<b>4,566,754,517</b>	<b>-</b>	<b>4,914,180,967</b>
(Less): Allowance for Impairment Charges (Note 19.6)	(65,470,581)	(173,848,023)	-	(239,318,604)
<b>Net Lease Rentals Receivables</b>	<b>281,955,868</b>	<b>4,392,906,495</b>	<b>-</b>	<b>4,674,862,363</b>

**21.5 Maturity of Lease Rentals Receivables**

As at 31 March 2023	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Lease Rental Receivables	2,638,938,949	4,485,390,908	-	7,124,329,857
Less: Unearned Income	(855,143,019)	(1,303,372,672)	-	(2,158,515,690)
<b>Total Lease Rental Receivables</b>	<b>1,783,795,930</b>	<b>3,182,018,236</b>	<b>-</b>	<b>4,965,814,166</b>
(Less): Allowance for Impairment Charges (Note 19.6)	(75,648,907)	(121,998,263)	-	(197,647,170)
<b>Net Lease Rentals Receivables</b>	<b>1,708,147,023</b>	<b>3,060,019,973</b>	<b>-</b>	<b>4,768,166,996</b>

21.6 Movement in gross lease rental receivables during the year (Under SLFRS 9)

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2022	3,584,322,392	896,035,111	485,456,663	4,965,814,166
New assets originated or purchased	1,836,882,781	1,836,882,781		
Assets derecognised or repaid (excluding write offs)	(1,446,411,252)	(193,273,398)	(248,831,330)	(1,888,515,980)
Transfers to Stage 1	211,667,878	(172,823,857)	(38,844,020)	-
Transfers to Stage 2	(733,956,453)	780,134,123	(46,177,670)	-
Transfers to Stage 3	(352,871,547)	(210,757,217)	563,628,764	-
Amounts written off	-	-	-	-
<b>Gross carrying amount as at 31 March 2023</b>	<b>3,048,303,333</b>	<b>1,099,314,762</b>	<b>766,562,872</b>	<b>4,914,180,967</b>

21.7 Movement in gross lease rental receivables during the year (Under SLFRS 9)

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2021	2,208,157,150	598,838,282	284,000,701	3,090,996,132
New assets originated or purchased	2,977,549,093	-	-	2,977,549,093
Assets derecognised or repaid (excluding write offs)	(749,873,126)	(256,334,338)	(96,523,595)	(1,102,731,059)
Transfers to Stage 1	100,407,534	(77,493,254)	(22,914,280)	-
Transfers to Stage 2	(764,618,519)	783,097,443	(18,478,924)	-
Transfers to Stage 3	(187,299,740)	(152,073,021)	339,372,761	-
Amounts written off	-	-	-	-
<b>Gross carrying amount as at 31 March 2022</b>	<b>3,584,322,392</b>	<b>896,035,111</b>	<b>485,456,663</b>	<b>4,965,814,166</b>

## Notes to the Financial Statement

### 22. ALLOWANCE FOR IMPAIRMENT CHARGES

#### Accounting Policy

##### Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 01: When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 01 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 02.

Stage 02: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs.

Stage 02 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage

Stage 03: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

##### The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

**PD** The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

**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 draw downs on committed facilities, and accrued interest from missed payments.

**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.

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

#### Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

#### Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- ⇒ GDP Growth (%)
- ⇒ Inflation (YoY Average)
- ⇒ Interest Rate (PLR)
- ⇒ Unemployment (% of Labor Force)

The inputs and models used for calculating ECLs 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.

#### 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 loan impairment allowance account accordingly. The write-back is recognised in the income statement.

#### Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiation when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2019, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 45.2 The Company also considers whether the assets should be classified as Stage 3.

#### Write-off of Financial Assets at Amortised Cost

Financial assets and the related impairment allowance accounts are normally written-off when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

#### Collateral Valuation

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carrying out by independent professional valuers as required by the said direction issued by CBSL.

The assessed fair value of the immovable properties does not consider for measurement of regulatory provisions for bad and doubtful debts as per Direction No 03 of 2006 and subsequent amendments thereto issued by CBSL.

#### Collateral Repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

#### Non-Accrual Receivables

Cessation of Interest income recognition is triggered out when the receivables are more than six months in arrears, receivables are subject to legal action/ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognised only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

## Notes to the Financial Statement

**22. ALLOWANCE FOR IMPAIRMENT CHARGES (CONTD.)****22.1 Allowance for Impairment Charges for Loans and Receivables**

	2023			2022		
	On Loan Receivable LKR	On Lease Rental Receivable LKR	Total LKR	On Loan Receivable LKR	On Lease Rental Receivable LKR	Total LKR
Balance as at Beginning of the Year	352,868,476	197,647,170	550,515,646	335,777,119	138,628,108	474,405,227
Charge for the Year	23,835,675	41,671,434	65,507,109	126,032,416	59,019,063	185,051,479
Amounts Written Off	(144,115,706)	-	(144,115,706)	(108,941,059)	(108,941,059)	
Balance as at End of the Year	232,588,444	239,318,604	471,907,048	352,868,476	197,647,170	550,515,647
Individual Impairment	-	-	-	-	-	-
Collective Impairment	232,588,444	239,318,604	471,907,048	352,868,476	197,647,170	550,515,647
<b>Total</b>	<b>232,588,444</b>	<b>239,318,604</b>	<b>471,907,048</b>	<b>352,868,476</b>	<b>197,647,170</b>	<b>550,515,647</b>

**22.2 Movement in allowance for Expected Credit Losses**

As at 31 March 2023	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 01st April 2022	134,801,974	78,140,919	337,572,753	550,515,646
Charge/(Reversal) to income statement	(17,029,817)	17,462,548	65,074,379	65,507,109
Write-off during the year	-	-	(144,115,706)	(144,115,706)
<b>Balance as at 31 March 2023</b>	<b>117,772,157</b>	<b>95,603,467</b>	<b>258,531,425</b>	<b>471,907,049</b>

As at 31 March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 01st April 2021	85,070,947	69,681,319	319,652,961	474,405,227
Charge/(Reversal) to income statement	49,731,028	8,459,600	126,860,852	185,051,479
Write-off during the year	-	-	(108,941,059)	(108,941,059)
<b>Balance as at 31 March 2022</b>	<b>134,801,974</b>	<b>78,140,919</b>	<b>337,572,753</b>	<b>550,515,647</b>

**22.3 Stage Movement in Allowance for Impairment Losses**

As at 31 March 2023	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
ECL amount as at 1st April 2022	133,875,081	81,101,866	335,538,699	550,515,647
New assets originated or purchased	67,942,808	-	-	67,942,808
Assets derecognised or repaid (excluding write offs)	10,825,799	(13,356,140)	94,641	(2,435,700)
Transfers to Stage 1	7,868,583	(5,758,234)	(2,110,349)	-
Transfers to Stage 2	(60,660,409)	64,787,559	(4,127,150)	-
Transfers to Stage 3	(42,079,705)	(31,171,584)	73,251,289	-
Amounts written off	-	-	(144,115,706)	(144,115,706)
<b>ECL amount as at 31 March 2023</b>	<b>117,772,157</b>	<b>95,603,467</b>	<b>258,531,425</b>	<b>471,907,049</b>

## 22.4 Stage Movement in Allowance for Impairment Losses

As at 31 March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
ECL amount as at 1st April 2021	85,070,947	69,681,319	319,652,960	474,405,227
New assets originated or purchased	143,285,218	-	-	143,285,218
Assets derecognised or repaid (excluding write offs)	(8,238,546)	(8,200,773)	58,205,581	41,766,261
Transfers to Stage 1	5,296,375	(3,537,070)	(1,759,305)	-
Transfers to Stage 2	(49,305,936)	53,178,885	(3,872,949)	-
Transfers to Stage 3	(41,306,084)	(32,981,442)	74,287,525	-
Amounts written off	-	-	(108,941,059)	(108,941,059)
<b>Gross carrying amount as at 31 March 2022</b>	<b>134,801,974</b>	<b>78,140,919</b>	<b>337,572,753</b>	<b>550,515,647</b>

## 23. OTHER NON FINANCIAL ASSETS

### Accounting Policy

The Company classifies all non-financial assets other than Intangible Assets, Property, Plant & Equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include inventories, other advance, rent deposit and other receivable amounts.

These assets are non-interest earning and recorded at the amounts that are expected to be received. Prepayments that form a part of other receivable are amortized during the period in which it is utilized.

As at 31 March	2023 LKR	2022 LKR
Inventories	4,238,581	2,777,352
Rent Deposit	16,107,500	17,607,500
Other Receivable	135,593,645	141,737,651
<b>Total Other Non Financial Assets</b>	<b>155,939,726</b>	<b>162,122,503</b>

### Other Receivable

The 'Other Receivable' category comprises two components: un-presented cheque collection amounting to Rs. 47,614,043/- and land stock with a value of Rs. 25,489,494/-. The land stock was acquired as a result of court orders issued against defaulters.

## Notes to the Financial Statement

## 24. INVESTMENT PROPERTY

**Accounting Policy**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Company and cost of the investment property can be reliably measured.

Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Other Comprehensive Income in the year in which they arise.

**Derecognition**

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

**Subsequent transfers to/from investment property**

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

**Fair value of investment property**

Investment property of the Company is reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information, the Company determines within a reasonable fair value estimates, amounts that can be attributed as fair values, taking into consideration of the discounted cash flow projections based on the estimates, derived from the evidence such as current market rents for similar properties and using discount rates that reflect uncertainty in the amount and timing of cash flows.

**Determining fair value**

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio every year. In financial periods within that period the fair value is determined by the board of directors. The fair values are based on market values, being the value in use or estimated amount for which a property could be sold in an orderly transaction between market participants at the measurement date.

**Owner occupied properties and investment property**

In determining if a property qualifies as Investment Property the Company makes a judgment whether the property generates independent cash flows rather than cash flows that are attributable not only to the property but also other assets. Judgment is also applied in determining if ancillary services are significant, so that a property does not qualify as investment property.

**Borrowing cost**

There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2023 (2022 - Nil).

As at 31 March	2023 LKR	2022 LKR
Balance as at 1 April	234,257,500	215,678,750
Transfer from during the year	-	-
Gain from fair value adjustment	-	18,578,750
<b>Balance as at 31 March</b>	<b>234,257,500</b>	<b>234,257,500</b>

The Company has recorded rent income for year ended 31 March 2023 Rs 8,290,200/- ( 2022 - Rs 8,290,200/-) and not incurred any repair and maintenance expenses on behalf of the property.

#### 24.1 Information on investment properties of the Company - Valuations

Property	Method of valuation	Effective date of valuation	Significant unobservable inputs ( Level 3)	Sensitivity of fair value to unobservable inputs	Carrying value of the investment property before fair valuation	Fair value of the investment property	"Fair value gains/(losses) recognised in Income Statement"
No 45, Rawathwatta Road, Moratuwa	Market comparable method	31-Mar-23	Estimated price per perch LKR 2,000,000/- (Land Extent - 48.69 perches)	Positively correlated sensitivity	Land LKR 63,900,000 Building LKR 56,340,000	Land LKR 97,380,000 Building LKR 136,977,500	Nil

#### 24.2 Information on investment properties of the Company - Extents and Locations

Property	Number of Building	Extent (Perches)	Building (Square feet)	"Fair value of the investment property - Land"	"Fair value of the investment property - Building"	"Carrying value of the investment property before fair valuation - Land"	"Carrying value of the investment property before fair valuation - Building"
No 45, Rawathwatta Road, Moratuwa	1	48.69	14,650	97,380,000	136,977,500	56,340,000	63,900,000

#### 24.3 Valuation techniques and sensitivity of the fair value measurement of the Investment properties of the Group

Valuation Technique	Significant unobservable valuation inputs	Fair value of the investment property -Building
<b>Market comparable method</b> This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	"Estimated fair value would increase/ (decrease) if; Price per perch of land would increase/(decrease) Price per square foot for building would increase/(decrease) Depreciation rate for building would (decrease)/increase

#### 24.4 Details about valuer

Market valuation of the above investment property was carried out as at 31 March 2023 by Mr A.D.N.Dharmaratne, FRICS (Eng), who is independent valuer not connected with the Company.

## Notes to the Financial Statement

### 25. PROPERTY, PLANT & EQUIPMENT

#### Accounting Policy

##### Basis of Recognition

Property, plant & equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

##### Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

##### Cost Model

The Company applies the 'Cost Model' to all property, plant & equipment other than free hold land and building and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

##### Revaluation Model

The Company applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the date reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

The Company engages an Independent Valuer to determine the fair value of free hold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

During the current financial year, the Company revalued its freehold lands and buildings.

##### Subsequent Cost

These are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

##### Repairs and Maintenance

Repairs and Maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

##### Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. 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 included in the Statement of Profit or Loss in the year the asset is derecognized.

##### Useful Life Time of Property, Plant & equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Company review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 March 2023 and 2022, are as follows:

Assets Category	Useful Life
Buildings	40 Years
Office Equipment	5 Years
Computer Equipment	5 Years
Furniture & Fittings	10 Years
Plant & Machinery	8 Years
Motor Vehicles	5 Years

The depreciation rates are determined separately for each significant part of assets and depreciation is provided proportionately for the completed number of days the asset is in use, if it is purchased or sold during the financial year. Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

## 25.1 The Movement in Property, Plant & Equipment

As at 31 March 2023	Land LKR	Furniture & Fittings LKR	Office Equipment LKR	Computer Equipment LKR	Plant & Machinery LKR	Motor Vehicle LKR	Total LKR
<b>Cost or Valuation</b>							
<b>Balance as at 1 April 2022</b>	36,100,000	104,301,137	71,635,498	86,496,333	50,164,803	42,753,322	<b>391,451,093</b>
Additions during the year	-	7,155,912	9,991,981	3,276,230	641,800	19,800,000	<b>40,865,923</b>
Adjustments during the year	-	(15,790,227)	(11,390,148)	(22,566,711)	(1,469,888)	-	<b>(51,216,974)</b>
Disposal during the year	-	(421,791)	(524,944)	(1,165,846)	(461,224)	-	<b>(2,573,805)</b>
<b>Balance as at 31 March 2023</b>	36,100,000	95,245,031	69,712,387	66,040,006	48,875,491	62,553,322	<b>378,526,237</b>
(Less) : Accumulated depreciation	-	-	-	-	-	-	
<b>Balance as at 1 April 2022</b>	-	57,243,356	50,503,215	76,514,433	32,444,468	35,478,029	<b>252,183,501</b>
Charge during the year	-	8,883,938	7,320,924	3,697,156	5,144,362	3,988,207	<b>29,034,587</b>
Adjustments during the year	-	(10,928,449)	(10,722,531)	(24,284,470)	(657,394)	(917,703)	<b>(47,510,547)</b>
Disposal during the year	-	(326,434)	(413,078)	(1,108,389)	(428,862)	-	<b>(2,276,762)</b>
<b>Balance as at 31 March 2023</b>	-	54,872,411	46,688,531	54,818,675	36,502,629	38,548,532	<b>231,430,778</b>
<b>Net book value at 31 March 2023</b>	36,100,000	40,372,620	23,023,856	11,221,331	12,372,862	24,004,790	<b>147,095,459</b>

## Notes to the Financial Statement

As at 31 March 2022							
	Land LKR	Furniture & Fittings LKR	Office Equipment LKR	Computer Equipment LKR	Plant & Machinery LKR	Motor Vehicle LKR	Total LKR
<b>Cost or Valuation</b>							
<b>Balance as at 1 April 2021</b>	36,100,000	111,403,920	81,398,442	78,983,017	48,848,170	42,753,322	399,486,871
Additions during the year	-	3,439,232	3,680,854	6,709,950	-	-	13,830,036
Adjustments on Revaluation	-	(10,338,888)	(12,974,993)	803,365	1,524,673	-	(20,985,843)
Disposal during the year	-	(203,127)	(468,805)	-	(208,040)	-	(879,971)
<b>Balance as at 31 March 2022</b>	36,100,000	104,301,137	71,635,498	86,496,333	50,164,803	42,753,322	391,451,093
(Less) : Accumulated depreciation							
<b>Balance as at 1 April 2021</b>	-	53,802,867	56,611,353	72,419,572	25,503,645	30,265,065	238,602,502
Charge during the year	-	10,933,037	7,713,139	3,821,630	5,747,674	5,212,963	33,428,444
Adjustments on Revaluation	-	(7,339,880)	(13,428,260)	273,231	1,356,190	-	(19,138,719)
Disposal during the year	-	(152,668)	(393,016)	-	(163,041)	-	(708,726)
<b>Balance as at 31 March 2022</b>	-	57,243,356	50,503,215	76,514,433	32,444,468	35,478,029	252,183,501
<b>Net book value at 31 March 2022</b>	36,100,000	47,057,781	21,132,283	9,981,900	17,720,335	7,275,294	139,267,592

**25.1.4 Property, Plant & Equipments Acquired During the Financial Year**

During the financial year, the Company acquired property, plant & equipments to the aggregate value of LKR 40,865,923/- ( 2022 - LKR 13,830,036/-) Cash payment amounting to LKR 40,865,923/- (2021 - Rs. 13,830,036/- ) was paid during the year for purchase of property, plant & equipment.

**25.1.5 Fully-depreciated property, plant & equipment**

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is LKR 128,950,030/-. (2022 - LKR 133,799,961/-)

**25.2 Fair value related disclosures of Freehold land**

Property	Date of valuation	Method of valuation and Significant unobservable inputs	Land extent (perches)	Number of Building	Cost 2023	Cost 2022	Fair value 2023 LKR	Fair value 2022 LKR
No 45, Rawathwatta Road, Moratuwa	31/03/2023	" Market Comparable Method Estimated price per perch LKR 2,000,000/-"	18.05	-	LKR 10,830,000	LKR 10,830,000	Land LKR 36,100,000	Land LKR 36,100,000

Market valuation of the above Land & Buildings was carried out by Mr A.D.N.Dharmaratne, FRICS (Eng), who is independent valuer not connected with the Company. Investment method, Contractor's Test method and Comparison method have been used for the valuation. Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

**25.3 Title Restriction on Property, Plant and Equipment**

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2023 and 31 March 2022.

#### 25.4 Compensation from Third Parties for items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up. (2022: Nil)

#### 25.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2023 and 31 March 2022.

#### 25.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2023 and 31 March 2022.

### 26. RIGHT-OF-USE ASSETS

#### Accounting Policy

##### Measurement Basis

Right-of-use assets are recognised at the commencement of the lease at the present value of the lease payment plus any prepaid lease rental.

##### Amortisation

The Company amortised right-of-use assets, using the straight line method over their estimated useful lives.

Prepaid lease rentals paid to acquire land use rights are amortised over the lease term in accordance with the pattern of benefits provided. Leasehold property comprising of land use rights and is amortised on a straight line basis over the remaining lease term.

##### Determination of the lease term for the lease contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has several lease contracts for branches/head office that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

As at 31 March	2023 LKR	2022 LKR
<b>Cost</b>		
Balance as at 1 April	321,448,151	270,687,415
Additions during the year	45,741,938	59,438,409
Less - Adjustment on Subsequent changers in initial agreement	106,390	(7,076,263)
Less - Disposal during the year	(3,924,554)	(1,601,410)
<b>Balance as at March</b>	<b>363,371,925</b>	<b>321,448,151</b>
<b>Accumulated Depreciation</b>		
Balance as at 1 April	191,914,960	127,875,071
Charges for the year	70,140,299	64,217,824
Less - Disposal during the year	(3,924,554)	(177,934)
<b>Balance as at March</b>	<b>258,130,705</b>	<b>191,914,960</b>
<b>Carrying Amount as at 31 March</b>	<b>105,241,220</b>	<b>129,533,191</b>

## Notes to the Financial Statement

### 27. INTANGIBLE ASSETS

#### Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the supply of services, for rental to others or for administrative purposes.

#### Basis of recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

#### Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### Useful economic lives, amortization and impairment

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates in accordance with LKAS 8. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset.

The unamortised balances of intangible assets with finite lives are reviewed for impairment annually and whenever there is an indication for impairment and recognised in Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits.

#### 27.1 Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the 'Statement of Financial Position' under the category 'intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2023 and 2022 is given below.

Computer software	3 Years
Computer software - E-Finance	5 Years

#### Derecognition

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is included in the Statement of Profit or Loss in the year the asset is derecognized.

## 27.2 Computer Software

As at 31 March	2023 LKR	2022 LKR
<b>Cost</b>		
Balance as at 1 April	62,218,736	59,398,736
Additions during the year	922,500	2,820,000
Disposal during the year	-	-
<b>Balance as at 31 March</b>	<b>63,141,236</b>	<b>62,218,736</b>
<b>Amortisation &amp; Impairment</b>		
Balance as at 1 April	57,290,949	54,343,448
Charge for the year	1,164,233	2,947,501
Disposal during the year	-	-
<b>Balance as at 31 March</b>	<b>58,455,183</b>	<b>57,290,949</b>
Net book value as at end of the year	4,686,053	4,927,786

Intangible assets include fully amortised software amounting to LKR 55.43 million as at 31 March 2023 (LKR 45.98 million as at 31 March 2022), which are still in use as at the reporting date.

## 28. DUE TO BANKS & OTHER INSTITUTIONS

### Accounting Policy

Due to banks include bank and other institutional borrowings and bank overdrafts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 March	Note	Page	2023 LKR	2022 LKR
Bank Overdrafts	28.1	232	84,372,565	333,252,403
Loans and Other Bank Facilities	28.2	232	1,425,337,725	1,963,941,475
Interest Payable on Bank Facilities			(1,595,613)	22,990,951
<b>Total Due to Banks &amp; Other Institution</b>			<b>1,508,114,678</b>	<b>2,320,184,829</b>

## Notes to the Financial Statement

**28. DUE TO BANKS & OTHER INSTITUTIONS (CONTD.)****28.1 Bank Overdraft**

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Loan & Receivables and the Company has unutilised Bank Overdraft of LKR 214,997,806 /- as at 31 March 2023 (2022 - Fully utilised).

**28.2 Loans and Other Bank Facilities**

<b>As at 31 March 2023</b>	<b>As at 01.04.2022 LKR</b>	<b>Loans Obtained LKR</b>	<b>Repayment LKR</b>	<b>As at 31.03.2023 LKR</b>
NDB Term Loan	524,233,333	-	(234,233,333)	290,000,000
HNB Term Loan	386,800,000	-	(175,800,000)	211,000,000
Sampath Bank Term Loan	-	500,000,000	(168,000,000)	332,000,000
Sampath Bank Solar Loan	5,003,260	-	(786,105)	4,217,155
Cargills Bank Term Loan	287,504,000	-	(183,328,000)	104,176,000
Seylan Bank	200,000,000	-	(50,400,000)	149,600,000
Securitisation Loan	530,400,000	-	(228,400,000)	302,000,000
Rotary Loan	23,938,931	12,961,416	(10,617,727)	26,282,620
Other Borrowings	6,061,950	-	-	6,061,950
<b>Total Loans and Other Bank Facilities</b>	<b>1,963,941,475</b>	<b>512,961,416</b>	<b>(1,051,565,166)</b>	<b>1,425,337,725</b>

<b>As at 31 March 2022</b>	<b>As at 01.04.2021 LKR</b>	<b>Loans Obtained LKR</b>	<b>Repayment LKR</b>	<b>As at 31.03.2022 LKR</b>
<b>Loans and Other Bank Facilities</b>				
NDB Term Loan	716,800,000	250,000,000	(442,566,667)	524,233,333
HNB Term Loan	274,800,000	250,000,000	(138,000,000)	386,800,000
SDB Term Loan	205,688,930	-	(205,688,930)	-
Sampath Bank Term Loan	5,782,348	-	(779,088)	5,003,260
Cargills Bank Term Loan	-	350,000,000	(62,496,000)	287,504,000
Seylan Bank	-	200,000,000	-	200,000,000
Securitisation Loan	248,500,000	500,000,000	(218,100,000)	530,400,000
Rotary Loan	23,554,754	10,350,000	(9,965,823)	23,938,931
Other Borrowings	6,061,950	-	-	6,061,950
<b>Total Loans and Other Bank Facilities</b>	<b>1,481,187,982</b>	<b>1,560,350,000</b>	<b>(1,077,596,507)</b>	<b>1,963,941,475</b>

### 28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2023	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
NDB Term Loan	150,000,000	140,000,000	-	290,000,000
HNB Term Loan	74,400,000	136,600,000	-	211,000,000
Sampath Bank Term Loan	168,000,000	164,000,000	-	332,000,000
Sampath Bank Solar Loan	876,328	3,340,827	-	4,217,155
Cargills Bank Term Loan	83,328,000	20,848,000	-	104,176,000
Seylan Bank	50,400,000	99,200,000	-	149,600,000
Securitisation Loan	227,000,000	75,000,000	-	302,000,000
Rotary Loan	9,745,442	16,537,178	-	26,282,620
Other Borrowings	-	-	6,061,950	6,061,950
Bank Overdrafts	84,372,565	-	-	84,372,565
Interest Payable on Bank Facilities	(1,595,613)	-	-	(1,595,613)
<b>Total Due to Customers</b>	<b>846,526,722</b>	<b>655,526,005</b>	<b>6,061,950</b>	<b>1,508,114,678</b>

As at 31 March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
NDB Term Loan	234,233,333	290,000,000	-	524,233,333
HNB Term Loan	175,800,000	211,000,000	-	386,800,000
Sampath Bank Term Loan	786,141	4,217,120	-	5,003,260
Cargills Bank Term Loan	228,400,000	59,104,000	-	287,504,000
Seylan Bank	14,826,549	185,173,451	-	200,000,000
Securitisation Loan	-	524,338,050	6,061,950	530,400,000
Rotary Loan	21,226,993	2,711,938	-	23,938,931
Other Borrowings	-	-	6,061,950	6,061,950
Bank Overdrafts	83,252,403	250,000,000	-	333,252,403
Interest Payable on Bank Facilities	22,990,951	-	-	22,990,951
<b>Total Due to Customers</b>	<b>781,516,371</b>	<b>1,526,544,558</b>	<b>12,123,900</b>	<b>2,320,184,829</b>

Granted Date	Granted Date	Facility Amount	Period	Interest rate	Security status
NDB Term Loan	26/09/2017-28/04/2021	900,000,000	5 Years	Variable	Lease & SME portfolio
HNB Term Loan	27/09/2018-21/12/2021	700,000,000	3-5 Years	Variable	Business Loans, Micro Loans, Lease & SME Loans
Sampath Bank Term Loan	06/04/2022	500,000,000	3 Years	Variable	Lease & SME portfolio
Sampath Bank Solar Loan	12/06/2020-09/09/2020	6,308,000	7 Years	Fixed	Solar Panels
Cargills Bank Term Loan	30/06/2021-10/02/2021	350,000,000	3 Years	Variable	Lease receivables
Seylan Bank	02/03/2022	200,000,000	4 Years	Variable	Lease receivables
Securitisation Loan	17-06-2021	500,000,000	3 Years	Variable	Lease receivables
Rotary Loan	30/04/2019-13/03/2023	41,985,000	3 Years	Variable	NA

## Notes to the Financial Statement

## 29. FINANCIAL LIABILITY AT AMORTISED COST - DUE TO CUSTOMERS

**Accounting Policy**

Due to other customers include non-interest bearing deposits, savings deposits, term deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

**Sri Lanka Deposit Insurance And Liquidity Support Scheme**

Under the Direction No. 2 of 2010 Finance Companies (Insurance of Deposit Liabilities) issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of LKR 1,000,000/- for each depositor. The Company has paid LKR 8,014,043/- as the premium of the said Insurance scheme during the financial year under review (2022 - LKR 6,019,843/-).

As at 31 March	2023 LKR	2022 LKR
Fixed Deposits	5,128,916,597	3,428,284,134
Savings Deposits	1,064,514,428	1,300,812,985
<b>Total Due to Customers</b>	<b>6,193,431,026</b>	<b>4,729,097,119</b>

## 29.1 Contractual Maturity Analysis Of Customer Deposits

As at 31 March 2023	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	4,418,555,686	710,360,911	-	5,128,916,597
Savings Deposits	909,039,418	96,539,866	58,935,144	1,064,514,428
<b>Total Due to Customers</b>	<b>5,327,595,104</b>	<b>806,900,778</b>	<b>58,935,144</b>	<b>6,193,431,026</b>

As at 31 March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	2,794,427,704	633,856,430	-	3,428,284,134
Savings Deposits	1,123,179,418	110,828,711	66,804,856	1,300,812,985
<b>Total Due to Customers</b>	<b>3,917,607,122</b>	<b>744,685,141</b>	<b>66,804,856</b>	<b>4,729,097,119</b>

We have raised fixed deposits with a pre-termination option to the customers; hence, fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

### 30. LEASE LIABILITY

#### Accounting Policy

The Company recognises lease liabilities measured at present value of lease payments to be made over the lease term at the commencement date of the lease. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments.

As at 31 March	2023 LKR	2022 LKR
Balance as at 1 April	149,951,692	161,198,954
Less-Adjustment on COVID 19 Concession	-	(7,347,681)
Additions	42,275,301	59,438,409
Interest Expenses	17,401,252	17,805,589
Payments	(92,446,658)	(79,694,785)
Early termination of lease	2,766,300	(1,448,794)
<b>Balance as at 31 March</b>	<b>119,947,887</b>	<b>149,951,692</b>

#### 30.1 Contractual Maturity Analysis of undiscounted lease payment

As at 31 March 2023	Within One Year LKR	1 - 5 Years LKR	Total LKR
Lease Liability	52,246,739	92,000,134	144,246,874
<b>Total Lease Liability</b>	<b>52,246,739</b>	<b>92,000,134</b>	<b>144,246,874</b>

As at 31 March 2022	Within One Year LKR	1 - 5 Years LKR	Total LKR
Lease Liability	73,286,204	96,795,155	170,081,359
<b>Total Lease Liability</b>	<b>73,286,204</b>	<b>96,795,155</b>	<b>170,081,359</b>

## Notes to the Financial Statement

**31. OTHER NON FINANCIAL LIABILITIES****Accounting Policy**

These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

As at 31 March	Note	Page	2023 LKR	2022 LKR
Accrued Expenses			53,301,240	51,201,312
Loan and Lease Creditor			220,570,460	402,935,510
Others	31.1	236	15,701,726	65,982,697
Loan Risk Assurance Fund			2,015,369	1,891,844
Dividend Payable			336,429	74,798,026
			<b>291,925,223</b>	<b>596,809,388</b>

31.1 This balance included bonus provision, unidentified direct deposit balance and the other sundry payable items.

**32. CURRENT TAX LIABILITIES****Accounting Policy**

The Company is subject to income taxes and other taxes including VAT and Social Security Contribution Levy (SSCL) on financial services. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognised 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 are different from the amounts that were initially recorded, such differences will impact the income, deferred tax amounts in the period in which the determination is made.

As at 31 March	2023 LKR	2022 LKR
Balance as at 1 April	21,170,445	53,665,325
Provision for the year	99,921,472	57,567,793
Less: Tax paid	(49,382,348)	(90,062,673)
<b>Balance as at 31 March</b>	<b>71,709,569</b>	<b>21,170,445</b>

### 33. POST-EMPLOYMENT BENEFIT OBLIGATIONS

#### Accounting Policy

Employee benefit liability includes the provisions for retirement gratuity liability.

#### Gratuity

The Company measures the present value of the promised retirement benefits for gratuity, which is a retirement benefit plan with the advice of an independent professional actuary using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard- LKAS 19 - 'Employee Benefits'

#### Basis of Measurement

The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below: 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 the Company's policy on salary revisions.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefit'. However, under the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The plan was amended to comply with the new statutory retirement for the private sector employees by changing the Normal Retirement Age from age 55 to age 60. The change in the PVDBO is recognized immediately in the P&L.

#### Recognition of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs

As at 31 March	2023 LKR	2022 LKR
<b>33.1 Provision for Retirement Gratuity</b>		
Balance at the beginning of the year	32,066,158	55,828,613
Amount Charge for the Year	10,021,516	20,456,300
Actuarial (Gains)/Losses	2,939,318	(3,420,601)
(Gain)/Loss Due to Changes in Assumptions	144,710	(32,703,154)
Payments Made During the Year	(9,494,245)	(8,095,000)
<b>Balance at the End of the Year</b>	<b>35,677,457</b>	<b>32,066,158</b>

## Notes to the Financial Statement

**33. POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTD.)**

As at 31 March	Note	Page	2023 LKR	2022 LKR
<b>33.2 Expenses on Defined Benefit Plan</b>				
<b>Amount recognised in the Statement of Profit or Loss</b>				
Current Service Cost for the Year			5,147,460	12,639,398
Interest Cost for the Year			4,874,056	4,577,946
Amendments on Retirement Age	33.3	238	-	3,238,956
<b>Total Amount recognised in the Statement of Profit or Loss</b>			<b>10,021,516</b>	<b>20,456,300</b>
<b>Amount recognised in the Statement of other Comprehensive income</b>				
Actuarial (Gains)/ Losses	33.6	238	2,939,318	(3,420,601)
(Gains)/ Losses Due to Changes in Assumptions			144,710	(32,703,154)
<b>Total Amount recognised in the Statement of other Comprehensive income</b>			<b>3,084,028</b>	<b>(36,123,755)</b>
<b>Total Expenses on Defined Benefit Plan</b>			<b>13,105,544</b>	<b>(15,667,455)</b>

**33.3 Retirement Age**

The Retirement Benefit Plan of the Company was amended due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 of 2021. The change in the PVDBO is recognized immediately in the P&L.

**33.4 Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity**

An actuarial valuation of the retirement gratuity liability was carried out as at 31 March 2023 and 2022 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

**33.5 Actuarial Assumptions**

As at 31 March	2023	2022
Discount Rate	17.7%	15.2%
Salary scale	12.5%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
Average Future Working Life	12.2 Years	12.2 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table	Long Term 1987 Soc. Sec. Table
Retirement age	Retirement age of 60 Years	Retirement age of 60 Years

**33.6 Actuarial Gains and Losses**

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

**33.7 Sensitivity of Assumptions Employed on Actuarial Valuation**

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2023.

	Increase/(decrease) in	Sensitivity Effect on Statement of Comprehensive Income Increase/ (decrease) in Results for the year LKR	Sensitivity Effect on Pension Fund Surplus Increase / (decrease) LKR
Discount Rate	+1%	2,439,345	2,439,345
	(-1%)	(2,752,552)	(2,752,552)
Salary Increment Rate	+1%	(2,848,884)	(2,848,884)
	(-1%)	2,555,979	2,555,979

### 34. DEFERRED TAXATION

#### Accounting Policy

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- (I) Where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (II) Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:
  - ⇒ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
  - ⇒ Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of reporting date.

Year ended 31 March 2023	Deferred Tax Assets LKR	Deferred Tax Liabilities LKR	Statement of Profit or Loss LKR	Statement of comprehensive income LKR	Statement of changes in equity LKR
Accelerated depreciation for tax purposes	-	8,600,590	(4,539,851)	-	-
Finance leases	-	5,677,513	(564,381)	-	-
Right-of-Use Assets	-	2,877,696	(2,918,133)	-	-
Revaluation Reserve	-	55,695,884	(11,139,177)	-	-
Defined benefit plans - Profit or loss	10,703,237	-	5,288,767	925,208	925,208
Impairment Provision	64,102,944	-	35,311,801	-	-
	74,806,181	72,851,683	21,439,026	925,208	925,208
Deferred tax effect on profit or loss and other comprehensive income	-	-	21,439,026	925,208	-
Recognised under equity	-	-	-	-	-
Net Deferred tax assets	1,954,498	-	-	-	-

## Notes to the Financial Statement

## 34. DEFERRED TAXATION (CONTD.)

Year ended 31 March 2022	Deferred Tax Assets LKR	Deferred Tax Liabilities LKR	Statement of Profit or Loss LKR	Statement of comprehensive income LKR	Statement of changes in equity LKR
Accelerated depreciation for tax purposes	-	4,060,739	6,382,141	-	-
Finance leases	-	5,113,132	9,766,291	-	-
Right-of Use Assets	-	(40,437)	(4,372,350)	-	-
Revaluation Reserve	-	44,556,707	(4,458,900)	-	-
Defined benefit plans - Profit or loss	4,489,262	-	(4,574,754)	(4,334,851)	(4,334,851)
Impairment Provision	28,791,143	-	1,580,979	-	-
	33,280,405	53,690,141	4,323,406	(4,334,851)	(4,334,851)
Deferred tax effect on profit or loss and other comprehensive income	-	-	4,326,406	(4,334,851)	-
Recognised under equity	-	-	-	-	(4,334,851)
Net Deferred tax liability	-	20,409,737	-	-	-

## 35. STATED CAPITAL

## Issued and Fully Paid-Ordinary shares

As at 31 March	Number of Shares	2023 LKR	Number of Shares	2022 LKR
At the beginning of the year	149,596,052	2,696,113,032	104,141,506	1,696,113,020
Issued during the year	-	-	45,454,546	1,000,000,012
<b>At the end of the year</b>	<b>149,596,052</b>	<b>2,696,113,032</b>	<b>149,596,052</b>	<b>2,696,113,032</b>

## 35.1 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

### 36. RESERVES

#### 36.1 Statutory Reserve Fund

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003. Accordingly, Company has transferred 5% of its net profit after taxation to the Reserve Fund as Company's Capital Funds to Deposit Liabilities, belongs to less than 25% and not less than 10%.

#### 36.2 Revaluation Reserve Fund

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment with net of differed tax on revaluation.

Company	Statutory Reserve LKR	Revaluation Reserve LKR	Total LKR
<b>As at 01 April 2021</b>	104,077,474	56,514,761	160,592,235
Transfers to/(from) during the year	10,773,312	-	10,773,312
Revaluation of Land & Building	-	-	-
<b>As at 31 March 2022</b>	114,850,786	56,514,761	171,365,549
<b>As at 1 April 2022</b>	114,850,786	56,514,761	171,365,549
Transfers to/(from) during the year	11,082,472	-	11,082,472
Revaluation of Land & Building	-	-	-
<b>As at 31 March 2023</b>	125,933,258	56,514,761	182,448,020

### 37. RETAINED EARNINGS

As at 31 March	2023 LKR	2022 LKR
Balance as at 1 April	437,316,534	324,679,970
Profit for the Year	221,649,449	215,466,246
Other Comprehensive Income	(2,158,820)	31,788,904
Transfer to Statutory Reserves Fund	(11,082,472)	(10,773,312)
Expenses related to the Share Issue	-	(49,047,249)
Dividend Paid	(74,798,026)	(74,798,026)
<b>Balance as at 31 March</b>	<b>570,926,665</b>	<b>437,316,534</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.

## Notes to the Financial Statement

## 38. COMMITMENTS AND CONTINGENCIES

**Accounting Policy**

All discernible risks are accounted for in determining the amount of all known liabilities. 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 as defined in the Sri Lanka Accounting Standard - LKAS 37 "Provisions Contingent Liabilities and Contingent Assets". Contingent Liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

As at 31 March			2023 LKR	2022 LKR
Contingent Liabilities	38.1	242	7,433,330	4,290,100
Commitments	38.2	242	-	-
			7,433,330	4,290,100

**38.1 Contingent Liabilities**

In the normal course of business, the Company makes various irrecoverable commitments and incur certain contingent liabilities with legal recourse to its customers and would be a party to litigation due to its operations. Even though these obligations may not be recognised in the Statement of Financial Position, they do contain operational risk and therefore form a part of the overall risk profile of the Company. However no material losses are anticipated as a result of these transactions.

As at 31 March			2023 LKR	2022 LKR
Guarantees issues to other institution			1,700,000	2,250,000
Cases pending against the Company			5,733,330	2,040,100
<b>Total contingent Liabilities</b>			<b>7,433,330</b>	<b>4,290,100</b>

**38.2 Commitments**

The Company did not have significant capital commitments as at the Statement of Financial Position date.

### 39. NET ASSETS VALUE PER SHARE

As at 31 March	2023 LKR	2022 LKR
<b>Amounts Used as the Numerators:</b>		
Total Equity Attributable to Equity Holders	3,449,487,718	3,304,795,115
<b>Number of Ordinary Shares Used as Denominators:</b>		
Total Number of Ordinary Shares in Issue	149,596,052	149,596,052
Net Assets Value per Share (LKR)	23.06	22.09

### 40. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2023 LKR	2022 LKR	
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	297,088,521	212,405,639	Loans and Receivables
Rental receivable on SME Loan	Term Loan	41,880,986	534,539,745	Loans and Receivables
Rental receivable on Lease	Term Loan	1,272,349,870	2,180,465,181	Lease Rental Receivable
Rental receivable on Micro Business	Term Loan	-	11,127,524	Loans and Receivables
Rental receivable on Lease	Securitization	344,268,710	575,549,517	Lease Rental Receivable
		1,955,588,087	3,514,087,605	

### 41. COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to confirm with the current year's classification in order to provide better presentation.

#### Income Statement

There were no reclassification during the financial year.

#### Statement of Financial Position.

There were no reclassification during the financial year.

## Notes to the Financial Statement

**42. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES**

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31 March 2023	Within 12 Months LKR	After 12 Months LKR	Total LKR
<b>Assets</b>			
Cash and Cash Equivalents	664,043,703	-	664,043,703
Financial Investments	576,027,374	-	576,027,374
Other Financial Assets	874,494	-	874,494
Financial Assets at Amortised Cost - Loans and Receivables	3,293,551,470	1,811,759,698	5,105,311,168
Financial Assets at Amortised Cost - Lease Rentals Receivables	832,636,778	3,842,225,585	4,674,862,363
Other Non Financial Assets	142,279,693	13,660,033	155,939,726
Investment Property	-	234,257,500	234,257,500
Property, Plant and Equipment	-	147,095,459	147,095,459
Right-of-use Lease Assets	-	105,241,220	105,241,220
Intangible Assets	-	4,686,053	4,686,053
Deferred Tax Liabilities	-	1,954,498	1,954,498
<b>Total Assets</b>	<b>5,009,413,511</b>	<b>6,660,880,047</b>	<b>11,670,293,558</b>
<b>Liabilities</b>			
Due to Banks and Other Institutions	846,526,722	661,587,956	1,508,114,678
Financial Liability at Amortised Cost - Due to Customers	5,249,015,566	944,415,459	6,193,431,026
Other Non Financial Liabilities	289,123,156	2,802,067	291,925,223
Current Tax Liabilities	71,709,569	-	71,709,569
Lease Liability	-	119,947,887	119,947,887
Post Employment Benefit Liability	-	35,677,457	35,677,457
Deferred Tax Liabilities	-	-	-
<b>Total Liabilities</b>	<b>6,456,375,014</b>	<b>1,764,430,826</b>	<b>8,220,805,840</b>
<b>Net Assets/(Liability)</b>	<b>(1,446,961,502)</b>	<b>4,896,449,221</b>	<b>3,449,487,719</b>

As at 31 March 2022	Within 12 Months LKR	After 12 Months LKR	Total LKR
<b>Assets</b>			
Cash and Cash Equivalents	92,132,395	-	92,132,395
Financial Investments	532,667,038	-	532,667,038
Other Financial Assets	814,391	-	814,391
Financial Assets at Amortised Cost - Loans and Receivables	3,360,588,881	1,750,006,212	5,110,595,093
Financial Assets at Amortised Cost - Lease Rentals Receivables	1,586,148,460	3,182,018,536	4,768,166,996
Other Non Financial Assets	147,056,219	15,066,283	162,122,503
Investment Property	-	234,257,500	234,257,500
Property, Plant and Equipment	-	139,267,592	139,267,592
Right-of-use Lease Assets	-	129,533,191	129,533,191
Intangible Assets	-	4,927,786	4,927,786
<b>Total Assets</b>	<b>5,719,407,384</b>	<b>5,455,077,100</b>	<b>11,174,484,484</b>
<b>Liabilities</b>			
Due to Banks and Other Institutions	1,244,017,378	1,076,167,451	2,320,184,829
Financial Liability at Amortised Cost - Due to Customers	3,769,807,649	959,289,470	4,729,097,119
Other Non Financial Liabilities	594,917,272	1,892,117	596,809,388
Current Tax Liabilities	21,170,445	-	21,170,445
Lease Liability	-	149,951,692	149,951,692
Post Employment Benefit Liability	-	32,066,158	32,066,158
Deferred Tax Liabilities	-	20,409,737	20,409,737
<b>Total Liabilities</b>	<b>5,629,912,744</b>	<b>2,239,776,625</b>	<b>7,869,689,368</b>
<b>Net Assets/(Liability)</b>	<b>89,494,640</b>	<b>3,215,300,475</b>	<b>3,304,795,115</b>

#### 43. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties in the ordinary course of its business who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', on an arms length basis at commercial rate.

Details of related party transactions which the company had during the year are as follows,

##### 43.1 Transactions with Key Managerial Personnel (KMPs) and their family members

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the board of directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

##### 43.1.1 Key Management Personnel Compensation

Year ended 31 March	2023 LKR	2022 LKR
Short Term Employment Benefits	10,199,400	9,453,000
Directors Fees & Expenses	7,940,000	9,924,000
<b>Total Key Management Personnel Compensation</b>	<b>18,139,400</b>	<b>18,324,000</b>

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

##### 43.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

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.

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

##### 43.1.2.1 Transaction with KMPs, and their Close Members of the Family

As at 31 March	2023 LKR	2022 LKR
<b>Items in Statement of Financial Position</b>		
Deposit balance as of reporting date	12,204,809	2,209,441
	<b>12,204,809</b>	<b>2,209,441</b>
<b>Items in Statement of Profit or Loss</b>		
Interest accrued during the period	1,994,993	32,985
	<b>1,994,993</b>	<b>32,985</b>

## Notes to the Financial Statement

**43. RELATED PARTY TRANSACTIONS (CONTD.)****43.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders**

As at 31 March	2023 LKR	2022 LKR
Deposit balance held with related companies	83,403,989	-
Dividend Paid during the year	33,362,794	-
Expenses made during the year	5,833,568	-
	122,600,351	-

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

**43.1.4 Transactions with Group Entities**

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the parent.

**43.1.4.1 Transactions with Sarvodaya Economic Enterprises Development (Gte) Ltd (SEEDS)**

SEEDS has 36.1% ownership of the Company and identified as related part company with more than 10% ownership of the SDF.

As at 31 March	2023 LKR	2022 LKR
<b>Items in Statement of Financial Position</b>		
Interest payable on Deposits	-	-
Deposit balance as at reporting date	40,120,000	11,320,000
	40,120,000	11,320,000
<b>Items in Statement of Profit or Loss</b>		
Interest Accrued During the Period	5,389,980	-
	5,389,980	-

**43.1.4.2 Transactions with Gentosa Total Assets Inc.**

No transactions were conducted with Gentosa Total Assets Inc. during the reporting period, except for the final dividend payment pertaining to the financial year 2021/22. Additionally, due to a new share issue through the initial public offering (IPO), the ownership of Gentosa Total Assets Inc. has been reduced to 9.02%. Consequently, it is no longer considered a related party company

**43.1.4.3 Transactions with Janashakthi Capital Limited**

Janashakthi Capital Limited recently conducted share transactions that led to an increase in their ownership, reaching 10.76% as of October 19, 2022. It is important to clarify that no transactions were carried out with Janashakthi Capital Limited during the reporting period from October 19, 2022 except for the final dividend payment pertaining to the financial year 2021/22

**43.1.4.4 Transactions with Senthilverl Holdings (Pvt) Ltd**

Senthilverl Holdings (Pvt) Ltd recently conducted share purchase transactions that led to an increase in their ownership, reaching 10.39% as of October 19, 2022. It is important to clarify that no transactions were carried out with Senthilverl Holdings (Pvt) Ltd during the reporting period from October 19, 2022 except for the final dividend payment pertaining to the financial year 2021/22

#### 44. EVENTS OCCURRING AFTER THE REPORTING DATE

There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements.

#### 45. CAPITAL

The Company maintains capital in order 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.

##### 45.1 Capital Management

The primary objective of Company's capital management policy is 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 has issued Rs 804 Mn shares during the financial year 2020/21 through a private placement. This private placement includes Rs 420 Mn shares issued to inactive Sarvodaya Shramadana Societies by converting their deposits. With reference to the Central Bank letter dated 9th July 2021, the action plan has been requested from the Company in relation to the above Rs 420 Mn shares. Therefore, the said Rs 420Mn shares have not been considered the Company's core capital as at 31 March 2023.

However, the Company has raised LKR 950 Mn (Net of Direct Expenses) new capital during the financial year 2021/22 through a Initial Public Offer (IPO) and the meet the CBSL minimum core capital requirement of LKR 2.5 Bn as of 31 December 2022.

## Notes to the Financial Statement

### 46. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### Accounting Policy

The fair value of the financial instruments that are recorded at the fair values are determined using valuation techniques which incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account 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.

#### Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

#### Valuation model

For all Financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the Financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

#### 46.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Company's estimate of assumptions that a market participant would make when valuing assets and liabilities.

#### Property, Plant & Equipment

Property, Plant & Equipment Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy

As at 31 March 2023	Date of valuation	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
<b>Non financial assets - Investment property</b>					
Land and building	31/03/2023	-	-	234,257,500	234,257,500
		-	-	234,257,500	234,257,500
<b>Non financial assets - Property, Plant and Equipment</b>					
Land	31/03/2023	-	-	36,100,000	36,100,000
		-	-	36,100,000	36,100,000

As at 31 March 2022	Date of valuation	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
<b>Non financial assets - Investment property</b>					
Land and building	31/03/2022	-	-	234,257,500	234,257,500
		-	-	234,257,500	234,257,500
<b>Non financial assets - Property, Plant and Equipment</b>					
Land	31/03/2022	-	-	36,100,000	36,100,000
		-	-	36,100,000	36,100,000

**Non Financial Assets measured at fair value**  
Level 3 Fair Value Measurement

	2023		2022	
	Investment Property LKR	Freehold Land LKR	Investment Property LKR	Freehold Land LKR
Balance as at 1 April	234,257,500	36,100,000	215,678,750	36,100,000
Revaluation reserve credit to revaluation reserve	-	-	-	-
Total gain/(loss) recognised in profit or loss:			18,578,750	
<b>Balance at 31 March</b>	<b>234,257,500</b>	<b>36,100,000</b>	<b>234,257,500</b>	<b>36,100,000</b>

**Unobservable inputs used in measuring fair value**

The table below sets out information about significant unobservable inputs used at 31 March 2023 and 31 March 2022 in measuring non financial instruments categorised as level 3 in the fair value hierarchy. The Company has disclosed fair value of following non financial assets except investment property which is accounted for fair value in the Financial Statements.

## Notes to the Financial Statement

## 46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Type of instrument	Date of valuation	Fair value	Valuation technique	Significant unobservable input	Weighted average range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
<b>As at 31 March 2023</b>		<b>LKR</b>				
<b>Property, Plant and Equipment</b>						
Land	31/03/2023	36,100,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
<b>Investment Property</b>						
Land	31/03/2023	97,380,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
Building	31/03/2023	136,877,500	Income Basis	Estimated rental value per sq.ft.	LKR 9,500 - 10,500	*

Type of instrument	Date of valuation	Fair value	Valuation technique	Significant unobservable input	Weighted average range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
<b>As at 31 March 2022</b>		<b>LKR</b>				
<b>Property, Plant and Equipment</b>						
Land	31/03/2022	36,100,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
<b>Investment Property</b>						
Land	31/03/2022	97,380,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
Building	31/03/2022	136,877,500	Income Basis	Estimated rental value per sq.ft.	LKR 9,500 - 10,000	*

\*Significant increase/(decrease) in any of these inputs in isolation would result in a significantly higher/(lower) fair value

## 46.2 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not already recorded at fair value in the Financial Statements.

## Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

## Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity.

### Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes 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.

As at 31 March 2023	Fair Value			Carrying Value	
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR	LKR
<b>Financial Assets</b>					
Cash and Cash Equivalents	664,043,703	-	-	664,043,703	664,043,703
Financial Investments	-	576,027,374	-	576,027,374	576,027,374
Other Financial Assets	-	874,494	-	874,494	874,494
Financial Assets at Amortised					
Cost - Loans and Receivables	-	5,109,755,721	-	5,109,755,721	5,105,311,168
Financial Assets at Amortised					
Cost - Lease Rentals Receivables	-	4,677,040,887	-	4,677,040,887	4,674,862,363
	<b>664,043,703</b>	<b>10,363,698,476</b>	<b>-</b>	<b>11,027,742,178</b>	<b>11,021,119,101</b>

### Financial Liabilities

Due to Banks and Other Institutions	-	1,508,114,678	-	1,508,114,678	1,508,114,678
Due to Customers	-	6,193,431,024	-	6,193,431,024	6,193,431,026
Lease Liabilities	-	119,947,887	-	119,947,887	119,947,887
	-	7,701,545,701	-	7,701,545,701	7,701,545,703

### As at 31 March 2022

As at 31 March 2022	Fair Value			Carrying Value	
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR	LKR
<b>Financial Assets</b>					
Cash and Cash Equivalents	92,132,395	-	-	92,132,395	92,132,395
Financial Investments	-	532,667,038	-	532,667,038	532,667,038
Other Financial Assets	-	814,391	-	814,391	814,391
Financial Assets at Amortised					
Cost - Loans and Receivables	-	5,402,718,385	-	5,402,718,385	5,110,595,093
Financial Assets at Amortised					
Cost - Lease Rentals Receivables	-	5,360,739,718	-	5,360,739,718	4,768,166,996
	<b>92,132,395</b>	<b>11,296,939,532</b>	<b>-</b>	<b>11,389,071,927</b>	<b>10,504,375,912</b>

### Financial Liabilities

Due to Banks and Other Institutions	-	2,320,184,829	-	2,320,184,829	2,320,184,829
Financial Liability at Amortised					
Cost - Due to Customers	-	4,729,097,119	-	4,729,097,119	4,729,097,119
Lease Liabilities	-	149,951,692	-	149,951,692	149,951,692
	-	7,199,233,640	-	7,199,233,640	7,199,233,640

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

## Notes to the Financial Statement

### 47. RISK MANAGEMENT

#### 47.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring through established risk limits and controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for prudently managing the risk exposures relating to his or her responsibilities. Company's risk strategy focuses on managing principal risks faced by the Company while striking a fair balance between the risk return trade-off. Based on the unprecedented impact on economy and financial services sector due to the uncertainty prevailed in the macro- business environment, a robust approach in risk management is considered as of paramount importance by the Company.

In the course of its business activities, Sarvodaya Development Finance PLC is constantly exposed to risks that include but are not limited to following risk types;

- ⇒ Credit Risk
- ⇒ Liquidity Risk
- ⇒ Market Risk
- ⇒ Capital Management and
- ⇒ Operational Risk.

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#### Risk Governance Structure

At Sarvodaya Development Finance PLC, the management of risks, plays an integral part in all its business activities. The identification, evaluation, measurement, mitigation, decision making and control implementation, monitoring and reporting of risks associated with products, processes, systems and services of Sarvodaya Development Finance PLC is vital to the scope of risk management when fulfilling requirements of its customers and other stakeholders.

#### Board Integrated Risk Management Committee (BIRMC)

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a subcommittee, Board Integrated Risk Management Committee (BIRMC) and has delegated its authority to the BIRMC for the overall Risk Management approach and for approving the risk management strategies and principles. BIRMC reviews and assesses the Company's overall risks and focuses on policy recommendations and strategies and the Board of Directors is duly updated of its activities.

Sarvodaya Development Finance PLC is aware of a wide spectrum of risks that it is exposed to, and provides attention to each and every risk factor that could hinder the achievement of the company's overall objectives. The Company has put in place structures and processes to address these risks which are vested to functional departments. Additionally, the BIRMC carries out independent risk evaluations (both qualitative and quantitative) and the results are shared with the Management team of the Company as well as the Board of Directors.

The following Management Committees, each with a defined responsibility, support the BIRMC by executing their respective management mandates.

#### **Asset - Liability Committee (ALCO)**

The ALCO comprises of senior management personnel who are in charge of Treasury, Finance, Risk, Compliance, Credit, Fund Mobilisation, Operations, Recoveries and Marketing. ALCO is headed by the CEO and responsible for identifying, managing and controlling risks in executing the business strategy of the Company and mainly focuses on Interest rate risk and liquidity risk while maintaining profitability.

#### **Credit Committee**

There are two Credit Committees, namely Board Credit Committee (BCC) and Management Credit Committee (MCC).

**BCC** is comprised of three Non-Executive Directors from which the Chairman to the Committee is a Non-Executive, Independent Director. The key management personnel attend the meetings upon invitation. BCC oversees the management of credit quality of the lending portfolio and recovery actions.

**MCC** is comprised of Senior Management Personnel and headed by the CEO. MCC approves credit facilities within its delegated authority and reviews the methodologies for assessing credit risk and monitors concentration risk.

#### **Management Committee (MANCOM)**

ManCom is comprised of senior management personnel and headed by the CEO. This Committee oversees the overall strategy and the new developments in the risk environment to take timely precautions and corrective measures

#### **Product Development Committee (PDC)**

The Committee is comprised of Senior Management personnel, internal stakeholders from business units and other 'ad hoc' members with expertise in applicable functions such as credit, operations, legal, information technology, information security, audit, risk management, and compliance. The Committee covers all the new developments as well as significant changes to existing products, processes and systems of SDF.

#### **Information Technology Steering Committee (ITSC)**

The committee is chaired by the CEO and will be facilitated by the Head of IT and / or Senior Manager IT who will serve as the Committee Secretary. Permanent Invitees to the Committee will be the Chief Operating Officer (COO), the Head of Risk Management, the Compliance Officer and the Head of Operations & Administration. The primary role of the ITSC is to exercise oversight and governance over SDF's IT function. The Committee is authorized to take decisions to improve and secure Information Resources, within the context of the Delegation of Authority assigned by the Board of Directors to the Chair.

The Company's Board has established the 'three lines of defence' mechanism to provide the foundation for the cohesive governance of risk at all levels of the business.

#### **Risk Management Department (RMD)**

The business units (i.e. Credit Department, Operations Department and Branches etc.) have the primary responsibility for identifying risks as the first line of defence. The Risk Management Department, which provides an independent oversight function, acts as the 2nd line of defense. The RMD is headed by the Head of Risk Management who directly reports to the Chair of the BIRMC and also has an administrative reporting to the CEO. The RMD accompanies with other control functions (most notably Internal Audit, Compliance and Finance) of the Company that might uncover risk management issues. Each of the control functions has a different focus and potential overlap between them is kept to a minimum, while ensuring that the approaches taken are complementary and lead to consistent, effective and timely escalation of risks.

### **47.2 Credit Risk**

#### **Overview**

Credit risk is the risk of financial loss to the company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. The exposure to the credit risk is mainly derived from financial sector companies as the sector engages primarily in providing financing facilities to its customers. Credit risk constitutes the Company's largest risk exposure category which is managed by evaluating the credit worthiness of the clients and by periodic reviews on the credit granted.

## Notes to the Financial Statement

### Credit Risk Management

The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The Credit Department and Recoveries Department are responsible for managing the Company's credit risk, including formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting documentary and legal procedures, and compliance with regulatory and statutory requirements. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are allocated to respective officers with the delegated authority (DA) of the CEO.

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of qualitative as well as quantitative variables for the measurement of borrowers' risk. All internal risk ratings are tailored to various products namely SME Loans and Leasing. For accounting purposes, the Company uses a collective model for recognition of losses on impaired financial Assets.

### Collateral Management

The primary source of repayment of credit exposures is the cash flows while the collaterals obtained by the company act as a possible secondary recourse. Collaterals generally include cash, marketable securities, properties, stocks, trade debtors, other receivables, machineries and equipment and other physical or financial assets are assessed at the inception, in accordance with the guidelines issued by the Central Bank of Sri Lanka.

Clear guidelines are in place to determine the suitability of collaterals as a tool of mitigating credit risk based on their different characteristics and valuations, to ensure the collaterals will continue to provide the anticipated secondary source of repayment in an eventuality. The Company has a panel of appointed professional valuers in order to obtain valuations for the properties, machineries and vehicles which are obtained as collaterals.

Periodic estimation of values of collateral ensures that they will continue to provide the expected repayment source in an event where the primary source has not materialized. The collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/or more frequent valuations.

The Company also accepts personal guarantees, guarantees from other financial institutions and creditworthy bodies as collaterals for credit facilities. The financial strength of guarantors as against their cash flows, net worth, etc. is taken into consideration to establish their capacity to repay the facilities in case of a default.

### Impact Assessment of COVID-19 and Economic Crisis

The year under review was a turbulent year, during which the complexity of the risk landscape intensified as the operating environment of the Company became more vulnerable, complex, unpredictable and uncertain. During the year, the nation faced its worst economic crisis. Macro-economic developments such as fuel and gas shortages, long hour power cuts and restrictions on imports, all due to inadequate foreign currency reserves which had heightened social unrest, finally led to political unrest. The ban on importing chemical fertilizers and pesticides also caused difficulties for the Company's agro-based customers. Due to the COVID-19 impact, there was a significant drop of the earnings from tourism and workers' remittances resulted in shortages in foreign currency and the foreign reserves to a critical level. The sharp depreciation of the Sri Lankan Rupee, unsustainable public debt, domestic and forex market liquidity pressures, high inflation, scarcity of essential items, fall in tax revenue, and increase in market interest rates resulted in a credit downgrading of the sovereign debt, which constrained access to foreign financing as a nation. These developments affected the Sri Lankan economy adversely and caused an overall contraction of economic activities and ultimately affected the operating environment, creating unprecedented implications.

During the year, NPL classification of the credit facilities has been changed to '120 days and above' from the previous classification of '180 days and above'. Amidst these challenges, at the year end, the Company was able to maintain its gross NPL ratio at 14.40% which is below the industry average of 16.01% reflecting the effectiveness of strengthened credit processes and the conservative risk profile. As per the Finance Business Act Directions No.01 of 2020 on Classification and Measurement of Credit Facilities, with effective from 1st of April 2023, NPL classification will be changed to '90 days and above' which will have a heightened impact on Credit Default Risk.

The Company's risk management ensures and continuously monitors the portfolio delinquency levels and sector exposures to keep them at a minimum level of risk while ensuring the return objectives of the company are achieved.

#### Credit risk - impairment provision as per ECL for financial assets

Expected Credit Loss at 31 March 2023 was estimated based on a range of forecast economic conditions prevailing as at that date. As the situation continues to evolve and timelines for a normalization of economic activity remains yet an unknown, the impact to our core markets and the Company's financial results cannot be reasonably estimated or reliably measured based on reasonable and supportable information that is available at the current stage.

#### Impairment Assessment

For accounting purposes, the Company uses a collective model for the recognition of losses on im-paired financial assets.

#### Collectively assessed allowance

Allowances are assessed collectively for losses on leases and loans. Detailed Note on impairment method has disclosed in note 22 on page 218.

#### 47.2.1 Maximum Exposure to Credit Risk

The Company consider total loan and lease balances to calculate collective impairment.

As at 31 March	2023				Total LKR
	Neither Past Due Nor Impaired LKR	Past Due But Not Impaired LKR	Individually Impaired LKR	Collectively Impaired LKR	
Assets					
Cash and Cash Equivalents	664,043,703	-	-	-	664,043,703
Loans and Receivable (Gross)	422,151,402	-	-	4,915,748,210	5,337,899,612
Lease Rentals Receivables (Gross)	-	-	-	4,914,180,967	4,914,180,967
Financial Investments	576,027,374	-	-	-	576,027,374
Other Financial Assets	874,494	-	-	-	874,494
<b>Total Financial Assets</b>	<b>1,663,096,972</b>	<b>-</b>	<b>-</b>	<b>9,829,929,178</b>	<b>11,493,026,150</b>

As at 31 March	2022				Total LKR
	Neither Past Due Nor Impaired LKR	Past Due But Not Impaired LKR	Individually Impaired LKR	Collectively Impaired LKR	
Assets					
Cash and Cash Equivalents	92,132,395	-	-	-	92,132,395
Loans and Receivable (Gross)	512,461,047	-	-	4,951,002,521	5,463,463,569
Lease Rentals Receivables (Gross)	-	-	-	4,965,814,166	4,965,814,166
Financial Investments	532,667,038	-	-	-	532,667,038
Other Financial Assets	779,506	-	-	-	779,506
<b>Total Financial Assets</b>	<b>1,138,039,986</b>	<b>-</b>	<b>-</b>	<b>9,916,816,688</b>	<b>11,054,856,674</b>

## Notes to the Financial Statement

**47. RISK MANAGEMENT (CONTD.)****47.2.2 Analysis of Risk Concentration****47.2.2.1 Industry Analysis**

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

As at 31 March		2023				
Sector wise Breakdown	Cash and Cash	Loans and	Lease Rental	Financial	Other	Total
	Equivalents	Receivable	Receivable	Investments	Financial	Financial
	LKR	LKR	LKR	LKR	Assets	Assets
					LKR	LKR
Agriculture & Fishing	-	2,677,367,350	2,862,975,229	-	-	5,540,342,578
Manufacturing	-	717,159,072	468,670,165	-	-	1,185,829,237
Tourism	-	16,539,660	39,916	-	-	16,579,576
Transport	-	10,651,107	209,273,028	-	-	219,924,136
Constructions	-	882,012,455	529,774,371	-	-	1,411,786,826
Trades	-	230,183,797	9,409,927	-	-	239,593,724
New Economy	-	5,279,288	335,084	-	-	5,614,372
Financial and Business Services	664,043,703	15,422,172	1,110,671	-	874,494	681,451,039
Infrastructure	-	30,239,343	214,446	-	-	30,453,789
Government	-	-	-	576,027,374	-	576,027,374
Other Services	-	753,045,368	832,378,130	-	-	1,585,423,498
<b>Total</b>	<b>664,043,703</b>	<b>5,337,899,612</b>	<b>4,914,180,967</b>	<b>576,027,374</b>	<b>874,494</b>	<b>11,493,026,150</b>

As at 31 March		2022				
Sector wise Breakdown	Cash and Cash	Loans and	Lease Rental	Financial	Other	Total
	Equivalents	Receivable	Receivable	Investments	Financial	Financial
	LKR	LKR	LKR	LKR	Assets	Assets
					LKR	LKR
Agriculture & Fishing	-	2,223,347,911	3,553,462,141	-	-	5,776,810,052
Manufacturing	-	675,216,723	524,239,493	-	-	1,199,456,216
Tourism	-	23,115,059	1,708,710	-	-	24,823,770
Transport	-	9,287,478	108,823,916	-	-	118,111,394
Constructions	-	879,941,218	34,277,312	-	-	914,218,530
Trades	-	243,311,618	18,134,474	-	-	261,446,092
New Economy	-	4,770,773	1,601,784	-	-	6,372,556
Financial and Business Services	92,132,395	7,359,446	1,272,963	-	779,506	101,544,310
Infrastructure	-	31,472,375	731,825	-	-	32,204,200
Government	-	-	-	532,667,038	-	532,667,038
Other Services	-	1,365,640,967	721,561,550	-	-	2,087,202,517
<b>Total</b>	<b>92,132,395</b>	<b>5,463,463,569</b>	<b>4,965,814,166</b>	<b>532,667,038</b>	<b>779,506</b>	<b>11,054,856,674</b>

#### 47.2.2.2 Geographical distribution of loans and receivables

Provincial breakdown for loans and receivable within Sri Lanka is as follows;

	Term Loan and receivables Past Due But Not Impaired LKR	Lease receivable Past Due But Not Impaired LKR	Total Past Due But Not Impaired LKR
<b>As at 31 March 2023</b>			
Central	522,321,041	419,520,648	941,841,689
Eastern	616,152,583	703,029,313	1,319,181,895
North Central	417,035,649	1,310,271,656	1,727,307,305
Northern	613,653,506	533,741,812	1,147,395,318
North Western	176,043,627	71,353,891	247,397,518
Sabaragamuwa	561,479,819	262,799,363	824,279,182
Southern	651,290,766	377,297,090	1,028,587,856
Uva	620,968,437	528,345,440	1,149,313,877
Western	1,158,954,183	707,821,755	1,866,775,938
<b>Total</b>	<b>5,337,899,612</b>	<b>4,914,180,967</b>	<b>10,252,080,579</b>
<b>As at 31 March 2022</b>			
Central	523,152,931	539,828,434	1,062,981,365
Eastern	576,772,425	578,229,047	1,155,001,472
North Central	422,267,689	1,023,412,127	1,445,679,816
Northern	657,167,431	488,973,408	1,146,140,838
North Western	189,083,108	82,949,765	272,032,873
Sabaragamuwa	541,763,951	334,449,570	876,213,521
Southern	729,470,827	443,147,528	1,172,618,355
Uva	514,349,446	581,902,941	1,096,252,387
Western	1,309,435,762	892,921,346	2,202,357,108
<b>Total</b>	<b>5,463,463,569</b>	<b>4,965,814,166</b>	<b>10,429,277,735</b>

#### 47.2.3 Fair value of collateral and credit enhancements held

As a general principle, the Company endeavors to obtain adequate collateral to secure its credit portfolios. The Company focuses on quality and responsibility of such collateral to mitigate potential credit losses. Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. A reasonable margin of safety is maintained in collateral val-ues.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables and transfer of ownership over the vehicles.
- For retail lending, mortgages over residential properties and transfer of ownership over the vehicles.

The general creditworthiness of significant customers tends to be the most relevant indicator of credit quality of a facility extended to those parties. However, collateral provides additional security and the Company generally requests large borrowers to provide same. The Company may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. As Company's focus on corporate customers is mainly based on their credit worthiness, business standing and reputation, Company does not insist on updated valuation of collateral from corporate clients. Such valuations will only be called for from corporate clients only if there is a foreseeable deterioration in credit standing or evidence of possible credit risk. Accordingly, the Company does not routinely update the valuation of collateral held against all facilities to significant customers. For impaired facilities, the Company usually obtains the current market value of the collateral, since it may be an input to the impairment measurement.

## Notes to the Financial Statement

**47. RISK MANAGEMENT (CONTD.)**

The following table shows the fair value of collateral and credit enhancements held by the Company.

Company	31 March 2023		31 March 2022	
	Maximum exposure to credit risk LKR	Net exposure LKR	Maximum exposure to credit risk LKR	Net exposure LKR
Cash and cash equivalents (excluding cash in hand)	603,301,938	-	40,872,038	-
Financial Investments	576,027,374	-	532,667,038	-
Other Financial Assets	874,494	874,494	814,391	814,391
Loans and Receivables	5,337,899,612	-	5,463,463,569	-
Lease Rental Receivable	4,914,180,967	-	4,965,814,166	-
	11,432,284,385	874,494	11,003,631,202	814,391

**Sensitivity of impairment provision on loans and receivables**

	Sensitivity on ECL sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on income " Past Due But Not Impaired "
	Stage 1	Stage 2	Stage 3	Total	
	" Past Due But Not Impaired "	" Past Due But Not Impaired "	" Past Due But Not Impaired "	" Past Due But Not Impaired "	
<b>As at 31 March 2023</b>					
PD 1% increase across all age buckets	7,713,435	2,043,273	-	9,756,708	9,756,708
PD 1% decrease across all age buckets	(7,713,435)	(2,043,273)	-	(9,756,708)	(9,756,708)
LGD 5% increase	72,450,170	43,437,724	80,598,462	196,486,356	196,486,356
LGD 5% decrease	(72,450,170)	(43,437,724)	(80,598,462)	(196,486,356)	(196,486,356)
Probability weighted Economic Scenarios					
- Base case 10% increase, worst case 5% decrease and best case 5% decrease	233,452	107,326	-	340,779	340,779
- Base case 10% decrease, worst case 5% increase and best case 5% increase	(233,452)	(107,326)	-	(340,779)	(340,779)
<b>As at 31 March 2022</b>					
PD 1% increase across all age buckets	7,713,435	2,043,273	-	9,756,708	9,756,708
PD 1% decrease across all age buckets	(7,713,435)	(2,043,273)	-	(9,756,708)	(9,756,708)
LGD 5% increase	72,450,170	43,437,724	80,598,462	196,486,356	196,486,356
LGD 5% decrease	(72,450,170)	(43,437,724)	(80,598,462)	(196,486,356)	(196,486,356)
Probability weighted Economic Scenarios					
- Base case 10% increase, worst case 5% decrease and best case 5% decrease	233,452	107,326	-	340,779	340,779
- Base case 10% decrease, worst case 5% increase and best case 5% increase	(233,452)	(107,326)	-	(340,779)	(340,779)

### 47.3 Liquidity Risk & Funding Management

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, the Company's management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing liquidity and funding to ensure future cash flows. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Asset - Liability Committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.

ALCO meets at least monthly and as and when necessary. ALCO is responsible for managing and controlling the overall liquidity of the company and reviews the impact of strategic decisions on Company's liquidity position.

During the Covid-19 pandemic the company implemented a comprehensive and proactive mechanism to ensure that liquid assets are well managed by the organization during periods of business disruptions and well addressed during the turbulent times. Management developed cash flows forecasts in order to monitor and absorb sudden liquidity shocks to comply financial covenant and CBSL Liquidity Requirement, i.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure. ALCO closely overlooks the changes and development related to the developments in the macro-economic environment and in-corporated them when making management decisions.

Furthermore, the Company maintains the Statutory Liquid Assets Ratio (SLAR) at its required level as a method to measure and control daily liquidity risk.

#### 47.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

As at 31 March 2023	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
<b>Financial Assets</b>						
Cash and Cash Equivalents	664,043,703	-	-	-	-	664,043,703
Financial Investments	-	490,480,933	85,546,441	-	-	576,027,374
Other Financial Assets	-	322,486	552,008	-	-	874,494
Financial Assets at Amortised						
Cost - Loans and Receivables	811,775,483	1,839,707,978	642,068,009	1,811,759,698	-	5,105,311,168
Financial Assets at Amortised						
Cost - Lease Rentals Receivables	331,059,698	223,106,768	278,470,312	3,842,225,585	-	4,674,862,363
<b>Total Financial Assets</b>	<b>1,806,878,884</b>	<b>2,553,618,165</b>	<b>1,006,636,770</b>	<b>5,653,985,283</b>	<b>-</b>	<b>11,021,119,101</b>
<b>Financial Liabilities</b>						
Due to Banks and Other Institutions	56,920,256	216,403,416	573,203,051	655,526,005	6,061,950	1,508,114,678
Due to Customers	1,499,690,298	1,634,549,197	2,193,355,613	806,900,775	58,935,144	6,193,431,026
Lease Liability	6,256,213	12,197,289	45,165,009	56,329,375	-	119,947,887
<b>Total Financial Liabilities</b>	<b>1,562,866,767</b>	<b>1,863,149,902</b>	<b>2,811,723,673</b>	<b>1,518,756,156</b>	<b>64,997,094</b>	<b>7,821,493,590</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>244,012,117</b>	<b>690,468,263</b>	<b>(1,805,086,903)</b>	<b>4,135,229,127</b>	<b>(64,997,094)</b>	<b>3,199,625,511</b>

## Notes to the Financial Statement

## 47. RISK MANAGEMENT (CONTD.)

As at 31 March 2022	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
<b>Financial Assets</b>						
Cash and Cash Equivalents	92,132,395	-	-	-	-	92,132,395
Financial Investments	-	377,724,430	154,942,608	-	-	532,667,038
Other Financial Assets	-	391,331	423,060	-	-	814,391
Financial Assets at Amortised						
Cost - Loans and Receivables	1,013,272,177	447,091,523	1,314,576,694	3,621,707,553	-	6,396,647,946
Financial Assets at Amortised						
Cost - Lease Rentals Receivables	1,798,825,766	697,175,460	1,762,871,472	2,756,716,744	-	7,015,589,442
<b>Total Financial Assets</b>	<b>2,904,230,337</b>	<b>1,522,382,745</b>	<b>3,232,813,834</b>	<b>6,378,424,297</b>	<b>-</b>	<b>14,037,851,213</b>
<b>Financial Liabilities</b>						
Due to Banks and Other Institutions	356,243,354	339,313,692	548,460,332	1,070,053,993	6,113,458	2,320,184,829
Financial Liability at Amortised						
Cost - Due to Customers	1,137,725,441	927,953,764	1,851,927,917	744,685,141	66,804,856	4,729,097,119
Lease Liability	-	67,899,858	68,113,951	13,937,883	-	149,951,692
<b>Total Financial Liabilities</b>	<b>1,493,968,795</b>	<b>1,335,167,314</b>	<b>2,468,502,200</b>	<b>1,828,677,017</b>	<b>72,918,314</b>	<b>7,199,233,640</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>1,410,261,542</b>	<b>187,215,431</b>	<b>764,311,634</b>	<b>4,549,747,280</b>	<b>(72,918,314)</b>	<b>6,838,617,573</b>

## 47.3.2 Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments.

As at 31 March 2023	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Guarantees issues to other institution	-	-	1,700,000	-	-	1,700,000
Cases pending against the company	-	-	-	5,733,330	-	5,733,330
<b>Total Commitments and guarantees</b>	<b>-</b>	<b>-</b>	<b>1,700,000</b>	<b>5,733,330</b>	<b>-</b>	<b>7,433,330</b>

As at 31 March 2022	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Guarantees issues to other institution	-	-	2,250,000	-	-	2,250,000
Cases pending against the company	-	-	-	2,040,100	-	2,040,100
<b>Total Commitments and guarantees</b>	<b>-</b>	<b>-</b>	<b>2,250,000</b>	<b>2,040,100</b>	<b>-</b>	<b>4,290,100</b>

## 47.3.2 Contractual Maturities of Commitments &amp; Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2022 and as at 31 March 2023 other than the disclosures made under the financial statements notes number 38 on page number 240.

## 47.3.2.1 Operational Risk

**Overview**

The operational risk management is the responsibility of all the staff in the Company. The accountability of managing operational risk lies with the management committee members. They are responsible for maintaining an oversight over operational risk, and internal controls covering all businesses and operations pertaining to the Company.

After reviewing the audit reports, the Board Audit Committee (BAC) has identified certain processes where internal controls can be further strengthened. Such risks are being critically reviewed regularly by the BAC where necessary actions will be recommended.

The Company has introduced and implemented a comprehensive BCP and DR policy. The BCP and DR policy is supported by a BCP and DR plan to ensure that SDF has the capability to handle failure of system, disaster at branches and disruption of business.

Additionally, the Operational Risk Self-Assessment (ORSA) process which facilitates both the Management and the staff to assume responsibility for internal controls. It also acts as a bottom-up feedback mechanism which supports proactivity in risk management.

#### 47.3.2.2 Market Risk

##### Overview

Market risk is the potential of an adverse impact on Company's earnings or capital due to changes in interest rates. During the normal course of its business, Company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the Company to market risk in varying degrees.

##### Market Risk Management

Risk Management Framework ensures the appropriate management of the market risks within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact Company's profitability, capital or the risk profile.

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the Company, as risk mitigation tools, Company has formed a Liquidity Investment Policy and an Asset and Liability Management Policy. These policies define exposure limits and procedures within which such transactions are required to be undertaken. Market risk limits set out in the above policies are regularly reviewed by the Asset- Liability Committee (ALCO) and the Board Integrated Risk Management Committee (BIRMC).

ALCO is the core management level committee that regularly monitors market risk exposures and initiates appropriate action to optimize overall market risk exposures of the Company. In this regard, the major functions carried out by ALCO include:

- proactively managing of liquidity risk profile of the Company
- articulating interest rate review of the Company
- monitoring asset and liability gaps, and rate shock results on Net Interest Income (NII) to initiate appropriate measures such as changing interest rate structure.

#### 47.5.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities, namely the granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; and basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. The Company's exposure to interest rate risk is primarily associated with factors such as:

- ⇒ Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio;
- ⇒ Yield curve risk arising from unanticipated shifts of the market yield curve;

Interest rate risk is managed principally through minimizing interest rate sensitive asset/liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly. Regularly monitoring of net interest margin took place to be vigilant and proactive towards the relief measures introduced by the government pertaining to in-terest rates.

## Notes to the Financial Statement

**47. RISK MANAGEMENT (CONTD.)**

During the under year review, the country had to face its worst economic crisis. Increase in the policy rates and subsequent increase in the Government Treasury- Bills rates heightened the market interest rates significantly. This development in the market had created a high pressure for all the financial in-stitutes as the NII and NIM have been narrowed as the demand for credit has dropped significantly with the high interest rates.

**47.5.2 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 reprising or maturity dates.

As at 31 March 2023	Up to 03 Months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 Years LKR	Non Interest Bearing LKR	Total as at 31.03.2023 LKR
<b>Assets</b>							
Cash and Cash Equivalents	603,301,938	-	-	-	-	60,741,765	664,043,703
Financial Investments	490,480,933	85,546,441	-	-	-	-	576,027,374
Other Financial Assets	322,486	552,008	-	-	-	-	874,494
Financial Assets at Amortised							
Cost - Loans and Receivables	2,651,483,461	642,068,009	1,215,031,933	596,727,765	-	-	5,105,311,168
Financial Assets at Amortised							
Cost - Lease Rentals Receivables	554,166,466	278,470,312	2,485,410,499	1,356,815,086	-	-	4,674,862,363
<b>Total Financial Assets</b>	<b>4,299,755,283</b>	<b>1,006,636,770</b>	<b>3,700,442,432</b>	<b>1,953,542,851</b>	<b>-</b>	<b>60,741,765</b>	<b>11,021,119,101</b>
<b>Financial Liabilities</b>							
Due to Banks and							
Other Institutions	273,323,671	573,203,051	618,456,280	37,069,726	-	6,061,950	1,508,114,678
Financial Liability at Amortised							
Cost - Due to Customers	3,055,659,953	2,193,355,613	382,410,374	424,490,401	58,935,144	78,579,540	6,193,431,026
Lease Liability	18,453,503	45,165,009	45,561,268	10,768,107	-	-	119,947,887
<b>Total Financial Liabilities</b>	<b>3,347,437,127</b>	<b>2,811,723,673</b>	<b>1,046,427,922</b>	<b>472,328,234</b>	<b>58,935,144</b>	<b>84,641,490</b>	<b>7,821,493,590</b>
<b>Interest Sensivity Gap</b>	<b>952,318,159</b>	<b>(1,805,086,903)</b>	<b>2,654,014,510</b>	<b>1,481,214,617</b>	<b>(58,935,144)</b>	<b>(23,899,725)</b>	<b>3,199,625,511</b>
<b>As at 31 March 2022</b>							
	Up to 03 Months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 Years LKR	Non Interest Bearing LKR	Total as at 31.03.2022 LKR
<b>Assets</b>							
Cash and Cash Equivalents	40,872,038	-	-	-	-	51,260,357	92,132,395
Financial Investments	377,724,430	154,942,608	-	-	-	-	532,667,038
Other Financial Assets	391,331	423,060	-	-	-	-	814,391
Financial Assets at Amortised							
Cost - Loans and Receivables	2,047,763,612	1,312,825,269	1,419,131,496	330,874,716	-	-	5,110,595,093
Financial Assets at Amortised							
Cost - Lease Rentals Receivables	624,936,125	961,212,336	2,364,195,807	817,822,729	-	-	4,768,166,996
<b>Total Financial Assets</b>	<b>3,091,687,536</b>	<b>2,429,403,273</b>	<b>3,783,327,303</b>	<b>1,148,697,445</b>	<b>-</b>	<b>51,260,357</b>	<b>10,504,375,912</b>
<b>Financial Liabilities</b>							
Due to Banks and Other Institutions	695,557,046	548,460,332	912,743,973	157,310,021	51,508	6,061,950	2,320,184,829
Financial Liability at Amortised							
Cost - Due to Customers	1,917,879,732	1,851,927,917	613,423,272	131,261,869	66,804,856	147,799,473	4,729,097,119
Lease Liability	17,176,000	50,723,858	68,113,951	13,937,883	-	-	149,951,692
<b>Total Financial Liabilities</b>	<b>2,630,612,778</b>	<b>2,451,112,107</b>	<b>1,594,281,195</b>	<b>302,509,773</b>	<b>66,856,364</b>	<b>153,861,423</b>	<b>7,199,233,640</b>
<b>Interest Sensivity Gap</b>	<b>461,074,757</b>	<b>(21,708,834)</b>	<b>2,189,046,108</b>	<b>846,187,672</b>	<b>(66,856,364)</b>	<b>(102,601,066)</b>	<b>3,305,142,272</b>

#### 48. FINANCIAL REPORTING BY SEGMENT

For management purposes, the Company is organised into business units based on its products and services and has three reportable segments, as follows:

##### Lease

This segment includes Leasing products offered to the customers.

##### Loan

This segment includes SME, Micro, Personal and Gold loans offered to the customers

##### Other Business

This segment include all other business activities that Company engaged other than above segments

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements. Also, the Company's financing (including finance costs and finance income) and income taxes are managed on a Company basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Lease		Loan		Other		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Interest income	1,089,564,946	867,285,943	1,204,123,623	917,956,222	167,642,874	37,073,023	2,461,331,443	1,822,315,188
Net fee and commission income	38,723,064	39,835,727	69,653,000	23,947,280	5,809,194	(195,737)	114,185,258	63,587,270
Other operating income	18,507,325	15,599,390	1,345,879	9,659,627	2,122,049	19,247,802	21,975,253	44,506,819
<b>Gross income</b>	<b>1,146,795,335</b>	<b>922,721,061</b>	<b>1,275,122,503</b>	<b>951,563,129</b>	<b>175,574,117</b>	<b>56,125,088</b>	<b>2,597,491,955</b>	<b>1,930,409,278</b>
Interest expenses	(543,775,815)	(250,214,030)	(598,270,346)	(275,289,246)	(79,568,570)	(36,612,832)	(1,221,614,731)	(562,116,108)
<b>Total operating income</b>	<b>603,019,519</b>	<b>672,507,031</b>	<b>676,852,157</b>	<b>676,273,883</b>	<b>96,005,547</b>	<b>19,512,256</b>	<b>1,375,877,224</b>	<b>1,368,293,170</b>
Credit loss expenses	(41,671,434)	(59,019,063)	(23,835,675)	(126,032,417)	2,415,000	(7,567,108)	(63,092,109)	(192,618,588)
<b>Net Operating Income</b>	<b>561,348,085</b>	<b>613,487,969</b>	<b>653,016,482</b>	<b>550,241,466</b>	<b>98,420,547</b>	<b>11,945,148</b>	<b>1,312,785,115</b>	<b>1,175,674,582</b>
Other Expenses	(341,132,872)	(311,430,749)	(375,319,526)	(342,640,803)	(49,916,628)	(45,570,433)	(766,369,026)	(699,641,985)
Depreciation and Amortization	(44,663,825)	(44,855,202)	(49,139,813)	(49,350,369)	(6,535,481)	(6,563,485)	(100,339,119)	(100,769,057)
<b>Segment Result</b>	<b>175,551,388</b>	<b>257,202,017</b>	<b>228,557,144</b>	<b>158,250,293</b>	<b>41,968,438</b>	<b>(40,188,770)</b>	<b>446,076,970</b>	<b>375,263,540</b>
Tax on financial services							(145,945,075)	(106,552,907)
Income tax expenses							(78,482,446)	(53,244,387)
<b>Profit attributable to share holders</b>	<b>175,551,388</b>	<b>257,202,017</b>	<b>228,557,144</b>	<b>158,250,293</b>	<b>41,968,438</b>	<b>(40,188,770)</b>	<b>221,649,449</b>	<b>215,466,246</b>
Segment assets	4,914,180,967	4,965,814,166	5,337,899,612	5,463,463,569	1,418,212,979	745,206,749	11,670,293,558	11,174,484,484
<b>Total Assets</b>	<b>4,914,180,967</b>	<b>4,965,814,166</b>	<b>5,337,899,612</b>	<b>5,463,463,569</b>	<b>1,418,212,979</b>	<b>745,206,749</b>	<b>11,670,293,558</b>	<b>11,174,484,484</b>
Segment liabilities	3,528,605,014	3,710,813,892	3,658,300,236	3,658,456,408	1,033,900,590	500,419,068	8,220,805,840	7,869,689,368
<b>Total liabilities</b>	<b>3,528,605,014</b>	<b>3,710,813,892</b>	<b>3,658,300,236</b>	<b>3,658,456,408</b>	<b>1,033,900,590</b>	<b>500,419,068</b>	<b>8,220,805,840</b>	<b>7,869,689,368</b>

## DECADE AT A GLANCE

For the Year ended 31 March	2022/23 Rs. (000)	2021/22 Rs. (000)	2020/21 Rs. (000)	2019/20 Rs. (000)	2018/19 Rs. (000)	2017/18 Rs. (000)	2016/17 Rs. (000)	2015/16 Rs. (000)	2014/15 Rs. (000)	2013/14 Rs. (000)
<b>Operating Results</b>										
Income	2,597,492	1,930,409	1,743,539	1,802,436	1,575,247	1,320,761	1,092,958	1,014,754	752,993	628,973
Interest Income	2,461,331	1,822,315	1,584,745	1,681,679	1,433,374	1,179,563	883,758	922,994	652,411	616,478
Interest Expenses	1,221,615	562,116	623,347	750,116	606,621	416,599	280,902	255,915	210,804	183,543
Net Interest Income	1,239,717	1,260,199	961,398	931,562	826,753	762,964	602,856	667,079	441,607	432,935
Other Income	136,161	108,094	158,795	120,757	141,872	141,198	209,200	91,760	100,582	12,495
Total Operating Income	1,375,877	1,368,293	1,120,192	1,052,319	968,626	904,162	812,056	758,839	542,189	445,430
Operating Expenses	866,708	800,411	703,903	700,911	717,895	630,190	635,628	571,762	473,080	469,146
Impairment Losses	63,092	192,619	60,092	119,318	94,014	89,116	172,259	61,294	67,332	(57,616)
Profit Before Taxation	446,077	375,264	356,197	232,090	156,717	184,856	4,169	125,783	1,777	33,899
Tax on Financial Services	145,945	106,553	89,362	108,023	87,760	70,751	48,027	49,272	22,245	23,619
Income Tax Expenses/(Reversal)	78,482	53,244	83,478	22,351	27,740	21,922	(9,324)	30,369	(8,675)	14,006
Profit/(Loss) for the Year (PAT)	221,649	215,466	183,357	101,716	41,216	92,182	(34,535)	46,142	(11,794)	(3,726)

**Statement of Financial Position****Assets**

Cash and Cash Equivalents	664,044	92,132	130,871	73,226	140,903	116,978	138,046	306,766	208,621	223,666
Loans and Receivables	5,105,311	5,110,595	4,954,331	5,230,705	5,113,657	4,697,450	3,477,040	2,766,806	2,779,010	2,020,283
Lease Rentals Receivable	4,674,862	4,768,167	2,952,368	1,702,847	1,102,513	611,055	283,559	-	-	-
Financial Investments	576,027	532,667	374,591	444,939	442,595	282,269	268,211	243,177	201,844	200,000
Other Financial Assets	874	814	780	164,536	189,277	207,371	282,578	232,860	7,049	288,325
Investment in Subsidiary Companies	-	-	-	-	-	-	-	379,475	379,475	-
Intangible Assets	4,686	4,928	5,055	15,111	27,008	35,134	321,409	281,536	241,143	206,608
Other Assets	644,488	665,181	618,602	583,851	433,871	409,919	102,050	109,410	115,290	139,398
Total Assets	11,670,294	11,174,484	9,036,598	8,215,216	7,449,824	6,360,176	4,872,893	4,320,029	3,932,432	3,078,280

**Liabilities**

Due to Banks	1,508,115	2,320,185	1,729,624	1,595,036	835,874	463,277	75,856	31,225	47,743	101,899
Due to Customers	6,193,431	4,729,097	4,551,945	5,101,976	5,385,342	4,624,855	3,563,700	3,070,417	2,776,239	2,165,002
Savings	5,128,917	1,300,813	1,245,293	1,536,303	1,561,061	1,554,619	1,607,045	1,585,566	1,484,222	-
Fixed Deposits	1,064,514	3,428,284	3,306,652	3,565,673	3,824,281	3,070,216	1,956,654	1,484,851	1,292,016	-
Other Non Financial Liabilities	291,925	596,809	282,552	99,221	79,668	84,070	165,765	96,909	53,842	93,923
Post Employment Benefit Liability	35,677	32,066	55,829	33,753	27,212	26,416	20,797	16,088	17,109	17,953
Other Liability	191,657	191,532	235,263	189,551	23,183	30,768	-	19,850	-	2,009
Total Liabilities	8,220,806	7,869,689	6,855,213	7,019,536	6,351,279	5,229,366	3,826,118	3,234,490	2,894,933	2,380,786

**Shareholders' Funds**

Stated Capital	2,696,113	2,696,113	1,696,113	890,000	890,000	890,000	890,000	890,000	890,000	540,000
Reserves	753,375	608,682	485,270	305,679	208,546	240,810	156,775	195,539	147,499	157,494
Total Shareholders' Funds	3,449,488	3,304,795	2,181,385	1,195,679	1,098,546	1,130,810	1,046,775	1,085,539	1,037,499	697,494

**Other Information**

Number of Staff	453	508	480	471	521	508	540	602	572	543
Number of Branches	51	51	30	30	30	30	30	30	30	30
Number of CSCs	-	-	21	21	21	21	22	28	32	32
Number of Gold Centers within the Branches	39	39	35	25	5	-	-	-	-	-
Profit Before Tax Per Employee	985	739	742	493	301	364	8	209	3	62
Profit After Tax Per Employee	489	424	382	216	79	181	(64)	77	(21)	(7)
Total Assets Per Employee	25,762	21,997	18,826	17,442	14,299	12,520	9,024	7,176	6,875	5,669
Employees Per Branch	7	7	6	7	7	7	8	8	7	6

For the Year ended 31 March	2022/23 Rs. (000)	2021/22 Rs. (000)	2020/21 Rs. (000)	2019/20 Rs. (000)	2018/19 Rs. (000)	2017/18 Rs. (000)	2016/17 Rs. (000)	2015/16 Rs. (000)	2014/15 Rs. (000)	2013/14 Rs. (000)
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#### Capital Adequacy Ratio (%)

Tier I				-	-	20.19%	25.02%	32.00%	30.66%	29.13%
Tier II				-	-	20.19%	25.02%	20.32%	18.93%	29.13%
Tier I ( New Framwwork w.e.f 1 July 2018 )	32.75%	29.17%	21.58%	12.99%	13.58%	14.83%	0.00%	0.00%	0.00%	
Tier II ( New Framwwork w.e.f 1 July 2018 )	34.01%	30.42%	21.80%	13.23%	13.98%	14.83%	0.00%	0.00%	0.00%	

#### Operating Result

Cost of Fund	16.27%	8.24%	9.50%	11.30%	10.73%	9.55%	8.33%	8.64%	8.28%	7.00%
Interest Spread	5.59%	10.09%	9.00%	10.81%	10.96%	13.05%	13.02%	13.15%	12.86%	9.76%
Net Interest Margin	11.01%	12.67%	11.44%	12.21%	12.51%	14.61%	14.74%	31.74%	25.70%	16.14%
Cost to Income	73.60%	66.28%	70.82%	76.87%	83.18%	77.52%	84.19%	81.84%	91.36%	110.63%
Staff Cost : Net Income	33.73%	32.19%	33.40%	33.91%	36.87%	35.69%	44.32%	41.40%	50.00%	52.00%

#### Financial Indicators

Return on Interest Earning Assets	21.85%	18.33%	19.00%	22.11%	21.69%	22.59%	21.36%	21.78%	21.14%	16.76%
Portfolio Yield	21.99%	18.90%	19.70%	23.36%	22.88%	23.89%	23.33%	31.74%	25.70%	23.21%
Debit : Equity	223.27%	213.30%	287.96%	560.10%	566.31%	449.95%	347.69%	285.72%	272.19%	325.01%
Liquid Assets Ratio	17.64%	10.51%	9.13%	11.41%	13.75%	13.75%	20.39%	26.20%	16.50%	30.00%

#### Assets Quality Indicators

Gross NPA Ratio	14.39%	8.93%	9.98%	11.81%	9.41%	6.20%	8.90%	8.00%	5.00%	12.90%
Net NPA Ratio	8.98%	3.31%	4.21%	6.14%	4.67%	2.61%	3.40%	3.10%	2.80%	3.10%
NPA to Assets	12.78%	8.39%	9.28%	11.13%	8.92%	6.03%	8.00%	5.50%	3.70%	9.40%
Provision to Advance	4.06%	4.86%	5.66%	5.74%	5.08%	3.06%	5.60%	5.10%	3.10%	9.80%
Provision Cover	28.20%	54.40%	56.58%	48.58%	49.43%	44.10%	57.10%	63.00%	60.80%	76.00%

#### Investor information

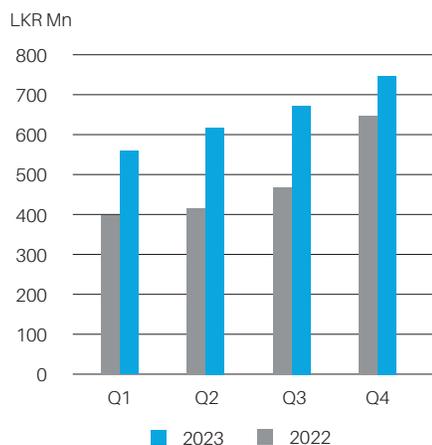
Return on Assets (ROA)	1.94%	2.13%	2.13%	1.30%	0.60%	1.64%	0.75%	1.12%	-0.34%	-0.11%
Return on Equity (ROE)	6.56%	7.85%	10.86%	8.87%	3.70%	8.15%	-3.24%	4.35%	-1.36%	-0.58%
Equity to Assets	29.56%	29.57%	24.14%	14.55%	14.75%	17.78%	21.48%	25.13%	26.38%	22.66%
Net assets Per Share (LKR.)	23.06	22.09	21.43	17.71	16.27	16.75	15.51	16.08	15.37	12.92
Errnings Per Share (LKR.)	1.48	1.86	2.55	1.51	0.61	1.19	(0.51)	0.68	(0.19)	0.17
Shareholders' Fund to Deposit	55.70%	69.88%	47.92%	23.44%	20.40%	24.53%	29.37%	37.10%	42.00%	29.20%
Price earning ratio (P/E)	7.42	6.74	N/A							
Market Price per share	11.0	12.5	N/A							
Market Capitalisation	842,015	807,179	N/A							
Interest Cover	1.37	1.67	1.57	1.31	1.26	1.44	1.01	1.49	1.01	1.18
Dividend Per Share*	-	1.00	-	-	-	0.50	-	-	-	-
Dividend Cover	-	1.44	-	-	-	2.73	-	-	-	-
Dividend Yield	-	0.04	N/A							
Dividend Payout	-	0.69	-	-	-	0.42	-	-	-	-

# QUARTERLY FINANCIAL STATEMENTS

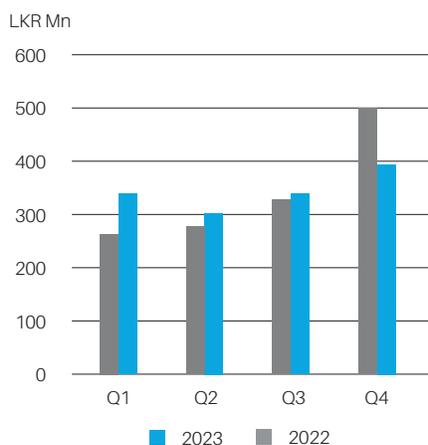
## INCOME STATEMENT

For the 3 months ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2022	30.06.2021	30.09.2022	30.09.2021	31.12.2022	31.12.2021	31.03.2023	31.03.2022
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
<b>Income</b>	<b>559,841,607</b>	397,336,785	<b>618,156,482</b>	415,919,133	<b>672,818,520</b>	468,754,564	<b>746,675,345</b>	648,398,797
<b>Interest Income</b>	<b>525,174,078</b>	387,087,075	<b>585,026,207</b>	398,727,789	<b>641,163,237</b>	441,990,590	<b>709,967,921</b>	594,509,734
Interest Expenses	(220,690,915)	(133,018,026)	(315,150,195)	(138,703,266)	(333,366,535)	(141,368,521)	(352,407,086)	(149,026,295)
Net Interest Income	<b>304,483,164</b>	254,069,049	<b>269,876,012</b>	260,024,524	<b>307,796,702</b>	300,622,068	<b>357,560,834</b>	445,483,439
Net Fee and Commission								
Income	<b>28,641,277</b>	2,436,985	<b>26,495,128</b>	16,404,077	<b>21,950,801</b>	18,723,438	<b>37,098,052</b>	26,022,770
Other Operating Income	<b>6,026,252</b>	7,812,725	<b>6,635,148</b>	787,266	<b>9,704,482</b>	8,040,535	<b>(390,629)</b>	27,866,293
<b>Total Operating Income</b>	<b>339,150,693</b>	264,318,758	<b>303,006,287</b>	277,215,867	<b>339,451,985</b>	327,386,042	<b>394,268,258</b>	499,372,502
Impairment Charges for								
Loans and Other Losses	(50,325,397)	(28,666,774)	(18,310,230)	(46,410,111)	<b>5,531,084</b>	(30,627,785)	<b>12,433</b>	(86,913,918)
<b>Net Operating Income</b>	<b>288,825,296</b>	235,651,985	<b>284,696,058</b>	230,805,756	<b>344,983,069</b>	296,758,256	<b>394,280,691</b>	412,458,585
<b>Operating Expenses</b>								
Personnel Expenses	(119,815,671)	(106,209,552)	(110,955,551)	(90,835,929)	(117,262,975)	(103,979,810)	(115,992,287)	(139,392,527)
Depreciation of Property, Plant and Equipment	(7,103,892)	(9,233,512)	(7,291,180)	(8,945,319)	(7,428,160)	(7,973,152)	(7,211,356)	(7,276,462)
Amortisation of Right of Use Assets	(17,336,160)	(18,738,527)	(17,666,068)	(13,272,034)	(17,404,923)	(15,283,016)	(17,733,149)	(16,608,229)
Amortisation of Intangible Assets	(347,984)	(848,779)	(310,447)	(793,895)	(289,159)	(661,192)	(216,643)	(643,635)
Other Operating Expenses	(69,600,145)	(52,720,835)	(68,828,160)	(66,570,303)	(78,152,834)	(63,599,437)	(85,761,404)	(76,824,899)
<b>Operating Profit Before Tax</b>								
<b>on Financial Services</b>	<b>74,621,446</b>	47,900,780	<b>79,644,653</b>	50,388,277	<b>124,445,019</b>	105,261,651	<b>167,365,853</b>	171,712,832
Tax on Financial Services	(29,318,539)	(19,543,436)	(28,487,479)	(18,371,499)	(40,532,734)	(26,645,858)	(47,606,323)	(41,992,114)
<b>Profit Before Taxation</b>	<b>45,302,907</b>	28,357,344	<b>51,157,174</b>	32,016,778	<b>83,912,285</b>	78,615,793	<b>119,759,530</b>	129,720,718
Income Tax Expenses	(11,475,256)	(12,623,434)	(12,032,780)	3,282,163	(16,453,069)	(11,626,496)	(38,521,341)	(32,276,620)
<b>Profit for the Period</b>	<b>33,827,651</b>	15,733,910	<b>39,124,394</b>	35,298,941	<b>67,459,216</b>	66,989,298	<b>81,238,189</b>	97,444,098

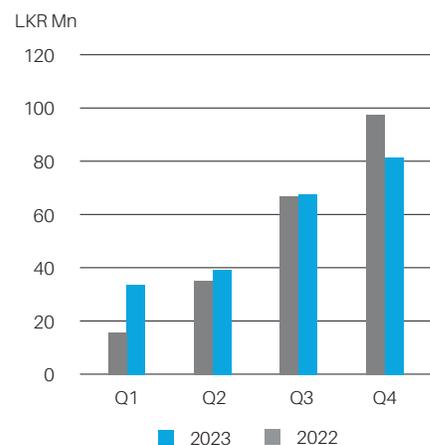
### Income



### Operating Income



### Profit After Tax



## STATEMENT OF FINANCIAL POSITION

As at	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2022	30.06.2021	30.09.2022	30.09.2021	31.12.2022	31.12.2021	31.03.2023	31.03.2022
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
<b>Assets</b>								
Cash and Cash Equivalents	107,092,896	564,784,515	232,923,771	109,024,080	416,604,072	443,975,110	664,043,703	92,132,395
Financial Investments	542,600,553	379,081,236	526,057,927	515,709,083	530,463,052	516,872,992	576,027,374	532,667,038
Other Financial Assets	830,143	789,610	202,523,736	799,551	863,905	809,492	874,494	814,391
Financial Assets at Amortised Cost								
- Loans and Receivables	5,211,164,128	4,830,171,372	5,026,367,384	4,781,209,916	5,113,227,149	4,938,051,637	5,105,311,168	5,110,595,093
Financial Assets at Amortised Cost								
- Lease Rentals Receivables	4,734,191,619	3,073,345,549	4,373,146,172	3,444,126,266	4,358,896,078	4,023,149,953	4,674,862,363	4,768,166,996
Other Non Financial Assets	141,678,553	112,011,446	123,962,677	129,420,112	138,650,464	117,662,263	155,939,726	162,122,502
Investment Property	234,257,500	215,678,750	234,257,500	215,678,750	234,257,500	215,678,750	234,257,500	234,257,500
Property, Plant and Equipment	137,412,486	160,482,821	135,004,939	153,095,505	132,850,855	146,495,343	147,095,459	139,267,592
Right-of-use Lease Assets	122,323,278	137,406,242	117,119,360	145,991,353	102,447,899	131,240,211	105,241,220	129,533,191
Intangible Assets	4,579,803	7,026,508	4,269,356	6,232,613	3,980,196	5,571,421	4,686,053	4,927,786
Deferred Tax Assets	-	-	-	-	-	-	1,954,498	-
<b>Total Assets</b>	<b>11,236,130,960</b>	<b>9,480,778,049</b>	<b>10,975,632,823</b>	<b>9,501,287,229</b>	<b>11,032,241,170</b>	<b>10,539,507,171</b>	<b>11,670,293,558</b>	<b>11,174,484,484</b>
<b>Liabilities</b>								
Due to Banks and Other								
Institutions	2,309,386,008	2,225,162,328	1,840,945,895	2,135,920,553	1,644,615,991	2,144,469,402	1,508,114,678	2,320,184,829
Financial Liabilities at Amortised								
Cost - Due to Customers	5,206,699,969	4,457,624,493	5,420,118,448	4,544,549,861	5,596,975,313	4,543,089,574	6,193,431,026	4,729,097,119
Lease Liabilities	142,224,349	157,127,065	134,635,720	167,595,481	118,142,340	152,339,485	119,947,887	596,809,388
Other Non Financial Liabilities	154,564,281	303,392,960	135,095,718	361,300,658	224,744,008	382,777,524	291,925,223	21,170,445
Current Tax Liabilities	30,018,410	63,606,911	11,664,021	(13,033,861)	4,594,028	(3,952,683)	71,709,569	149,951,692
Post Employment Benefit Liability	35,593,658	56,808,113	35,785,908	58,129,363	36,938,408	56,734,613	35,677,457	32,066,158
Deferred Tax Liabilities	19,021,518	19,937,043	19,639,953	14,407,097	35,822,731	12,936,905	-	20,409,737
<b>Total Liabilities</b>	<b>7,897,508,192</b>	<b>7,283,658,912</b>	<b>7,597,885,662</b>	<b>7,268,869,152</b>	<b>7,661,832,819</b>	<b>7,288,394,819</b>	<b>8,220,805,840</b>	<b>7,869,689,368</b>
<b>Shareholders' Funds</b>								
Stated Capital	2,696,113,032	1,694,137,046	2,696,113,032	1,694,137,046	2,696,113,032	2,645,842,023	2,696,113,032	2,696,113,032
Reserves	171,365,549	160,592,236	171,365,548	160,592,236	171,365,548	160,592,236	182,448,021	171,365,549
Retained Earnings	471,144,186	342,389,854	510,268,579	377,688,795	502,929,769	444,678,092	570,926,665	437,316,534
<b>Total Shareholders' Funds</b>	<b>3,338,622,767</b>	<b>2,197,119,137</b>	<b>3,377,747,161</b>	<b>2,232,418,077</b>	<b>3,370,408,351</b>	<b>3,251,112,352</b>	<b>3,449,487,718</b>	<b>3,304,795,115</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>11,236,130,960</b>	<b>9,480,778,049</b>	<b>10,975,632,823</b>	<b>9,501,287,229</b>	<b>11,032,241,170</b>	<b>10,539,507,171</b>	<b>11,670,293,558</b>	<b>11,174,484,484</b>

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME IN USD

For the year ended 31 March

	2023 USD	2022 USD
<b>Income</b>	7,943,400	6,456,218
Interest Income	7,527,007	6,094,700
Interest Expenses	(3,735,825)	(1,879,987)
<b>Net Interest Income</b>	3,791,183	4,214,713
Net Fee and Commission Income	349,190	212,666
Other Operating Income	67,203	148,852
<b>Total Operating Income</b>	4,207,576	4,576,231
Impairment Charges for Loans and Other Losses	(192,942)	(644,209)
<b>Net Operating Income</b>	4,014,633	3,932,022
<b>Operating Expenses</b>		
Personnel Expenses	(1,419,041)	(1,472,969)
Depreciation of Property, Plant and Equipment	(88,791)	(111,801)
Amortisation of Right of Use Assets	(214,496)	(215,362)
Amortisation of Intangible Assets	(3,560)	(9,858)
Other Operating Expenses	(924,595)	(866,970)
<b>Operating Profit before Tax on Financial Services</b>	1,364,150	1,255,062
Tax on Financial Services	(446,315)	(356,364)
<b>Profit before Taxation</b>	917,835	898,698
Income Tax Expenses	(240,007)	(178,075)
<b>Profit for the Year</b>	677,827	720,623
<b>Other Comprehensive Income</b>		
Actuarial Gains/(Losses) on Defined Benefit Plans	(8,989)	11,440
Gain/(Loss) due to changes in Assumptions	(443)	109,375
Deferred Tax (Charge)/Reversal on above items	2,829	(14,498)
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>	(6,602)	106,317
Surplus from Revaluation of Property, Plant & Equipment	-	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment	-	-
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>	-	-
<b>Other Comprehensive Income for the Year, Net of Tax</b>	(6,602)	106,317
<b>Total Comprehensive Income/(Expenses) for the Year</b>	671,225	826,940

Exchange rate of USD was Rs. 327.00 as at 31 March 2023 (Rs. 299.00 as at 31 March 2022)

The Statement of Profit or Loss is solely for the convenience of Stakeholders (shareholders, investors, bankers and other users of Financial Statements) and do not form part of the Financial Statements.

## STATEMENT OF FINANCIAL POSITION IN USD

As at 31 March	2023 USD	2022 USD
<b>Assets</b>		
Cash and Cash Equivalents	2,030,715	308,135
Financial Investments	1,761,552	1,781,495
Other Financial Assets	2,674	2,724
Financial Assets at Amortised Cost - Loans and Receivables	15,612,572	17,092,291
Financial Assets at Amortised Cost - Lease Rentals Receivables	14,296,215	15,947,047
Other Non Financial Assets	476,880	542,216
Investment Property	716,384	783,470
Property, Plant and Equipment	449,833	465,778
Right-of-use Lease Assets	321,839	433,221
Intangible Assets	14,330	16,481
Deferred Tax Assets	5,977	-
<b>Total Assets</b>	<b>35,688,971</b>	<b>37,372,858</b>
<b>Liabilities</b>		
Due to Banks and Other Institutions	4,611,971	7,759,815
Financial Liability at Amortised Cost - Due to Customers	18,940,156	15,816,378
Lease Liability	366,813	501,511
Other Non Financial Liabilities	892,738	1,996,018
Current Tax Liabilities	219,295	70,804
Post Employment Benefit Liability	109,105	107,245
Deferred Tax Liabilities	-	68,260
<b>Total Liabilities</b>	<b>25,140,079</b>	<b>26,320,031</b>
<b>Shareholders' Funds</b>		
Stated Capital	8,244,994	9,017,100
Reserves	557,945	573,129
Retained Earnings	1,745,953	1,462,597
<b>Total Shareholders' Funds</b>	<b>10,548,892</b>	<b>11,052,826</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>35,688,971</b>	<b>37,372,858</b>
Commitments and Contingencies	22,732	14,348

Exchange rate of USD was Rs. 327.00 as at 31 March 2023 (Rs. 299.00 as at 31 March 2022)

The Statement of Profit or Loss is solely for the convenience of Stakeholders (shareholders, investors, bankers and other users of Financial Statements) and do not form part of the Financial Statements.

## CAPITAL ADEQUACY

In June 2018, CBSL introduced a new Capital Adequacy Framework (CAF) revoking the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006. The new CAF is intended to foster a strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities.

The existing Capital Adequacy direction was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements were applicable for market and operational risks. Therefore the new CAF provides for maintenance of Capital Adequacy Ratios (CARs) on a more risk sensitive focus covering credit and operational risk under basic approach available in Basel II Accord.

Item	2022/23 LKR '000	2021/22 LKR '000
<b>Tier 1 Capital</b>	<b>3,306,083</b>	3,229,233
Total Capital	3,433,245	3,367,770
Total Risk Weighted Amount	10,095,254	11,071,176
Risk Weighted Amount for Credit Risk	8,515,848	9,425,792
Risk Weighted Amount for Operational Risk	1,579,406	1,645,384
Company's tier 1 capital ratio %	32.7	29.2
Regulatory minimum tier 1 ratio %	8.5	6.5
Company's total capital ratio %	34.0	30.5
Regulatory minimum total capital ratio %	12.5	11.5
<b>Tier I capital</b>	<b>3,310,769</b>	3,234,161
Stated capital	2,696,113	2,696,113
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	125,933	114,851
Audited retained earnings/(losses)	570,927	437,317
(less) Revaluation gains/surplus of investment property	82,204	14,120
General and other disclosed reserves	-	-
Current year's profit/(losses)	-	-
<b>Adjustments to Tier I capital</b>	<b>4,686</b>	4,928
Goodwill (net)	-	-
Other intangible assets (net)	4,686	4,928
Other Comprehensive Income losses	-	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	-	53,213
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	-	-
Shortfall of capital in financial subsidiaries	-	-
SLFRS 9 day one impact adjustment	-	-
<b>Tier I Capital (after adjustments)</b>	<b>3,306,083</b>	1,998,518
<b>Tier 2 Capital</b>	<b>127,162</b>	138,536
Instruments qualified as Tier 2 capital	-	-
Revaluation gains	20,714	20,714
General provisions/ Collective impairment allowances	106,448	117,822
<b>Eligible Tier 2 Capital</b>	<b>-</b>	-
<b>Total Adjustments to eligible Tier 2 Capital</b>	<b>-</b>	-
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	-	-
<b>Eligible Tier 2 Capital after adjustments</b>	<b>127,162</b>	138,356
<b>Total Capital</b>	<b>3,433,245</b>	3,367,770

## GLOSSARY

### A

#### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

#### Accrual Basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

#### Amortisation

Amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

#### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

#### Available for Sale Financial Assets

All assets not in the three categories namely, loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

### C

#### Cash Basis

Recognizing the effects of transactions and events when receipt or payment of cash or cash equivalent occurs.

#### Capital Adequacy Ratio

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for

International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

#### Capital Funds

Shareholders' funds net of statutory reserves

#### Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Cash flows

Inflows and outflows of cash and cash equivalents.

#### Collective Impairment Provision

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

#### Commitments

Credit facilities approved but not yet utilised by the customers as at the date of the statement of financial position.

#### Contingencies

A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

#### 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 to owners and others.

#### Cost to Net Income Ratio

The operating expenses, including tax on financial services but excluding the

impairment (charge)/reversal for loans and other losses, expressed as a percentage of net income.

#### Cost of Funds

Interest expenses expressed as a percentage of average interest bearing liabilities.

#### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

#### Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

#### Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

### D

#### Debt to Equity

Interest bearing liabilities expressed as a percentage of average equity attributable to the equity holders of the Company.

#### Debt to Equity (Excluding Deposits)

Interest bearing liabilities excluding public deposits expressed as a percentage of average equity attributable to the equity holders of the company.

#### Deferred Tax

Sum set aside for tax in the Financial Statements for taxation that may become payable/ receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rule and accounting conventions.

#### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

#### De recognition

The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

#### Discount rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

### E

#### Earnings per Share

Profits attributable to ordinary shareholders divided by the ordinary shares in issue.

#### Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

#### Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

#### Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

#### Efficiency Ratio

Operating expenses expressed as a percentage of income; interest income plus other income

#### Eligible Deposits

Customer Deposits after deducting for loans outstanding balances taken against the security of deposits and deposits balances of directors and KMPs.

## Glossary

### Exposure

A claim, contingent claim or position which carries a risk of financial loss.

### F

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transactions.

### Fair Value through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or a derivative (except for a -derivative that is a financial guarantee contract)

### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

### Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

### Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Funding Mix

The total of shareholders' funds, customer deposits and borrowings from banks and other institutions

### G

### Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

### Gross NPA Ratio

The total of the non-performing loans and receivables and non-performing Lease Rentals Receivables expressed as a percentage of the total of average loans and receivables and average Lease Rentals Receivables portfolio. In calculating gross NPA ratio the age of the re-schedule contracts are calculated based on post re-schedulement age.

### Gross NPA Ratio (with reschedulements)

The total of the non-performing loans and lease receivables expressed as a percentage of average loans and lease receivables portfolio. In calculating gross NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

### Gross Portfolio

The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities

### H

### HTM (Held to Maturity)

Investments Non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

### I

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Impaired Loans

Loans where the Company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### Intangible Asset

An identifiable non-monetary asset without physical substance.

### Interest Margin

Net interest income expressed as a percentage of average interest earnings assets

### Interest Spread

This difference between the average interest rate earned on the interest earning assets and the average interest rate paid on the interest bearing liabilities.

### Impairment Allowance for Loans and Other Losses

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

### K

### Key Management Personnel

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

### L

### Lending

Lending represents the disbursements of the Company during the year under review

### Lending Base

This represents Loans and Lease Receivables of the Company

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills & bonds.

### Liquidity Assets Ratio

Liquid assets expressed as a percentage of average deposits liability and short term liabilities.

### Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### Loans Payable

Financial liabilities, other than short term trade payables on normal credit terms.

### Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

### M

### Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

### N

### Net Assets per Share

Equity attributable to the equity holders of the Company divided by the average number of ordinary share in issue during the year.

### Net Interest Income (NII)

The difference between incomes earned from interest earning assets and cost incurred on financial instrument/ facilities used for funding the interest earning assets.

### Net NPA Ratio

The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the post rescheduled age.

### Net NPA Ratio (with reschedulings)

The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

### Net Portfolio

The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities net of impairment charge for loans and other losses.

### Non-performing Advances

Rentals receivables in arrears equals to six rentals or more than six rentals have been categorised as non-performing.

### NPA to Assets

The total of non-performing loans and lease receivables expressed as a percentage of average total asset



### Operational Risk

The risk of loss incurring from inadequate or failed internal processes, people and systems or from external events.

### Operating Expense Ratio (Opex Ratio)

Operating expenses expressed as a percentage of average of gross loan portfolio



### Parent

An entity that controls one or more subsidiaries.

### Portfolio Yield

Interest earned on loans and lease receivables expressed as a percentage of average gross loans and lease receivables.

### Provision

Amounts set aside against possible losses on net receivable of facilities granted to customers, as a result of them becoming partly or wholly uncollectible.

### Provision Cover

Impairment charge for loans and other losses expressed as a percentage of the total of non-performing loans and lease receivables before discounting for allowance for impairment charge on non-performing loans and lease receivables.



### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Return on Assets (ROA)

Profit after Tax (PAT) expressed as a percentage of the average assets

### Return on Interest Earning Assets

Interest income expressed as a percentage of average Interest earning assets.

### Risk Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighted factors.

### Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average equity attributable to the equity holders of the company.



### Shareholders' Funds

This consists of issued and fully paid up ordinary shares, redeemable preference shares and other reserves.

### Shareholder Funds to Deposits

Equity attributable to the equity holders of the company expressed as a percentage of average deposits liability.

### Staff Cost to Net Income

Staff cost expressed as a percentage of total operating income.

### Stated Capital

All amounts received by the Company or due and payable to the Company- (a) in respect of the issue of shares, (b) in respect of calls on shares.

### Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

### Subsidiary

An entity including an unincorporated entity such as a partnership, which is controlled by another entity known as the Parent.

### Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company



### Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term-debts.



### Value Addition

Value of wealth created by providing leasing and other related services considering the cost of providing such services.

## LIST OF ABBREVIATIONS

<b>AFS</b>	Available for Sale
<b>AGM</b>	Annual General Meeting
<b>ALCO</b>	Assets and Liabilities Management Committee
<b>AM</b>	Acting Manager
<b>ASPI</b>	All Share Price Index
<b>ATM</b>	Automated Teller Machine
<b>AWDR</b>	Average-Weighted Deposit Rate
<b>AWFDR</b>	Average-Weighted Fixed Deposit Rate
<b>AWPLR</b>	Average Weighted Prime Lending Rate
<b>BN</b>	Billion
<b>BOD</b>	Board of Directors
<b>CAR</b>	Capital Adequacy Ratio
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CDS</b>	Central Depository System
<b>CDM</b>	Cash Deposit Machine
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CRM</b>	Customer Relationship Management
<b>CSC</b>	Customer Service Centres
<b>CSE</b>	Colombo Stock Exchange
<b>CSR</b>	Corporate Social Responsibility
<b>EIR</b>	Effective Interest Rate
<b>EPF</b>	Employees' Provident Fund
<b>EPS</b>	Earnings per Share
<b>ERP</b>	Enterprise Resource Planning
<b>ESC</b>	Economic Service Charge
<b>ETF</b>	Employees' Trust Fund
<b>FVTPL</b>	Fair Value through Profit or Loss
<b>GDP</b>	Gross Domestic Product
<b>GRI</b>	Global Reporting Initiative
<b>HFT</b>	Held for Trading
<b>HODs</b>	Head of Departments
<b>HTM</b>	Held to Maturity
<b>ICASL</b>	The Institute of Chartered Accountants of Sri Lanka
<b>IFA</b>	Investment Fund Account
<b>IFRS</b>	International Financial Reporting Standard
<b>IIRC</b>	International Integrated Reporting Council
<b>IRMC</b>	Integrated Risk Management Committee
<b>ISO</b>	International Standard Organisation
<b>IT</b>	Information Technology
<b>KMP</b>	Key Management Personnel
<b>KPIs</b>	Key Performance Indicators
<b>KRIs</b>	Key Risk Indicators
<b>L&amp;R</b>	Loans and Receivables

<b>LRA</b>	Lanka Rating Agency
<b>LCB</b>	Licensed Commercial Bank
<b>LFC</b>	Licensed Finance Company
<b>LKAS</b>	Lanka Accounting Standards
<b>LKR</b>	Sri Lankan Rupees
<b>LTV</b>	Loan to Value
<b>MN</b>	Million
<b>M3</b>	Cubic Meter
<b>MOU</b>	Memorandum of Understanding
<b>MSME</b>	Micro, Small and Medium Enterprises
<b>NBFI</b>	Non-Bank Financial Institutions
<b>NBT</b>	Nation Building Tax
<b>NPA</b>	Non-Performing Advances
<b>NII</b>	Net Interest Income
<b>NIM</b>	Net Interest Margin
<b>NPL</b>	Non-Performing Loans
<b>OCI</b>	Other Comprehensive Income
<b>PAT</b>	Profit after Tax
<b>PAYE</b>	Pay As You Earn
<b>PER</b>	Price Earnings Ratio
<b>PLC</b>	Public Limited Company
<b>ROA</b>	Return on Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return on Equity
<b>SDF</b>	Sarvodaya Development Finance PLC
<b>SEC</b>	Securities and Exchange Commission
<b>SLC</b>	Specialised Leasing Company
<b>SLA</b>	Statutory Liquid Assets
<b>SLAR</b>	Statutory Liquid Asset Ratio
<b>SLAS</b>	Sri Lanka Accounting Standard
<b>SLFRS</b>	Sri Lanka Financial Reporting Standard
<b>SLIPS</b>	Sri Lanka Inter-Bank Payment System
<b>SME</b>	Small and Medium Enterprises
<b>SSS</b>	Sarvodaya Shramadana Society
<b>UOM</b>	Unit of Measurement
<b>USD</b>	US Dollar
<b>VAR</b>	Value at Risk
<b>VAT</b>	Value Added Tax
<b>WHT</b>	Withholding Tax

## THEME SONG OF SDF

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fl dgi afol l awdfhdck fl reug  
b; rsfl dgi r|j d yoi thl g  
Okh yi rej uqfyd| ohKj l g

w; oi ú¥ keK mdod - ck uq . u rg i dod - ch f. k u. tk ndod  
. u mi foa- oeh mi foa- oeh mi foa- . u mi foa-  
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mne<sup>a</sup>u - wdpd%h taà wrhr; k  
i x. \$ h - frdyK ùri xy  
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## CORPORATE INFORMATION

### NAME OF THE COMPANY

Sarvodaya Development Finance PLC

### LEGAL FORM

Public Quoted Company Incorporated in Sri Lanka under the Companies Act No. 7 of 2007.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

The Company was admitted to the official List of the Colombo Stock Exchange on 14 December 2021.

### PRINCIPAL ACTIVITIES

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Savings, Providing Finance Lease, SME Loans, Gold Loans, Personal Loans, Other Credit Facilities, Digital Financial Services and Value-Added Services.

### COMPANY REGISTRATION NUMBER

PB 3795 (Before Listing)  
PQ 00251293

### CENTRAL BANK REGISTRATION NUMBER

047

### TAX PAYER IDENTITY NUMBER (TIN)

134037954

### REGISTERED OFFICE & HEAD OFFICE

No. 155/A,  
Dr. Danister De Silva Mawatha,  
Colombo 08,  
Sri Lanka.  
Telephone No.: 011 5 444 666  
E-mail: info@sdf.lk  
Website: www.sarvodayafinance.lk

### ACCOUNTING YEAR-END

31st March

### NO OF BRANCHES

51

### COUNTRIES OF OPERATIONS

Sri Lanka

### CREDIT RATING

Lanka Ratings (SL) BB Stable

### BOARD OF DIRECTORS

Mr. Channa de Silva - Chairman  
*Non-Independent/Non-Executive*  
Mr. Dammika Ganegama - Senior Director  
*Independent*  
Mr. Masayoshi Yamashita - Director  
*Non-Independent/Non-Executive*  
Mr. Ramesh Schaffter - Director  
*Non-Independent/Non-Executive*  
Mr. Senthil Nandhanan Senthilverl - Director  
*Non-Independent/Non-Executive*  
Mr. Amrit CanagaRetna - Director  
*Independent/Non-Executive*  
Ms. Shehara De Silva - Director  
*Independent/Non-Executive*

### BOARD SUB-COMMITTEES OPERATING

Board Audit Committee  
Board Integrated Risk Management Committee  
Board Remuneration and Nomination Committee  
Related Party Transaction Review Committee  
Board Credit Committee

### COMPANY SECRETARY

P W Corporate Secretarial (Pvt) Ltd  
No.3/17, Kynsey Road  
Colombo 08.

### EXTERNAL AUDITORS

M/s Ernst & Young  
Chartered Accountants,  
201, De Saram Place,  
Colombo 10.

### LEGAL ADVISERS

Nithya Partners  
D. L. & F. De Saram

### BANKERS

Sampath Bank PLC  
National Development Bank PLC  
Hatton National Bank PLC  
Seylan Bank PLC  
Cargills Bank PLC  
People's Bank  
Bank of Ceylon  
Commercial Bank PLC  
Sanasa Development Bank PLC



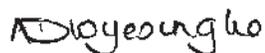
## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the thirteenth (13th) Annual General Meeting of Sarvodaya Development Finance PLC will be held on 26th June, 2023 centered at the Miyamoto Hall, Sarvodaya Development Finance PLC, No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 at 10.00 a.m. for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of Company and the Financial Statements for the year ended 31st March 2023 and the Report of the Auditors thereon.
2. To re-appoint Mr. Amrit CanagaRetna who retires by rotation in terms of Article 85 of the Articles of Association, as a Director of the Company.
3. To re-elect Ms. Shehara de Silva who retires by rotation in terms of Article 85 of the Articles of Association, as a Director of the Company
4. To re-appoint Messrs Ernst & Young. Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.
5. To authorize the Directors to determine donations for the year ending 31st March 2024 and up to the date of the next Annual General Meeting.

By Order of the Board

**SARVODAYA DEVELOPMENT FINANCE PLC**



**P W CORPORATE SECRETARIAL (PVT) LTD**

Secretaries

29 May 2023

At Colombo

**Note:**

A shareholder entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The completed form of Proxy should be deposited at the Registered Office of the Company, not less than forty-eight (48) hours before the time fixed for the commencement of the Meeting.

## FORM OF PROXY

I/We\* .....  
of .....  
being a shareholder / shareholders\* of Sarvodaya Development Finance PLC hereby appoint:  
..... of  
.....or failing him/her\*

Mr. Channa de Silva or failing him\*  
Mr. Dammika Ganegama or failing him\*  
Mr. Masayoshi Yamashita or failing him\*  
Mr. Amrit CanagaRetna or failing him\*  
Ms. Shehara de Silva or failing him\*  
Mr. S. S Nandhanan Senthilverl or failing him\*  
Mr. Ramesh Schaffter

as my/our\* Proxy to represent me/us\* to speak and to vote on my/our\* behalf at the Annual General Meeting of the Company to be held on 26th day of June 2023 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting.

	FOR	AGAINST
1) To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31 March 2023		
2) To re-appoint Mr. Amrit CanagaRetna who retires by rotation in terms of Article 85 of the Articles of Association, as a Director of the Company		
3) To re-elect Ms. Shehara de Silva who retires by rotation in terms of Article 85 of the Articles of Association, as a Director of the Company		
4) To re-appoint Messrs Ernst & Young, Chartered Accountants as the Auditors and to authorize the Directors to determine their remuneration.		
5) To authorize the Directors to determine donations for the year ending 31st March 2024 and up to the date of the next Annual General Meeting.		

In witness my/our hands this ..... day of ..... Two Thousand and Twenty Three.

.....  
Signature

**Notes:** 1. A Proxy need not be a shareholder of the Company  
2. Instructions as to completion appear on the below.  
\* Please delete what is inapplicable.

**INSTRUCTIONS FOR COMPLETION**

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company , No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08, 48 hours before the date of Annual General Meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. In the case of a Company/ Corporation, the Proxy must be executed in accordance with the Articles of Association/Statute.





**SARVODAYA DEVELOPMENT FINANCE PLC**  
No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08.  
Telephone No : 011 5 444 666  
E-mail: [info@sdf.lk](mailto:info@sdf.lk) | Website: [www.sarvodayafinance.lk](http://www.sarvodayafinance.lk)