

# Resolute

**ANNUAL REPORT**  
**2022-23**

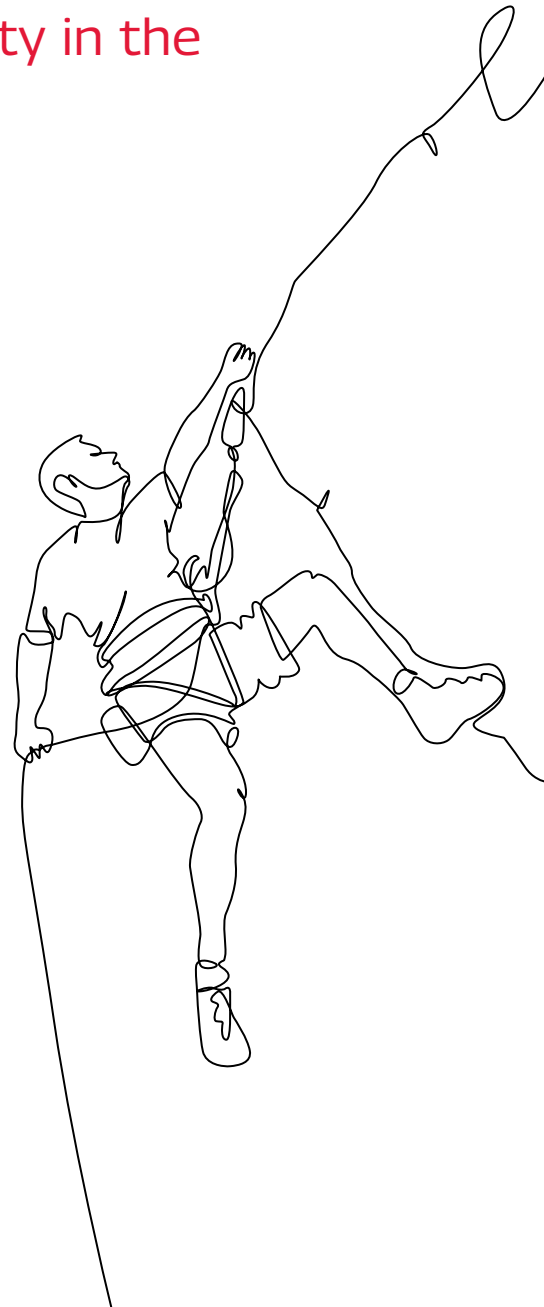
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# Resolute

Fueling our resilience over the turmoil of recent years has been an innate sense of resolve to remain unvanquished in the face of challenge. MIFL stayed true to a pragmatic strategy, which the Company believes will translate to success and prosperity in the future, for all stakeholders.

Reinforcing each other's grit and determination...two individuals with the same objective, as they continuously strive for new heights and new vistas. MIFL founded on MMFSL and IFL's partnership strives for new heights to create new vistas for its stakeholders.

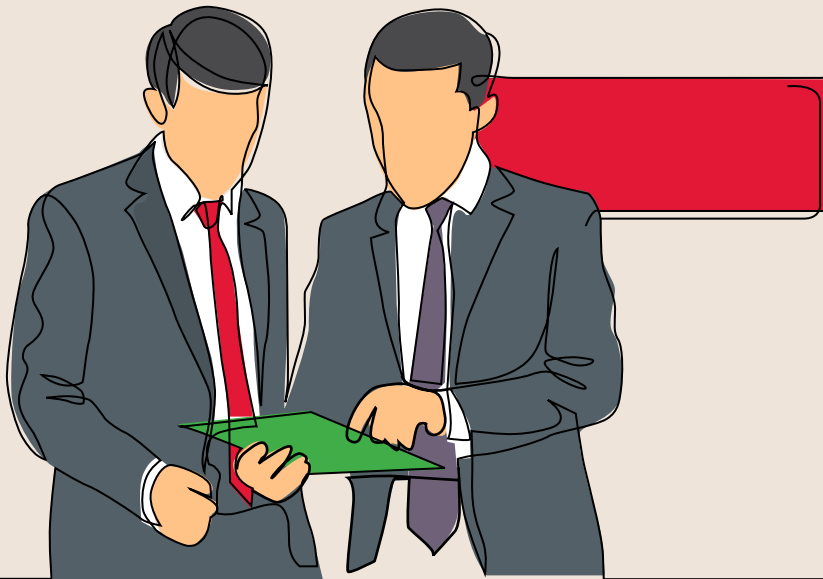


## Overview >

### About Mahindra Ideal Finance Limited

Incorporated in January 2012 as Ideal Finance Limited, the Company was renamed Mahindra Ideal Finance Limited (MIFL) in 2022, following the acquisition of an over 58% stake by Mahindra Finance, India. MIFL continues to play a valuable role in the Sri Lankan economy by financially empowering the marginalised who otherwise have no access to the banking sector.

MIFL today meets the financial needs of businesses and individuals through its product portfolio of Vehicle Leasing, Gold Loans, Mortgage Loans, Personal Loans and Fixed Deposits to empower rural and urban population and has grown to have an asset base of LKR 8.8 Bn and 27 fully fledged branches located islandwide. It is one of the few, if not only, Licensed Finance Companies (LFCs) in the country to be rated AA- (Rating Watch Negative) by Fitch Ratings during one of the most challenging years.



## > About Mahindra Ideal Finance Limited

### Our Vision

To be the ideal financial partner in creating wealth and enriching lives for our customers.

### Our Mission

To be the most credible, trustworthy and professional financial institution with a heart, which will deliver financial favours to our customers.

Enhance professionalism and the lives of our employees to be the most sought after employer.

Increase shareholder wealth - make them proud to be a shareholder of the Company.

Date of Incorporation

**24 January 2012**

Branches as at 31 March 2023

**27**

Credit Rating

**AA- (Rating Watch Negative)**

Revenue

**LKR 1,924 Mn**

Profit After Tax

**LKR 87 Mn**

Total Assets

**LKR 8,792 Mn**

Customer Deposits

**LKR 3,487 Mn**

Shareholders

The main shareholders are Mahindra & Mahindra Financial Services Limited (MMFSL) of India and Ideal Motors (Pvt) Limited. MMFSL has a 58.2% share

Total Employees

**276**

(Permanent - 227, Contractual and Probation - 49)

MIFL is an LFC, formed in 2012 as Ideal Finance Limited. It operates within the Non-Banking Financial Institutions (NBFIs) sector of Sri Lanka and is regulated by the Central Bank of Sri Lanka (CBSL) under its regulatory authority pertaining to this sector. In July 2021, MMFSL of India took a controlling share of MIFL, becoming its parent Company. This was the culmination of a partnership that had lasted over a decade.

At the inception its main products were finance leases, hire purchase, and micro-leases. Along the journey we have added other products such as gold loans and personal loans. We have also been expanding our geographical reach. In the year under review the number of branches grew to 27, more than doubling over the last five years.

Since the inception the Company's strategy has been focused on developing Sri Lanka's Micro, Small and Medium Enterprise (MSME) sector, particularly in the rural and semi-urban areas. We have also sought to meet their needs and that of individuals requiring financial and leasing facilities. In lending to businesses, we fill an important need that of lending those who are unable to obtain finance from the mainstream banking system.

### Our Values



#### Professionalism

We take a professional approach in our offerings to the market, and we take care to understand the needs and repayment capabilities of our customers. We tailor our offerings to individual needs and exercise care not to oversell.



#### Innovate

We are an innovative Company, leveraging the potential of technology, market research, and service standards to help customers with approachability and flexibility. This enables us to widen and deepen our penetration of the market.

## > About Mahindra Ideal Finance Limited



### Service

One-to-one service, tailored to the needs of individuals, is a driver of our success. We understand the many hurdles our customers face in a business environment that has posed myriad challenges over the last two years. We believe in and propagate the philosophy "Customer for Life" into all our strategic thinking and operations.



### Supporting Enterprise and Individuals

We provide the necessary financial assistance to aspiring small and medium scale business startups, and support those already in business who are unable to fulfill the requirements of the banking system. By prudent lending, we help both categories of customers attain their goals in a sustainable manner.



### A Responsible Corporate Citizen

As a responsible Corporate Citizen, we are accountable to a wide group of stakeholders; the general public, the Government of Sri Lanka, the business community, and the financial sector regulator. To deliver satisfaction to their varied interests, we ensure our Company's governance structure is streamlined and robust. This includes how we meet our statutory obligations, our contribution to environmental preservation, the way we manage risk and the ethical management of all interactions whether it is with our employees, customers, suppliers or volunteering in the community. In the current economic milieu in which we operate, we perform a service to the nation by helping to revive the economy.



### Ethical Employer

As we engage with our customers and other stakeholders, we understand that our human capital is our key resource. While offering attractive and competitive remuneration and benefit packages to our employees, we maintain a work environment providing fair and equal opportunities without any form of harassment or discrimination based on race, creed, or gender. We believe in an open-door policy where the employees have easy access to the Senior Management, encouraging constructive dialogue, where necessary, leading to mutual benefit.

## > About this Report

### Presenting Our 2022-23 Integrated Annual Report

We are pleased to present MIFL's Integrated Annual Report for the year 2022-23. It presents the economic, social and environmental performance of the Company for the financial year beginning 1 April 2022 and ending 31 March 2023 as well as its future strategy and focus in the context of the operating environment.



### Reporting Period

The Annual Report 2022-23 covers the period from 1 April 2022 to 31 March 2023 and covers a 12-month period of the Company's performance. This is consistent with the previous cycle for financial reporting.

### Forward Looking Statements

This Annual Report contains certain forward looking statements which relate to the future strategies, performance and results of the operations of the Group. These statements by their nature involve risk and uncertainty as they relate to the future and depend on circumstances which may occur in the future and which may be beyond the control of the Group. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, global and national socio-economic and political conditions, changes in industry environment, natural environmental conditions, interest rates, credit and the associated risk of lending, and competitive and regulatory factors.

Accordingly, the Board of Directors will periodically review and evaluate the operating environment and make adjustments to its future plans as and when necessary.

### Materiality

Materiality analysis reflects the choices made by the Company, within the operating environment in 2022. The materiality matrix identifies the significant impact those choices had on the stakeholders and the Company.

### Assurance of the Integrity of the Report

The Group uses a combination of internal controls, management assurance, compliance and internal audit reviews to ensure the accuracy of reporting and the ultimate responsibility for the integrity of this report lies with the Board of Directors.

In addition to the above, our Financial Statements and related Notes are audited by External Auditors, Messrs Ernest & Young, Colombo, and issued an independent report on the Financial Statements on page 104. We have exercised necessary due diligence to ensure that the Report addresses all material issues that impacted the Company, while documenting those issues reflecting a fair account of the Company's performance. MIFL's Board's Audit Committee provides an internal assurance on an annual basis to the Board. The *modus operandi* of the Audit Committee is based on the Company's overall risk management systems and is driven by an annual audit plan that is supervised by the Integrated Risk Management Committee under the purview of the Board.

### Key Frameworks, Guidelines, Policies, and Compliance

This Report was prepared drawing on concepts, principles and guidelines established in the Integrated Reporting <IR> Framework by the IFRS Foundation. It is in compliance with all applicable laws, regulations and standards as given below:

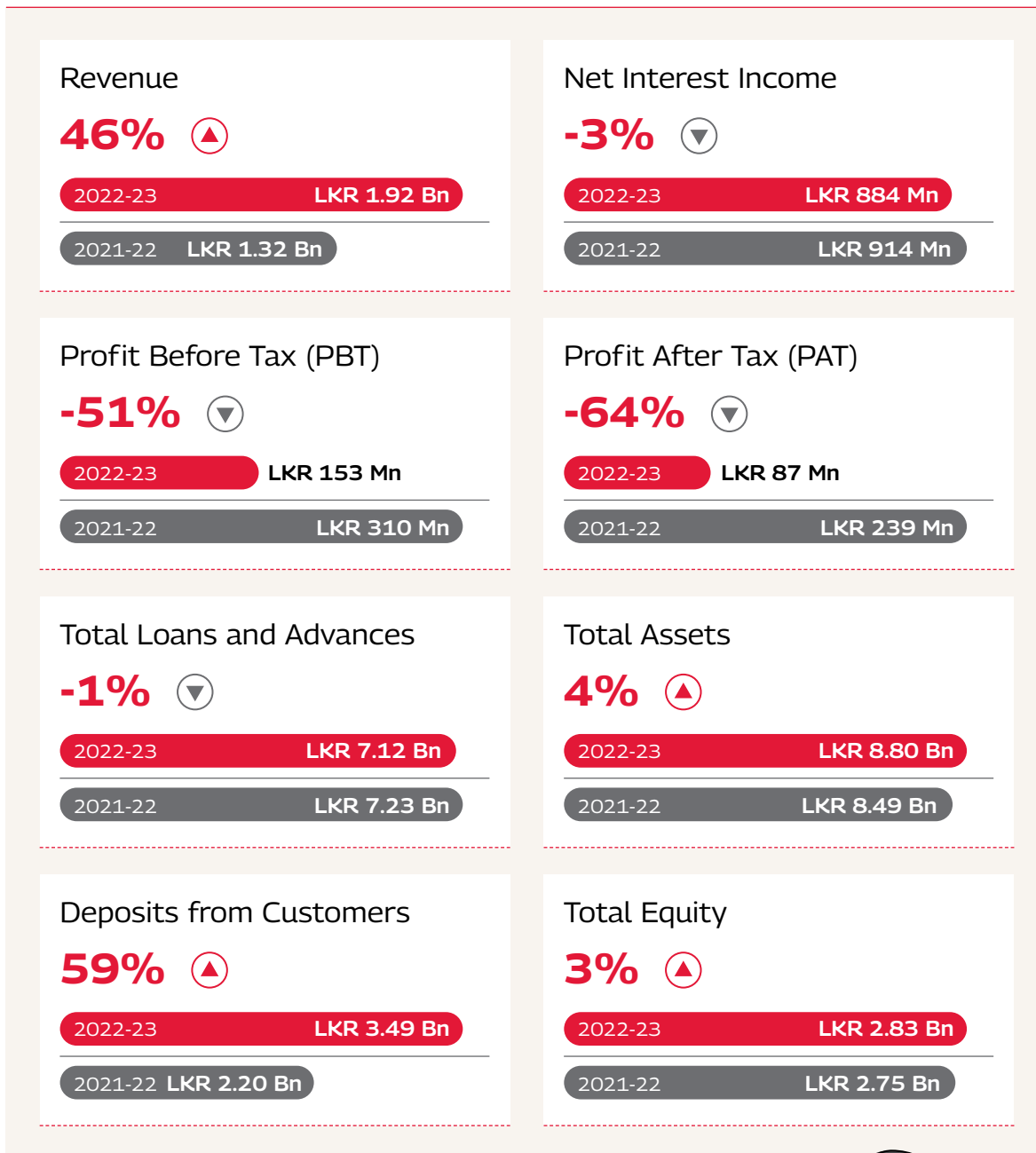
- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CASL)
- Directions, Rules and Regulations issued by the Central Bank of Sri Lanka, applicable for licensed Finance Companies
- Sri Lanka Auditing Standards
- Applicable rules of the Colombo Stock Exchange
- Sri Lanka Financial Reporting Standards
- Inland Revenue Act No. 24 of 2017
- Sustainable Development Goals of the United Nations (UN SDGs)

## > Financial Highlights

Key Performance Indicators		2022-23	2021-22
<b>Financial Performance</b>			
Revenue	LKR Mn	1,924	1,322
Net Interest Income	LKR Mn	884	914
Net Operating Income	LKR Mn	932	905
Operating Profit Before Taxes on Financial Services	LKR Mn	248	401
Profit Before Tax (PBT)	LKR Mn	153	310
Profit After Tax (PAT)	LKR Mn	87	239
<b>Financial Position</b>			
Total Loans and Advances to Customers	LKR Mn	7,124	7,230
Total Assets	LKR Mn	8,792	8,485
Total Equity	LKR Mn	2,835	2,746
Deposits from Customers	LKR Mn	3,487	2,195
<b>Financial Ratios</b>			
Operating Profit Margin	%	12.89	30.33
Net Interest Margin	%	11.22	14.17
Return on Average Assets - Pre Tax	%	1.77	4.43
Return on Average Assets - Post Tax	%	1.01	3.44
<b>Investor Perspective</b>			
Earnings Per Share	LKR	0.60	1.64
Net Assets Value Per Ordinary Share	LKR	19.46	18.86
Return on Average Equity - Pre Tax	%	5.49	11.82
Return on Average Equity - Post Tax	%	3.11	9.17
<b>Statutory Ratios</b>			
Tier 1 (Minimum Requirement - 8.5%)	%	48.92	38.62
Total Capital Ratio (Minimum Requirement - 12.5%)	%	49.93	39.68
Statutory Liquidity Ratio (Minimum Requirement - 10%)	%	30.66	17.51
Leverage Ratio (Debt Equity Ratio) Times	Times	1.93	1.85
<b>Non-Performing Advances Ratio (on 90 days past due basis)</b>			
Gross Stage 03	%	20.50	13.51
Net Stage 03	%	18.30	11.90
Stage 03 - Impairment Coverage	%	18.23	24.70



> Financial Highlights



## > Operational Highlights



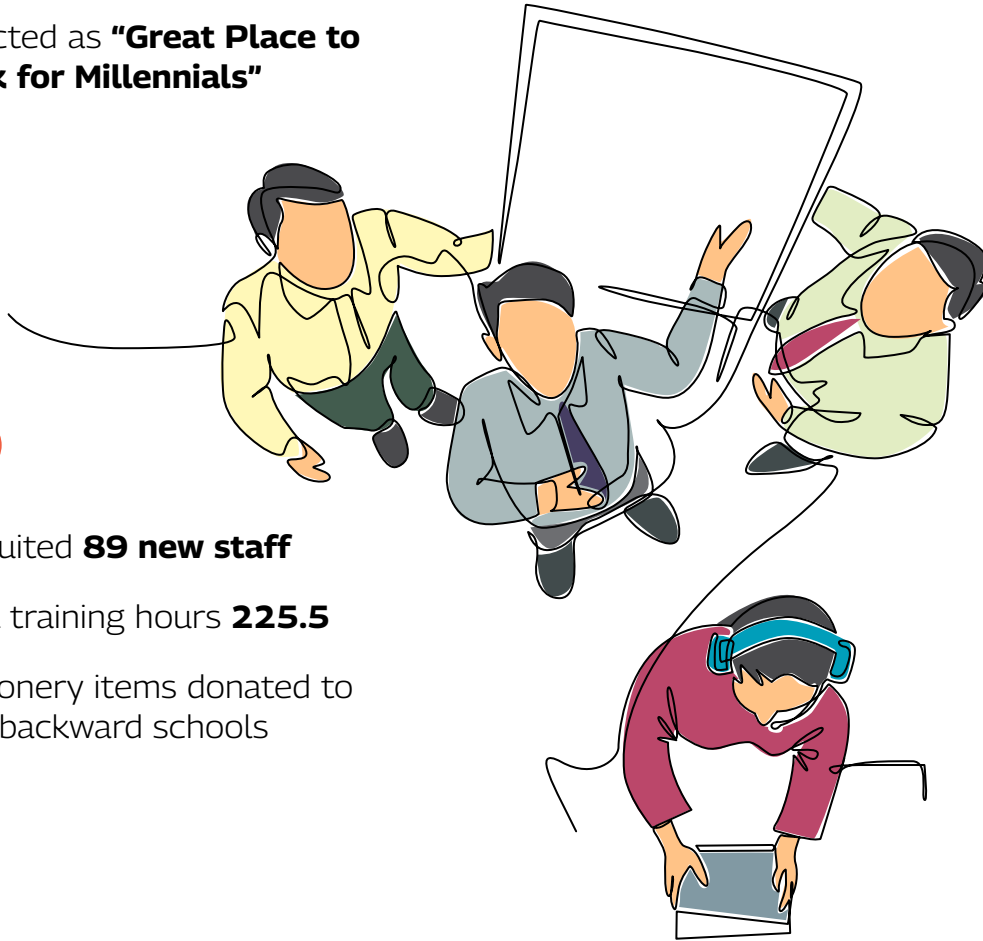
- Opened **seven new branches** bringing total to **27**
- Selected as **"Great Place to Work"** for the fourth consecutive year
- Selected as **"Great Place to Work for Millennials"**



- **Reward system introduced** for branches as an incentive to lower electricity and water consumption



- Recruited **89 new staff**
- Total training hours **225.5**
- Stationery items donated to four backward schools



- Upgraded, rebranded and relocated Call Centre to Negombo
- Calls answering rate of **95.34%**

## > Our Journey

### 2022-23

- Opened seven new branches, increasing the footprint to 27.
- Upgraded, rebranded, and relocated the Call Centre to Negombo to enhance the service to customers.
- Rated AA- (Watch Negative) by Fitch Ratings, becoming one of the few to be thus endorsed.
- Awarded as a "Great Place to Work" for the 4th successive year.

### 2020-21

- Opened two branches in Vavuniya, and Gampaha despite the pandemic, and relocated the Elpitiya Branch to serve our customers better.
- Achieved LKR 1 Bn in gold loans.
- Achieved the highest profits to date with a net profit of LKR 184.4 Mn and the deposit base reached LKR 920.94 Mn and a revenue of LKR 1 Bn.
- BB-(LKA) rating watch positive by Fitch rating since 10 June 2020.

### 2018-19

- Opened branches in Kandy and Matara expanding our branch network to 10.

### 2016-17

- IFL opened its 6th branch in Monaragala.

### 2014-15

- Income derived was LKR 175 Mn, and at year end the portfolio was LKR 737 Mn, and the deposit base was LKR 170 Mn net profit earned was LKR 28.9 Mn.

### 2012-13

- IFL Commences operations in March 2012.
- Portfolio: LKR 285.9 Mn  
Deposit base: LKR 48.8 Mn
- Main products were Finance Lease, Hire Purchase and Micro-leases.

### 2021-22

- In July, MMFSL became the parent company of MIFL with the acquisition of a 58.20% share.
- Opened eight new branches amidst the pandemic and the economic crisis, in Welimada, Chunnakam, Nelliadi, Kaduwela, Ja-Ela, Kadawatha, Galle and Kuliypitiya
- Marked the completion of 10 years in business in March 2022.
- IFL was rebranded as Mahindra Ideal Finance Co Ltd. (MIFL) in January 2022 to reflect the acquisition by MMFSL.
- Achieved an AA- (Outlook Stable) by Fitch Ratings with effect from 26 July 2021.

### 2019-20

- MMFSL partners with IFL as the second largest shareholder.
- IFL is able to achieve the Capital Adequacy Ratio mandated by the regulator.

### 2017-18

- Jaffna and Monaragala branches were relocated to improve customer service.

### 2015-16

- Gold loans, business, and personal loans were introduced.
- IFL earned the affirmation of being a sustainable ongoing finance business from Fitch Ratings with a B+(lka) Stable rating.

### 2013-14

- SME sector was given a significant place in the lending activities.
- Branches were opened in Anuradhapura, Elpitiya, Embilipitiya, Jaffna, and Kurunegala as well as a service centre in Bandarawela.

**A Word from the Leadership >**  
**Chairman's Message**

# We look ahead

with renewed vigour as MIFL stands well poised to contribute to the country's revival and also reach our objective of being amongst the top five LFCs in the country.



## > Chairman's Message

Dear Stakeholder,

It gives me great pleasure to welcome you to the Annual General Meeting of Mahindra Ideal Finance Limited (MIFL) and share with you the Annual Report and Audited Financial Statements for the year ended 31 March 2023.

### Performance in Context

The Company was able to grow its revenue by 46% despite the most inimical operating environs during the year, bolstered by the brand equity and the synergies we have begun to harness from our partnership with Mahindra & Mahindra Financial Services Limited (MMFSL) of India. Since forging a partnership with MMFSL with the latter's acquisition of 58% share of the Company in 2021, the year under review saw the commencement of the integration of the capabilities, systems, and processes of the two companies, and the process fast forwarded to meet the challenges of the turbulent operating backdrop of 2022.

Just as the threat of the pandemic began to reduce in intensity and Sri Lanka was beginning to see green shoots of recovery in 2021, the year 2022 saw the country experience its harshest economic downturn since independence, as it sought to adjust to macro-economic instability following a depletion of foreign reserves and a debt crisis. The economy thus contracted by a significant 7.8%. A sharp depreciation of the rupee since early 2022, combined with a rise in interest rates and galloping inflation, impacted the purchasing power of Sri Lankans across the board whilst these challenges were also exacerbated by supply chain disruptions due to shortages of fuel and other essentials. Furthermore, the debt crisis and other economic fundamentals prompted a downgrade of Sri Lanka's international credit rating, which combined with public unrest contributed to diminishing confidence in external markets about the country's socio-economic stability.

However, the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector showed extraordinary resilience, managing to continue its expansion during 2022 amidst the crisis environs that prevailed. Despite the many challenges of shrinking credit growth, declining profitability, and increase in non-performing loans as indicated by Stage 3 loans, the LFCs and SLCs sector grew in terms of assets and deposits and had adequate capital and liquidity buffers during 2022. Total assets of the sector amounted to LKR 1,611.2 Bn by end 2022, representing 5.2% of the total assets of Sri Lanka's financial system.

The asset expansion was mainly driven by the growth in loans and advances portfolio, followed by an increase in investments and liquid assets.

Growth in MIFL's revenue, in line with the performance of the industry, also primarily came from the gold loans portfolio fuelled by the market's need for liquidity. Also driven by a concerted promotional effort by MIFL during the year, our gold loans portfolio grew by 75% to LKR 3.95 Bn as at end March 2023, in comparison to LKR 2.26 Bn as at end March 2022. The Company's marketing division engaged in above-the-line marketing campaigns such as via hoardings, corrugated boards, leaflets, and SMS's to create market awareness of the gold loan product. The loan to value ratio was maintained at a prudent level, so that even when the gold price declined the portfolio was resilient.

The leasing sector declined by 36% due to reduced demand and restrictions to vehicle imports. It is also noteworthy that our prudent lending practices combined with customer centricity and a sustainable approach to customer relations helped in constraining the increase in NPLs to be on a par with the industry average, despite the recessionary conditions during the year. An approach of partnership, in which our employees increased customer interactions during the turbulent times, offered guidance, and persuaded those customers who were delaying payment, to pay their lease installments was a reflection of our socially sustainable approach in business.

It is noteworthy that MIFL was one of the few LFCs which was able to maintain its credit rating by Fitch Ratings at AA-(lka) "Watch Negative", amidst an economic contraction and a rating downgrade for the country as a whole. This valuable endorsement of our creditworthiness and financial sustainability, enabled by the partnership with MMFSL, has been a key factor in our ability to attract international funding amidst the multitude of challenges that impacted the entire industry. It has also reduced our cost of borrowing when our peers were struggling with high interest rates.

It is also heartening to note that MIFL was voted as a "Great Place to Work", by Great Place to Work Sri Lanka, for the 4th successive year and also earned the title of "Great Place to Work for Millennials" in 2022, supported by its welcoming open culture, dynamism and adaptability to rapidly changing market conditions.

## > Chairman's Message

### Governance

MIFL believes that the highest standards in governance is indispensable to creating long-term value to its stakeholders and must be pursued uncompromisingly. The Board sets the tone at the top by promoting professional standards and corporate values that cascade down to Senior Management and other employees of the Company. MIFL has also not violated of any of the provisions of the Code of Conduct.

During the year under review, we further strengthened our governance mechanisms with the adoption of several best practices of our parent company MMFSL, which is regulated by the Reserve Bank of India. One such important adoption was to maintain one month's liquidity buffer at all points of time. The MIFL Board now constitutes four Directors of MMFSL Board that bring in their expertise in risk, finance, and marketing and represent the Board on all subcommittee's such as Audit, Risk, and Remuneration. We also introduced more formalised structures and frameworks in order to implement our Environmental, Social and Governance (ESG) sustainability agenda. And the migration of concrete mechanisms will help translate our ESG ethos into action with greater efficacy and impact.

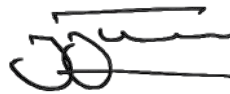
### Looking Ahead

While short-term challenges are inevitable, we remain cautiously optimistic that the economy will gain momentum over the medium-term. The approval of an Extended Fund Facility by the International Monetary Fund (IMF), together with coordinated policy interventions to restore macro-economic stability, have set Sri Lanka's economy on a tepid path to recovery. Against this backdrop, as per CBSL estimates, the country's economic contraction is expected to be limited to 3% in 2023, before recovering to a growth of 1.3% in 2024.

Furthermore, declining inflationary pressures and the easing of monetary policy begun over the recent weeks, support our optimism that economic activity will be rekindled this year. We thus look ahead with renewed vigour as MIFL stands well poised to contribute to the country's revival and also reach our objective to be amongst the top five LFCs in the country. Accordingly, we will pursue organic growth and look to expand our presence at a faster pace than we have up to now. The growing strength of our relationship and integration with our parent company, provides us a significant competitive edge in an intensely competitive market.

### Acknowledgements

I would like to express my very sincere thanks to my colleagues on the Board for their collective wisdom, guidance and continual support. My most sincere appreciation to our CEO and the team of 275 individuals, whose spirit of progress and resilience continued to drive the Company amidst the most challenging times with their focused approach, passion, and commitment. I also convey my gratitude to the Governor of the Central Bank of Sri Lanka and officials of the Division of Supervision of Non-Bank Financial Institutions and other regulatory authorities for their support and understanding and the vital role they play in the industry. I also extend my gratitude to our shareholders, customers, business partners, and other stakeholders for their trust and confidence in us, which continues to inspire us to raise the bar for ourselves.



**Nalin J Welgama**  
Chairman

21 April 2023

> Chief Executive Officer's Review

# We were able to grow

our revenue by 46% despite the most adverse operating environs.



## > Chief Executive Officer's Review

Dear Stakeholder,

In the most adverse operating environs which posed a multitude of challenges that impacted the entire nation, I am happy to note that the Company proved its resilience once again. We were able to grow our revenue by 46% to LKR 1,924 Mn, despite a significant drop in demand for leasing. The gold loans and fixed deposits were key growth drivers during the year, supported by the strength of our brand and customer orientation. Profits before tax was 51% lower at LKR 153 Mn and profits after tax was down by 64% at LKR 87 Mn, the decline was due to higher borrowing costs leading to shrinkage in net interest margins.

Our asset base grew by 4% driven by our branch expansion and promotions and a high interest environment to stand at LKR 8.79 Bn at year end. The structure of the asset base remained healthy during the year, with loans accounting for LKR 7.12 Bn and deposits accounting for LKR 3.49 Bn. The Tier 1 capital ratio was 48.92%, vis-a-vis the minimum statutory requirement of 8.5% whilst the total capital ratio stood at 49.93% against the minimum statutory requirement of 12.5%. The capital structure remained healthy with total equity of the Company increasing by 3.22% as at end March 2023 and our capital was well above regulatory requirements.

Sri Lanka's interest rates rose during the year with an unprecedented increase in Central Bank rates, which resulted in certain market rates reaching the highest ever on record. Our fixed deposits grew substantially, by as much as 59%, to reach a total deposit base of LKR 3.49 Bn as at end March 2023. The Company promoted the fixed deposits under a special "FD Bonanza" during the last quarter of the year. It is encouraging that these deposits came from new customers as well as from existing customers, thus endorsing MIFL's brand strength in an intensely competitive market. Gold loans were a major driver of growth during the year. We were able to control the growth in NPL's enabled by prudent lending practices as well as increased customer engagement supported by our Customer Service Centre.

MIFL's customer acquisition and retention, despite a turbulent period, was once again well facilitated by our branch infrastructure, a dedicated Customer Service Centre, fast turnaround times, and a customer referral programme. The year under review saw us expand, enhance, and rebrand as well as relocate our Customer Service Centre to Negombo. The location in

Negombo offers a key advantage of easier access to a trilingual population to recruit as customer service agents, enabling us to offer a superior service to meet client needs in every part of the country. The service agents have also played an important role in recoveries of customer payments during critical times, by not merely alerting them to payment due dates but also by offering guidance to manage their cash flows in a way they could make their payments to retain ownership or use of their asset.

### Our People

The commitment and talents of our people in these lean times proved to be the key to the Company's resilience and success. In a year in which the impacts of the economic crisis spared no one, the Company also gave priority to helping our employees find ways to ease some of the economic pressures brought on by scarcities and inflation. Amongst them was the provision of a transport and inflation allowance to meet the steeply rising costs of living, which was subsequently added to the monthly salary as inflation continued remain high for most part of the year. We also facilitated flexible work arrangements by providing laptops and internet and mobile connectivity, ensuring the continuity of our operations sans any interruption.

The year under review also saw our HR management give priority to recruitment and training of individuals for the Customer Contact Centre, with role-based training and their subsequent appointment of them to their respective roles.

It is also noteworthy that during the year under review, MIFL made its highest number of new recruitments in any given year, adding 89 new employees to our cadre, from across the country, thus reflecting our plans and buoyant outlook for growth and expansion in the next few years. Our branch network expanded with the opening of seven new branches in semi and non-urban locations spread across four districts of the country, bringing the total number of branches to 27.

We also participated in the Great Place to Work survey in 2022, and are most heartened by the fact that we were chosen as a "Great Place to Work" for the 4th consecutive year (among the top 50 best workplaces and "Great Place to Work for Millennials"). Following the integration with MMFSL, India, our employees continue to benefit from the sharing of knowledge, wider



## > Chief Executive Officer's Review

exposure and their best practices. MMFSL's "MD's Club" recognises, rewards, and offers opportunity to be groomed to take up leadership for fifty to sixty of its best performing executives from a total cadre of 20,000+ spread across India. Following on from the previous year, two high performers from MIFL were nominated this year as well and amongst their opportunities for knowledge acquisition would be the enrollment in a programme at a top business school of India.

### **Establishing an ESG Integrated Model**

Following the beginning of integration with our parent company, MIFL began the process of adopting MMFSL's systems and processes to enable a more formalised structure to an ESG integrated business model. We could thereby expand and make cohesive the social and environmental initiatives which we have engaged in over the years as a natural extension of an approach of care we have adopted towards our people and customers.

Towards reducing our carbon footprint - we have adopted a policy to ensure that all new branch locations will be installed with inverters as a more environment friendly alternative to generators as sources of standby power supply. As an energy and water conservation initiative when the annual branch evaluations are done, branches which have adopted best practices in saving electricity, water and maintaining the hygiene standards are rewarded as a team at the annual awards presentation.

We also continued with our CSR efforts of reaching out to the economically disadvantaged in neighbourhoods of our branch network, and also helped meet a dire need of the hour by gifting school supplies to children in areas such as Bandarawela, Vavuniya, Monaragala, Jaffna, and Matara.

### **In Conclusion**

I would like to thank our Chairman, and the Board of Directors for their leadership and guidance and the confidence placed in me. As we end another year in which we proved our innate resolve, I would like to convey my heartfelt appreciation to my management team and employees for their unstinted commitment, talents, and passion which have seen us through the most difficult times. My sincere thanks also to our customers, suppliers, business partners, shareholders and other stakeholders for remaining resilient with us and undaunted by the challenges we faced, confident that surviving the hard times is about to give way to thriving, growing and reaching a new tier of growth, together.



**Duminda Weerasekare**  
Chief Executive Officer

21 April 2023

## Our Business Model > Operating Environment



### The Global Economy

Global economic activity is estimated to have decelerated sharply in 2022 due to synchronous policy tightening by central banks globally, aimed at containing elevated inflation, stemming from the Russia-Ukraine war and a resurgence of COVID-19 in China. 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, but the favourable impacts of reopening of China is expected to partially offset this impact. According to the World Economic Outlook (WEO) update of the IMF, released in April 2023, global economic growth is forecast at 3.4% in 2022, and is expected to fall to 2.8% in 2023 and settle at 3% in 2024. Advanced economies, including the United States, Euro Zone and the United Kingdom are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023 but expected to pick up modestly in 2024.

Global inflation which peaked in 2022 is expected to remain elevated for longer than previously forecast (in January) but is projected to ease in 2023 amidst weakening demand and easing commodity prices according to the WEO, driven by war-induced commodity price increases. Soaring inflation in 2022 reflected a combination of demand and supply factors, where on the demand side, the lagged effects of ultra easy monetary and fiscal support following the pandemic contributed to persistent price pressures.

With respect to the supply side, shortages of key commodities, exacerbated by the Russia-Ukraine war, along with capacity constraints and supply chain disruptions contributed substantially to higher prices. Inflation is projected to decline to 7% in 2023 from 8.7% in 2022 on the back of lower commodity prices, and to 4.6% in advanced economies and 8.1% in emerging market and developing economies in 2023, as per the WEO of the IMF.

Subdued economic activity in advanced economies could have an impact on Sri Lanka's exports, as low external demand could result in reduced exports of major items, mainly textiles and garments. As the US and the European Union serve as the largest export destinations for Sri Lanka, any reduction in demand from these regions would have a sizeable negative impact on export performance, thereby affecting economic growth. Furthermore, a lower growth in income levels in advanced economies could mean a reduction in global tourist movements originating from such nations. Meanwhile, economic activity in emerging market and developing economies is projected to increase marginally from 3.9% in 2022 to 4% in 2023, mainly due to the anticipated growth rates in emerging and developing Asia, particularly in China, and a higher growth rate projected for Russia.

## > Operating Environment

### Sri Lankan Economy

In 2022, Sri Lanka experienced its worst economic crisis in post-independence history, as it sought to adjust to macro-economic instability resulting from a depletion of foreign reserves and a debt crisis. As per Central Bank (CBSL) statistics, real GDP contracted by 7.8%, reversing the post pandemic growth of 3.5% in 2021. Long standing macro-economic weaknesses due to persistent budget deficits and external current account deficits, worsened during 2022 owing to the impact of policy delays in addressing these imbalances and wrong policy decisions in the months preceding, with regard to taxation and agriculture, amongst others. The crisis led to political upheaval and disruption of all activity. Acute fuel shortages due to the dearth of foreign exchange caused supply chain disruptions and power outages whilst import curtailment (as necessitated by the dearth of foreign exchange) resulted in a scarcity of raw materials and a surge in cost of production. Furthermore, significant upward revisions in major utility prices amidst soaring global energy prices and the depreciation of the exchange rate, exacerbated supply side pressures, while accelerated inflation and tax hikes affected the disposable income of households.

Against this backdrop the CBSL and the Government initiated several containment and remedial policy measures. These include the significant tightening of monetary policy, and the unprecedented fiscal reforms in taxation and revision of utility prices, and the fuel rationing system among others, which helped contain excessive demand driven price pressures, improve foreign exchange liquidity conditions, reduce external and fiscal sector pressure, support economic activity, and steer the economy towards stability, albeit with some significant adjustment costs in the near term.

Having sought assistance from the IMF for a funding arrangement and following a debt standstill, Sri Lanka managed to secure IMF Executive Board approval for the Extended Fund Facility (EFF) arrangement of SDR 2,286 Mn (approximately USD 3,000 Mn) in March 2023, and received the first tranche of SDR 254 Mn (approximately USD 333 Mn) in late March 2023.

The real economy faced a broad based contraction in 2022, with all three sectors, Agriculture, Industries and Services, contracting by 4.6%, 16% and 2% respectively.

### Financial Sector

It is noteworthy that the stability of Sri Lanka's financial system was preserved during the year, amidst the multitude of pressures in the crisis ridden economy. Sovereign rating downgrades, high sovereign exposure of the banking sector, economic contraction, acute foreign exchange shortage and high level of inflation, along with the announcement of the standstill on external debt servicing on account of bilateral and commercial debt by the Government in April 2022, created a significant and unprecedented adverse impact on the activities of the financial sector.

It is particularly noteworthy that the stability of the banking sector was maintained, despite the looming challenges posed by the crisis such as declining credit quality, acute pressure on liquidity, low level of profitability due to high impairments, and deteriorating capital margins.

### The NBFi Sector

It was encouraging that the LFCs and SLCs sector managed to continue its expansion during 2022 amidst the crisis environs that prevailed. Despite the many challenges of shrinking credit growth, declining profitability and increase in non-performing loans as indicated by Stage 3 loans, the LFCs and SLCs sector grew in terms of assets and deposits and had adequate capital and liquidity buffers during 2022.

Total assets of the sector amounted to LKR 1,611.2 Bn by end 2022, representing 5.2% of the total Assets of Sri Lanka's financial system. By end 2022, the sector comprised 36 LFCs and 1 SLC and there were 1,834 branches, of which 1,204 branches (65.6%) were located outside the Western Province. An additional 127 new branches were established by the sector during 2022.

## > Operating Environment

Indicator	LFC Sector Growth (%)	Reason	MIFL (%)
Total Assets	8.3	Driven by the growth in loans and advances portfolio followed by an increase in investments and liquid assets.	3.6
Loans and Advances	5	Finance Leases dominated the Loans and Advances portfolio of the sector accounting for more than 41% of total Loans and Advances by end 2022. Leasing portfolio declined due to restrictions on vehicle imports.	-1.4
Pawning and Gold Loans	77.5	The need for liquidity in the operating environment.	74.9
Investment Portfolio	19.3		68.4
Other Assets (Cash and balances with banks and other financial institutions)	19.4	Due to increase in placements with Licensed Commercial Banks.	22.1
Deposits	10.4		58.9
Borrowings	1		-30.7
Profit After Tax	-21	Declined due to the substantial increase in interest expenses.	-63.7
Net Interest Income	-12.3	Declined due to the significant increase in interest expenses.	-3.3
Interest Expenses	82.8	Due to increases in interest income.	180.7
Non-Interest income	-12.1		49.7
Non-Interest Expenses	0.7		35.6
Gross NPLs	66.1	Compared with a decrease of 13.9% in 2021.	20.5 (90 days basis)
	<b>Absolute</b>		
Percentage of loans and advances which were under moratoria	13.2	Debt moratoria and concession on loan repayments were extended to assist affected borrowers of the LFC and SLC sector due to macro-economic conditions.	0.0
ROE (%)	12.6	Compares with 20.2% in 2021	3.1
ROA (%)	3.7	Compares with 5.4% in 2021	1.7
Cost to Income ratio (%)	87.3	Compares with 72.6% in 2021	68.2
Net Interest Margin (%)	6.7	Compared with 8.6% in 2021	10.1
Capital Base (LKR Bn)	317.5	Compared with LKR 251.6 Bn in 2021 due to retained profits by several large LFCs in the previous year.	2.8

In 2020, the Masterplan was introduced to address the weaknesses and risk exposures in the LFCs and SLCs sector. Under Phase I of the Masterplan, 5 transactions were fully completed during 2022 and 3 proposed amalgamations which were approved by the Monetary Board in 2022 are currently in progress. Further, the companies that were unable to find a partner to merge with were directed to exit from the market upon cancellation of the license, and two such transactions are currently in progress. CBSL is in the process of implementing Phase II of the Master Plan in view of building stronger and stable NBFIs.

## > Operating Environment

### Outlook

The Sri Lankan economy is poised to recover gradually from its deepest economic contraction witnessed in 2022. This recovery and the medium term outlook however, depend heavily on the timely and effective fulfillment of performance criteria, structural benchmarks and reforms outlined in the IMF-EFF arrangement.

	Actual	Projections by CBSL				
	2022	2023	2024	2025	2026	2027
<b>Real Sector</b>						
Real GDP Growth	-7.8	-2.0	3.3	4.0	4.5	5.0
Per Capita GDP	3,474	3,489	3,621	3,811	4,030	4,281
<b>External Sector</b>						
Exports (USD Bn)	13.1	14.1	15.5	17.1	18.8	20.2
Imports (USD Bn)	18.3	19.4	21.6	22.9	24.4	26.0
Current Account Balance as a % of GDP	-1.9	-1.1	-1.3	-1.2	-1.1	-0.9
<b>Fiscal Sector</b>						
Current Account Balance as a % of GDP	-6.4	-4.5	-2.1	-0.7	-0.4	0.0
Overall Budget Deficit as a % of GDP	-10.2	-8.0	-6.4	-3.0	-4.8	-5.0
Annual Average Inflation (%)	46.4*	20.6 <sup>^</sup>	5 <sup>^</sup>	5 <sup>^</sup>	5 <sup>^</sup>	5 <sup>^</sup>

\* Based on CCPI (2013 = 100)    ^ Based on CCPI (2021 = 100)

Source: Central Bank of Sri Lanka, Annual Report 2022

The reform improvements, combined with the domestic supply side developments and easing of foreign exchange liquidity pressures, are expected to provide a strong impetus for the near term recovery in economic activity in Sri Lanka. Furthermore, a restoration of debt sustainability through a comprehensive debt restructuring process is expected to create opportunity for foreign funding from international financial agencies and thereby strengthen investor confidence in the ensuing period.

As Sri Lanka has reached crossroads in its post-independence economic journey, there is some reasonable expectation at present that policy commitment to implementing long overdue reforms and public support for such decisive reforms will prevail in the ensuing period. As observed by the CBSL, the progress of the reforms implemented thus far is notable.

Nevertheless, the envisaged medium term path is also fraught with uncertainties due to possible risks associated with the timing of completion of the ongoing debt restructuring negotiations, and the pace and magnitude of the post-restructuring economic recovery.

Moreover, the expected stabilisation of inflation is likely to create a conducive environment for investments over the medium-term, while greater flexibility in the exchange rate is also expected to spur stability in the external sector and strengthen competitiveness of the economy in the ensuing period. At the same time however, the tightened monetary and fiscal policies and the Balance of Payments constraints could slow the pace of recovery in 2023.

Further, downside risks could stem from broad-based slowdown in global economic growth in 2023 as per the projections of the IMF, which could impede the country's trade potential and discourage prospective foreign exchange inflows and foreign investment. In addition, a lower than expected external demand due to lower global growth and envisaged monetary policy tightening in advanced economies and the continuation of global supply chain issues could pose a risk to the pace of recovery of economic activity in Sri Lanka.

# > Value Creation Model

## Inputs →

Relying on the strength of our resources and relationships



### Financial Capital

- Equity: LKR 2,835 Mn
- Debt: LKR 1,990 Mn
- Deposit Base: LKR 3,487 Mn
- Gearing Ratio: 1.93



### Manufactured Capital

- Branches/Touchpoints: 27
- Capex/PPE Investments: LKR 141 Mn



### Intellectual Capital

- Rating: AA- (by Fitch Ratings)
- New Gold Loan system from FY2023/24
- Governance, ERM, Policies, Processes



### Human Capital

- Permanent Employees: 227
- Contract/Probation: 49
- Service Over 5 Years: 41
- Average Training Hours: 0.92 Hrs
- Female Staff: 35.9%



### Social and Relationship Capital

- Number of Customers: 89,264
- Number of cumulative contracts: 283,343 (including gold loan tickets)
- Memberships in Financial Ombudsman, Finance Houses Association of Sri Lanka and the Chamber of Commerce
- Community Engagement: School stationery donated to 4 schools impacting 350 students



### Natural Capital

- Energy Usage: 244,632 kWh
- Water Usage: 123,645 litres
- Incentives to minimise electricity and water usage across branches



Vision

Mission

## Key Strategic Priorities

Organic Growth

Customer Centricity

Brand Strength

## Governance

## Activities

### How we create Value

Lending

Leasing

Deposit Mobilisation

## Value Creation Enablers

Call Centre

Delivery Channels

Above the Line Media

## Risk Management

## Outputs →

Our Products and Services



Leasing



Fixed Deposits



Mortgage Loans



Pawning (Gold Loan)



Personal Loans

Experienced  
Human Capital

Gold Loans

New Branches in Rural  
Semi-urban Areas

## Outcomes

Delivering sustainable value to our Stakeholders



### Shareholders

- ROA: 3.11%
- ROE: 1.77%



### Partner - MMFSL

- Synergy: Adoption of best practices and strengthening of Governance and Risk Management Frameworks
- Enhanced Brand Value



### Customers

- Gold loan portfolio recorded a 75% growth and LKR 9,697 Mn disbursements
- Call Centre capabilities enhanced
- Zero open customer complaints
- Data Privacy/Integrity



### Employees

- Total Personnel Expenses: LKR 350 Mn
- Number of Promotions: 17
- Training Hours: 225.5
- Training Programmes: 13
- Highest Recruitment in a given Year: 89
- Percentage of new Recruits who were recruited within the district: 100%



### Suppliers

- Preference to local suppliers
- Providing business opportunities and improving their service level with constant engagement



### Government

- Taxes Paid: LKR 161 Mn
- Zero Incidents of Non-Compliance



### Community

- Imparting financial literacy and focusing on livelihood, health and education in communities



### Natural Capital

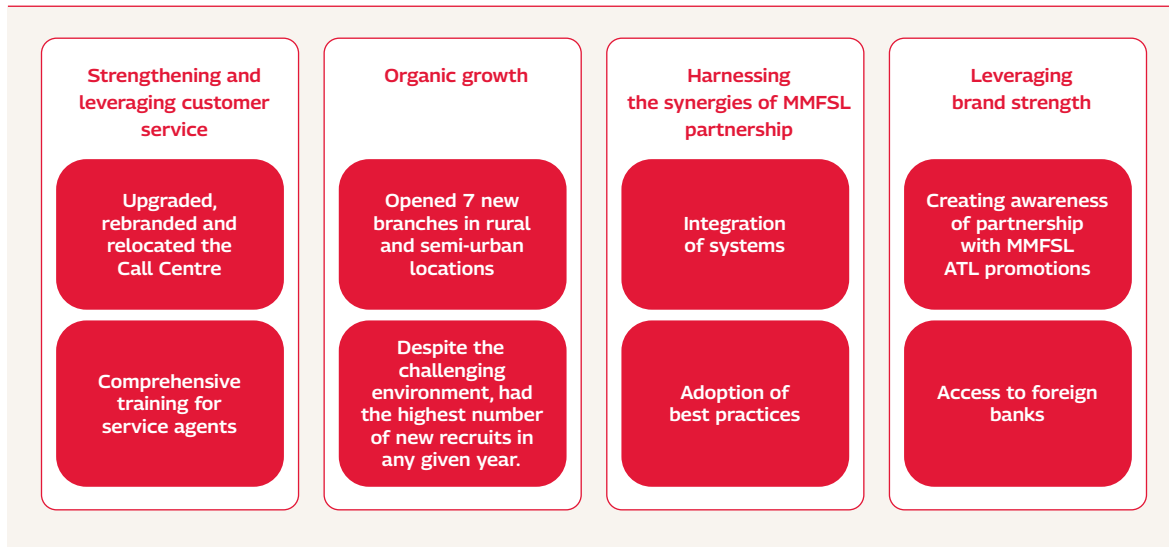
- Minimising the Negative Impact of our Operations
- Reduction in Electricity Consumption
- Reduction in Water Consumption



## > Strategic Focus

MIFL's strategy is formulated to make strides towards its Vision to be the "ideal partner in creating wealth and enriching lives". Towards this end, our strategies for the near term future include a focus on customer service, with an emphasis on rural and semi urban markets, and leveraging the strength of our brand equity and harnessing the synergies of the relationship with MMFSL. For the longer term, we are going ahead with expansion plans confident that, whatever the difficulties of the moment may be, there is light at the end of the tunnel.

### Formulating Strategy



Formulation of strategy at MIFL is preceded by a comprehensive understanding of the needs of our stakeholders so that the Company adopts strategies which most effectively address the stakeholders' concerns and needs. Any business enterprise interacts with multiple stakeholders to varying degrees, in varying numbers and in varying intensity. Towards this end we have formulated a stakeholder engagement strategy which we have adhered to since 2021. A stakeholder engagement is followed by a prioritisation of the needs and concerns of the different stakeholder groups identified below. The strategies with which we address stakeholder needs and concerns are then decided on and fine tuned, in the context of the operating environment. However, given the turbulent conditions in the year under review, certain tactical adjustments had to be made.

The unprecedented challenges in the operating environment over the past few years and our ability to remain resilient as well as thrive, despite some of these challenges, underscore the strength of our business model. And moreover, it was important to be nimble enough in strategy and implementation, to meet and respond innovatively to challenges and to identify and capture opportunities amidst these challenges. Accordingly, we periodically review and fine tune our strategy to meet changing circumstances whilst continuing with those which remain relevant.



## Stakeholder Engagement Process

	Identify Stakeholders	Identify Assessment	Plan Communication	Engage Stakeholder
<b>Task</b>	<ul style="list-style-type: none"> <li>Identify stakeholder groups</li> <li>Identify individual stakeholder representatives</li> <li>Create initial stakeholder list</li> </ul>	<ul style="list-style-type: none"> <li>Conduct high-level stakeholder assessment</li> <li>Prioritise stakeholder</li> </ul>	<ul style="list-style-type: none"> <li>Identify channels of communication with each stakeholder Group</li> <li>Identify how to obtain feedback</li> </ul>	<ul style="list-style-type: none"> <li>Implement stakeholder communication and decide on actions necessary on obtaining feedback</li> </ul>
<b>Output</b>	<ul style="list-style-type: none"> <li>Improvements to strategies and business processes resulting from stakeholder feedback</li> </ul>			

## Implementing Strategy

### Macro-Economic Factors which influenced Strategy in 2022

#### Challenges

- Contraction of the economy
- The heightened fiscal and external risks
- High inflation
- Highest ever interest rates
- Declining global competitiveness of Sri Lanka
- Declined net foreign assets of the banking system
- Rupee depreciation against the US Dollar
- Reduced purchasing power of the population due to disruption to income generation and high inflation
- Import restrictions which particularly affected vehicle leasing
- Uncertain economic outlook in Sri Lanka
- Increased credit risk, defaults and lower recoveries
- Reduced cash inflows from loan and lease payments

#### Opportunities

- Create a platform to grow the gold loan portfolio in a backdrop of increase in global market prices for gold
- Gold loans are now seen by entrepreneurs, large and small, as a source of working capital
- Opportunity to pursue a refinancing model with the restrictions on vehicle imports
- Our tie-up with MMFSL gave us a distinct edge when expanding into the North and East, due to cultural ties with India

#### Strategic Progress in 2022

- Grew the MIFL gold loan portfolio by 75%
- Established branches (which hitherto focused on rural areas) in semi-urban areas
- Continued to recruit, in fact recruited the highest numbers in a given year
- Strategically balanced the loan to value ratio to minimise risks from gold prices dropping due to Rupee appreciation



## > Strategic Focus

### Impact on MIFL

- Impact on profitability with the requirement for higher provisioning
- Higher operating costs due to high inflation
- Reduced profitability and net interest margins due to extremely high interest rates in 2022
- Rise in NPLs due to diminished purchasing power

### Our Responses

- A sustainable approach of guidance and increased interaction with customers to obtain payments
- ATL promotional campaigns for marketing of deposits and gold loans
- Proactive management of credit portfolio risk
- Closely monitored the NPLs with different Days Past Due (DPD) levels
- Operate on a low-cost strategy while maintaining the quality of our services

- Deposits grew by 59%
- Gross Impaired Stage 3 loan ratio was restricted to 20.50% calculated at a 90 DPD basis, at par with the industry average

### Technology

#### Challenges

- NBFIs sector is significantly digitalised in customer interface and back-end operations in the post COVID-19 era
- Complexity of managing cyber risk, information and technology

#### Opportunities

- Opportunity to create a more interactive platform to serve customers more efficiently
- Customer awareness and usage of digital platforms have significantly increased

#### Strategic Progress in 2022

- Introduced a new CRM system for the Call Centre
- Secure data communication through Secure SSL VPN for remote users over a public internet connection
- Use of effective video calling platforms and instant communication tools for an effective communication
- Invested in a new and advanced gold loan system to be launched in FY2023/24

### Impact on MIFL

Adopt technology at an increased pace in order to enhance customer service and operational efficiency.



## > Strategic Focus

### Governance, Social & Environmental Factors

#### Challenges

- Complexity of regulatory and statutory requirements on financial services industry
- Increasing need to follow an eco-friendly business model
- Social strife and upheaval due to economic downturn

#### Opportunities

- Aligning MIFL with the "Road Map for Sustainable Finance in Sri Lanka" launched by CBSL
- Opportunity to create sustainable financial solutions
- Opportunity to support SME sector in Sri Lanka
- Draw on the expertise of MMFSL in governance and ESG

#### Strategic Progress in 2022

- Adoption of best practices from parent company MMFSL
- Our customer screening process was further augmented in a structured manner by adhering to a more robust "Know Your Customer" regime of MMFSL to perform more intrusive customer due diligence, which strengthened our anti-money laundering mechanisms. This will form a part of our on-boarding strategy and ensure a high quality customer base for the long term and stand us in good stead with the regulator
- Planning the adoption of an ESG structure

#### Impact on MIFL

- Need to integrate strategies with sustainable goals
- Need to design product(s) with a Triple Bottom Line impact

#### Our Responses

- Ensured job-security while continuously investing in people, processes and systems across MIFL



Please refer the sections on Intellectual Capital on page 34, Human Capital on page 36 and Social and Relationship Capital on page 42 for further details on strategy implementation and outcomes during the year.

# Amidst the economic turmoil in the country,

MIFL decided to realign its targets and set course on a path of adaptation and growth while utilising its unique resources and partners to make bold shifts in its strategy.



## > Financial Capital


### Overview

The goals set by the Company at the beginning of financial year 2022-23 were based on the circumstances existing during that time. However, given the economic crisis that unfolded thereafter, the Company was compelled to reset its goals to adapt to the changing environment. As a result, a few previously set targets were realigned in order to ensure the Company stays responsive and agile in the face of changing market conditions.

The Company recorded a post-tax profit of LKR 86.8 Mn, a decline of 64% over the previous year as it pursued a cautious growth strategy amidst an extraordinary, uncertain and volatile environment.

However, total assets grew by LKR 306 Mn to reach LKR 8,792 Mn. With import restrictions and higher interest rates, the Company decided to put a hold on vehicle leasing and focus more on the gold loan business, the latter being a relatively low risk product. Therefore, the Company recorded a growth of 75% in its gold loan portfolio growth with LKR 9,697 Mn of disbursement. Driven by the strong customer confidence in the Company, the fixed deposit base exponentially increased by 59% YoY to reach LKR 3,487 Mn as at 31 March 2023. The rapid expansion of the branch network enabled the Company to record these operational highlights during the financial year.

### Financial Highlights

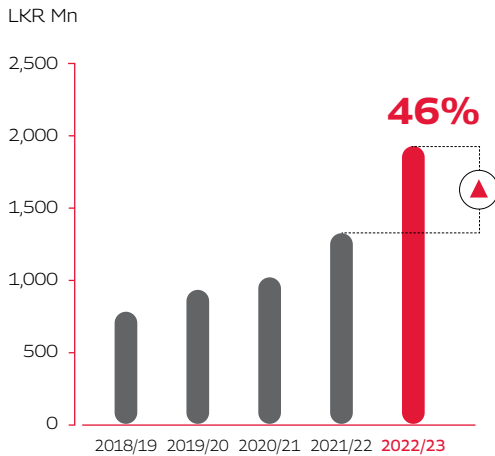
<p>Revenue</p> <p><b>46%</b> ▲</p> <p><b>LKR 1.92 Bn</b> 2022-23</p> <p><b>LKR 1.32 Bn</b> 2021-22</p>	<p>Net Interest Income</p> <p><b>-3%</b> ▼</p> <p><b>LKR 884 Mn</b> 2022-23</p> <p><b>LKR 914 Mn</b> 2021-22</p>	<p>Profit Before Tax (PBT)</p> <p><b>-51%</b> ▼</p> <p><b>LKR 153 Mn</b> 2022-23</p> <p><b>LKR 310 Mn</b> 2021-22</p>
<p>Profit After Tax (PAT)</p> <p><b>-64%</b> ▼</p> <p><b>LKR 87 Mn</b> 2022-23</p> <p><b>LKR 239 Mn</b> 2021-22</p>	<p>Total Loans and Advances</p> <p><b>-1%</b> ▼</p> <p><b>LKR 7.12 Bn</b> 2022-23</p> <p><b>LKR 7.23 Bn</b> 2021-22</p>	<p>Total Assets</p> <p><b>4%</b> ▲</p> <p><b>LKR 8.80 Bn</b> 2022-23</p> <p><b>LKR 8.49 Bn</b> 2021-22</p>
	<p>Deposits from Customers</p> <p><b>59%</b> ▲</p> <p><b>LKR 3.49 Bn</b> 2022-23</p> <p><b>LKR 2.20 Bn</b> 2021-22</p>	<p>Total Equity</p> <p><b>3%</b> ▲</p> <p><b>LKR 2.84 Bn</b> 2022-23</p> <p><b>LKR 2.75 Bn</b> 2021-22</p>

## > Financial Capital

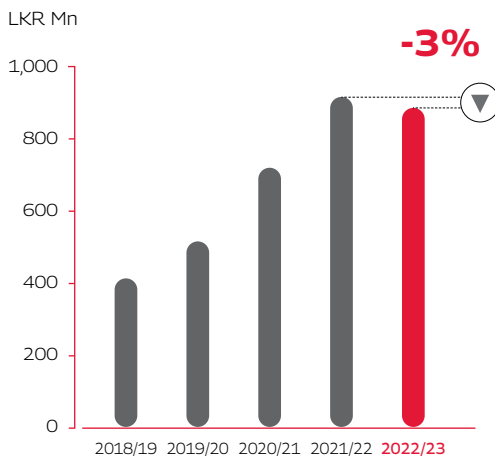
### Income Statement

The total income of the Company increased by 46% YoY to LKR 1,924 Mn in FY 2022-23 from LKR 1,322 Mn in the previous year. This increase is attributed to the growth in gold loan portfolio during the financial year. The gold loan portfolio increased by 75% YoY to LKR 3,951 Mn making the largest contribution to income growth in the financial year. Both fee and commission income and other operating income also recorded growth of LKR 40 Mn YoY. However, Net Interest Income (NII) declined by 3% YoY to LKR 884 Mn due to the increase in interest expenses resulting from the monetary policy decisions taken by the CBSL to increase policy rates to control elevated inflation levels. However, given the combined effect of net interest income, fee and commission income and other operating income, total operating income increased by LKR 9 Mn YoY to LKR 1,003 Mn.

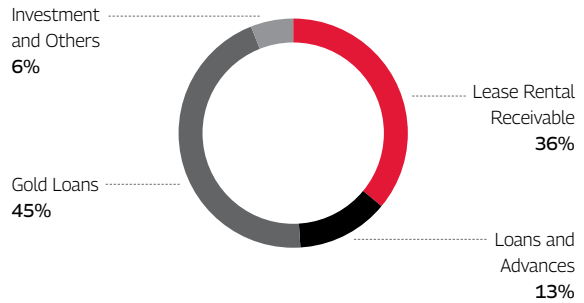
#### Total Income



#### Net Interest Income



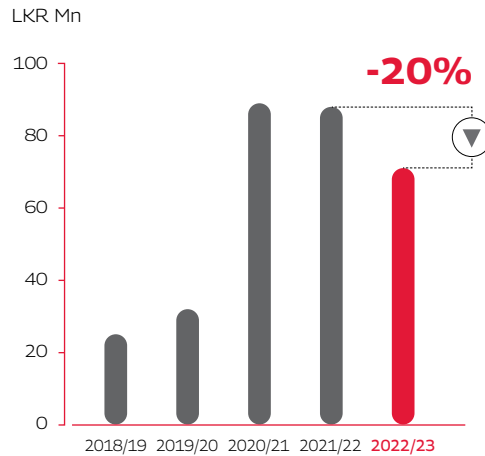
### Composition of Interest Income 2022-23



### Impairment Charges

Impairment charge decreased by 20% in line with degrowth in leasing and other loan portfolio by LKR 1,798 Mn. The Company recorded LKR 71 Mn as total impairment charge for the year under review, of which LKR 10 Mn relates to provisioning on account of leasing and other loans, while LKR 12 Mn is attributed to gold loans. The Company has written off LKR 49 Mn of leasing and other loans during the year. The individually significant customers were carefully evaluated and appropriate provisions were made considering the severity of the impact on each customer. Provision was made on other customers based on the collective impairment pool. The Company has reset the computation of Economic Factor Adjustment (EFA) by using the variables in line with the latest macro-economic conditions.

#### Impairment Charges



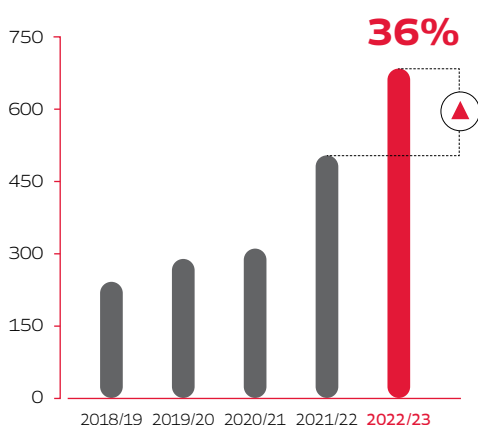
## > Financial Capital

### Operating Expenses

Total operating expenses rose by 36% to LKR 684 Mn YoY amidst higher personnel costs and a culmination of widespread price increases that drove up other operating expenses. Personnel expenses grew by 28% to LKR 350 Mn in 2022-23 mainly owing to annual salary increment and bonus payment. Other operating expenses increased by LKR 83 Mn to LKR 236 Mn in FY 2022-23. It is an increase of 54% compared to previous financial year. This is caused by a combined effect of inflationary conditions and the high cost of imports precipitated by the devaluation of the LKR against the US Dollar.

#### Total Operating Expenses

LKR Mn



### Taxation

Total tax expense of the Company for FY 2023 was LKR 161 Mn, which is comprised of income tax (LKR 66 Mn), value added tax on financial services (LKR 89 Mn), and social security contribution levy (LKR 6 Mn).

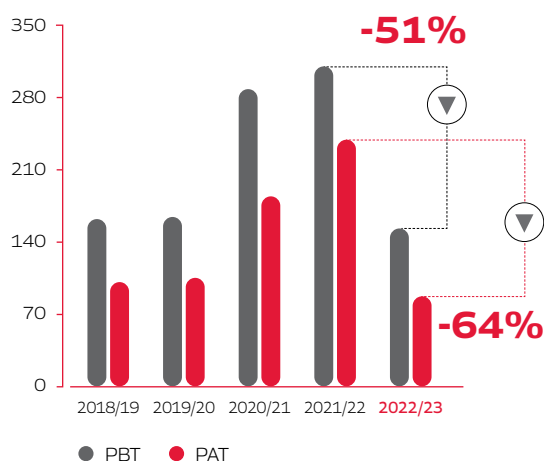
Even though profit before taxation dropped by more than 50% during the financial year, value added tax on financial services decreased only by LKR 1.8 Mn compared to LKR 90.5 Mn in FY 2022. This was due to the applicable rate increasing from 15% to 18% with effect from 1 January 2022 and increased staff emoluments. Meanwhile, the Social Security Contribution Levy (SSCL) of 2.5% that was introduced commencing from 1 October 2022 also impacted the Company's profits to some extent. Income tax expense has come down by LKR 5 Mn from LKR 71 Mn in previous year. Company has captured the income tax rate increase to 30% from 24% for the latter six months of the year of assessment 2022-23. The deferred tax assets/liabilities were recognised at the revised rate of 30%.

### Profitability

The Profit Before Taxes (PBT) decreased by 51% YoY to LKR 153 Mn from LKR 310 Mn. In line with that, profit after tax also decreased by 64% to LKR 87 Mn from LKR 239 Mn in the previous year. Accordingly, earnings per share decreased to LKR 0.60 from LKR 1.64 in FY 2021-22. The return on average equity - post-tax, declined to 3.11% from 9.17% in the previous year. Return on average assets - pre-tax declined to 1.77% from 4.43% in the previous year. Return on average assets - post-tax, declined to 1.01% from 3.44% in FY 2021-22. The reason to incur such a decline in both ROE and ROA is the drop in profit for the year whereas the total equity and total assets have not risen much as at 31 March 2023.

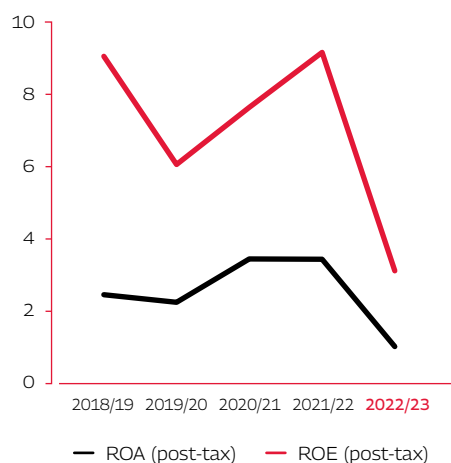
#### Movement of PBT and PAT

LKR Mn



#### Movement of ROA and ROE

%



## > Financial Capital

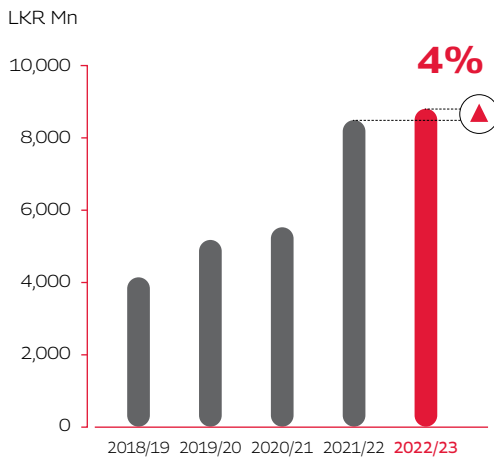
### Statement of Financial Position

#### Assets

Total assets of the Company grew by LKR 307 Mn during the year under review to reach LKR 8,792 Mn on 31 March 2023, from the LKR 8,485 Mn registered at the previous year end. The increase in investments, as well as property, plant and equipment with branch expansion contributed to the aforementioned growth.

The total earning assets amounted to LKR 8,027 Mn accounting for 91% of the total asset base. Loans and advances have declined by LKR 106 Mn compared to last year. The gold loan portfolio grew by 75% to LKR 3,950 Mn.

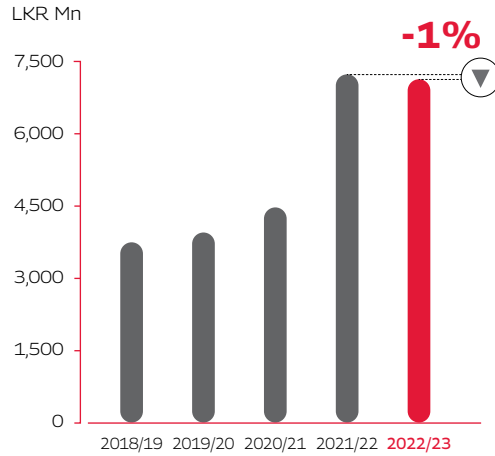
#### Total Assets



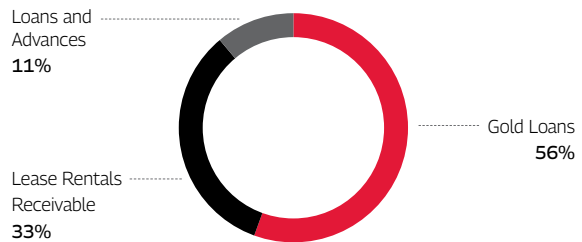
#### Loans and Advances

By considering the high volatility of macro-economic parameters such as interest rate and inflation and import restrictions, the Company decided to suspend the granting of leases. The Company chose to focus more on gold loan business as a short term, low risk and more profitable product. As a result, the Company grew the gold loan portfolio by LKR 1,692 Mn to LKR 3,950 Mn as at 31 March 2023. With the decision taken to reduce leasing business, the portfolio dropped by LKR 1,798 Mn to LKR 3,173 Mn. However, the Company could sustain the overall lending portfolio through the expansion of gold loan business during the year.

#### Loans and Advances



#### Product Portfolio 2022-23



#### Investment

There is a material growth of the investment portfolio as of 31 March 2023. Overall investment has increased by 68% to LKR 903 Mn during the year. Investments in Government securities increased by 84% to LKR 458 Mn from LKR 249 Mn in the previous year. Moreover, placements with banks and other financial institutions increased by LKR 158 Mn to LKR 445 Mn at the end of the year under review. The Company's policy of maintaining a liquidity buffer of at least one month drove this increase in investments.



## > Financial Capital

### Asset Quality

The NBFIs sector in Sri Lanka experienced a general deterioration in asset quality and an increase in NPLs during the year due to the turbulent economic situation that prevailed mainly as a result of the high inflationary situation, LKR depreciation against USD, higher interest rates, etc. However, the Company was able to manage the NPL level (Stage 3) at an acceptable level through proper credit management and strengthening the recovery process.

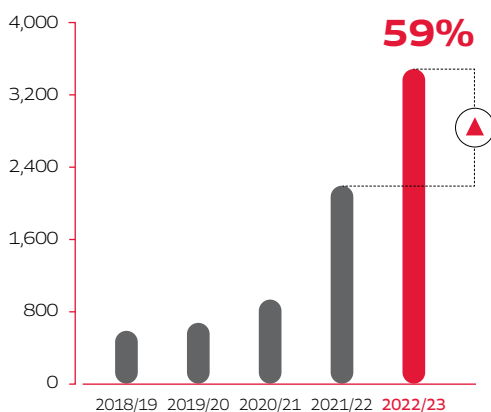
Stage 03 ratio as of 31 March 2023 stood at 20.5% while net NPL ratio was 18.3%. The Company has made a total impairment provision of LKR 272 Mn with 4% of overall impairment coverage. The Company could take the benefit of lower impairment provision from gold loan product which comprises 55% of entire loans and advances portfolio. This led to low impairment coverage ratio as at 31 March 2023.

### Deposits

The customer deposit base grew by 59% YoY to LKR 3,487 Mn as of 31 March 2023. This was due to the strong customer confidence in the Company as a stable and strong financial institution with AA- credit rating. Moreover, deposit growth was fueled by a well-coordinated, branch-based deposit mobilisation drive coupled with the personalised service, and long-standing customer relationships. Also, higher fixed deposit rates due to increasing policy interest rates also attracted new customers during the year.

### Deposits

LKR Mn



### Capital

The total equity of the Company increased by 3% to LKR 2,835 Mn as of 31 March 2023. Accordingly, the Tier 1 Capital Ratio was 48.92% against the minimum statutory requirement of 8.5%, whilst the Total Capital Ratio stood at 49.93% against the minimum statutory requirement of 12.5%, resulting in an exceptionally stable and well-capitalised financial institution. The Company's Statutory Liquidity Ratio as at the end of March 2023 stood at 30.66%, which is well above the regulatory minimum of 10%.

Capital Adequacy	2022-23 %	2021-22 %
Tier 1 (Minimum Requirement - 8.5%)	48.92	38.62
Total Capital Ratio (Minimum Requirement - 12.5%)	49.93	39.68
Statutory Liquidity Ratio (Minimum Requirement - 10%)	30.66	17.51
Leverage Ratio (Debt Equity Ratio) Times	1.93	1.85

## > Manufactured Capital

# In our branch expansion we will also

harness the synergies of MMFSL in terms of brand strategies, in creating the right ambience and expertise in customer interaction points to derive and deliver optimal value.



## > Manufactured Capital

Our Manufactured Capital comprises the physical and technological assets which support the value creation process for all our stakeholders. The importance of the technological assets continues to grow as markets and technology evolve. The physical assets include the Head Office, branch office premises, the Call Centre, vehicles, technology hardware and office furniture and fittings.

### Physical Assets

Head Office, Branches and Call Centre

#### Branches

MIFL's islandwide branch network is a key factor in its value creation process which facilitates interaction with different stakeholders and brand presence. The wide geographic spread of our branch network has been the conduit for creating financial empowerment for the sections of the population which were hitherto marginalised and to strengthen our brand value across different demographics. During the year the Company invested LKR 141 Mn into expanding its branch network with the opening of seven new branches.

#### The Value Addition by Our Branch Network

**Outcome for MIFL**

- Grow market share and venture into untapped markets.
- Strengthen the Company's competitive position in the NBFi sector.
- Enhance Goodwill.
- Enhance brand visibility.

### Technological Assets

MIFL continues to intensify its focus on technology based assets and applications to elevate its service and product delivery and increase efficiencies in its value creation process and to keep up with evolving market needs.

To make our core banking and other supporting applications available 24/7, we shifted all our critical IT infrastructure to a data centre maintained by Sri Lanka Telecom.

The data centre comes with uninterrupted power supply, its secured by armed guards 24x7x365 and has fire resistant walls. This ensured 100% uptime for all our applications when the country was going through daily power cuts and fuel shortage.

### New Infrastructure Investments in 2022-23

	Value (LKR Mn)
Furniture and Fittings	77
Office Equipment	46
Computers	12
Motor Vehicles	6

### Future Focus

Whilst we place greater emphasis on increasing digital engagement with our stakeholders, especially our customers, we also recognise that the branch network will continue to be a key driver of the NBFi sector in Sri Lanka for the near to medium-term future. In our branch expansion we will also harness the synergies of MMFSL in terms of brand strategies, in creating the right ambience and expertise in customer interaction points to derive and deliver optimal value.

In line with our strategic objective to be placed amongst the top five NBFIs and be driven primarily by organic growth in the near term, the Company is currently engaged in implementing plans to open eight new branches in 2023-24. Upgrading our software will also be a strategic priority in the year ahead. The integration of an ESG model into our business operations will also be a factor which will influence our acquisition of new hardware and software.

## > Intellectual Capital

# MIFL was one of the

few LFCs which was able to maintain its credit rating at AA-(lka) "Watch Negative" by Fitch Ratings, amidst an economic contraction.



## > Intellectual Capital

The higher the value an organisation seeks to create, the greater the importance of its Intellectual Capital. MIFL considers three of its key intangibles as significant to its value creation process. Namely, its brand equity, accolades, and institutional capacity.

### Brand Equity

Our support to uplift individual lives and businesses to startup and thrive across the country has enabled us to earn people's trust and loyalty over the past decade, since inception. The reputation is made all the more important by the fact that we are a financial enterprise and often custodians of customers' finances.

The reputation has been significantly bolstered by the partnership we formed with Mahindra and Mahindra Financial Services Limited, India in 2021. MIFL was one of the few LFCs which was able to maintain its credit rating at AA-(lka) "Watch Negative" by Fitch Rating, amidst an economic contraction and a rating downgrade for the country as a whole. This valuable endorsement of our creditworthiness and financial sustainability, enabled by the partnership with MMFSL, has been a key factor in our ability to attract funding from leading international financial institutions at reasonable rates, amidst the multitude of challenges that impacted the entire industry.

### Institutional Capacity

One of the key factors of our success has been the efficacy of our systems and processes in delivering value to customers. The quick turnaround times and the flow of information have all been facilitated by the systems and processes we have in place including a cloud-based platform to manage internal communication.

Understanding the importance of ensuring that they remain the most suitable, up to date and effective, we also continue to review, renew, and make significant investments to strengthen our institutional capacity. During the year we enhanced and expanded our Customer Call Centre to further strengthen our capacities for addressing client needs and enhancing the value we create.

Equipped with a state of the art customised CRM system which is cloud hosted, the new Call Centre monitors employee performance for different parameters daily, to ensure that the agents maintain the expected service levels. In addition to the facilitation of voice calls and emails, the system at the Centre also introduced social media such as WhatsApp as a more convenient option of communication for customers.

### Contribution of Human Capital

Our Executive and Management cadre includes experts from a variety of disciplines; finance, accounting, marketing, information technology, and law. In addition we draw on expertise from our parent Company. Thus our human capital is a vital component of our intellectual capital. We constantly upgrade our knowledge and skills to keep pace with the needs of a changing environment and an evolving business.

### Accolades

MIFL was voted a "Great Place to Work", by our people in the survey conducted by Great Place to Work Sri Lanka, for the 4th successive year. During the year we also earned the title of "Great Place to Work for Millennials" in 2022, supported by its welcoming and open culture, dynamism and adaptability to rapidly changing market conditions.

MIFL also won the Bronze Award for Annual Report 2021-22 under Non-Bank Financial Institutions (Total Group Asset up to LKR 20 Bn) category at TAGS Awards 2022 by CA Sri Lanka.



## > Human Capital

# Despite it being a most challenging year,

MIFL decided to realign its targets and set course on a path of adaptation and growth while utilising its unique resources and partners to make bold shifts in its strategy.

When locating business operations consideration was given to talents that were available in specific regions which led to an optimum utilisation of available talents.

A transport and inflation allowance was paid to the staff to cushion the steeply rising costs of living, which was subsequently merged with the salary as inflation continued to remain high.



## > Human Capital

In the challenging times of this year, the commitment and talents of our people proved to be the key to the Company's resilience and success. And in keeping with our sustainable approach, MIFL continued to invest in its people despite a challenging year.

### The Strategic Imperatives of Human Capital Management

While we fine-tune our HR strategies in keeping with evolving needs and changing business strategies of the Company, the following are the overarching strategies which are based on the Company's sustainable approach.

The Company motivates employees and spurs them to better performance by recognising outstanding achievements. These include acknowledging best performers, pay incentives and bonus payments, and annual increments. In addition, the best branch manager, best marketing officer, and other outstanding performers are recognised at an annual award ceremony.

An initiative to achieve business goals through higher productivity of staff and reduced cost was the introduction of the new Attendance and Leave Management System. Getting the staff to adapt to the new system posed some challenges, but nevertheless, it was carried out. Infusion of technology will be a continuing priority in HR management.

When the presence of talent in specific regions was identified, decisions were taken to locate some of the business operations in such regions. This led to an optimum utilisation of available talents. The Company also began to source directly through educational institutes for requirements of high communication skills. New staff were also recruited through referrals from existing staff and, social media was also utilised for this purpose.

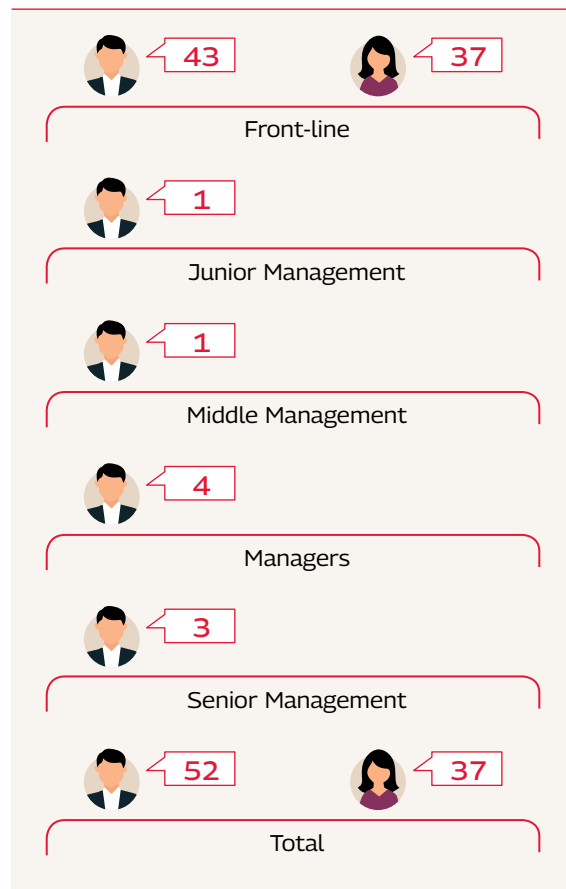
We use many mechanisms for talent management including giving existing staff the opportunity to take on new job roles, cross-skilling and upskilling, managing performance through KPIs, and engaging employees in activities to improve morale, and loyalty. Employees are also groomed for future leadership roles through succession planning.

Despite the recessionary economic conditions, MIFL recruited the highest number of new cadre in any given year-reflecting the plans for expansion and the optimism about growth in the next few years.

### New Hires-based on Age and Gender

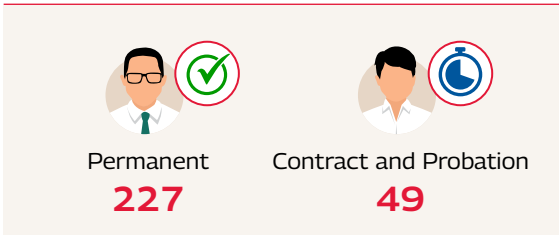


### New Hires-based on Employment Category





## > Human Capital

### Number of Employees



### Age Analysis of Employees

Age		
19 - 24	50	33
25 - 29	26	37
30 - 34	50	18
35 - 39	23	7
40 - 44	14	1
45 - 49	6	1
50 - 54	4	1
>55	4	1
<b>Total</b>	<b>177</b>	<b>99</b>

### A Spirit of Care

In a year in which the impacts of the economic crisis spared no one, the Company also gave priority to helping employees find ways to ease some of the economic pressures brought on by scarcities and inflation. Amongst them was the provision of a transport and inflation allowance to meet the steeply rising costs of living, which was subsequently added to the monthly salary as inflation continued to remain high for most part of the year. Furthermore, we also provided a year-end bonus (first instance bonus) to all employees at year end. In addition, the Company also reached out with financial help via the Company's Welfare Fund to help meet any requests from employees who were faced with crisis level challenges amidst the operating conditions during the year.

We also facilitated flexible work arrangements by providing laptops and internet and mobile connectivity, ensuring the continuity of our operations without any interruption.

Our staff operate with minimum stress level and we ensure employees can complete their work during the working hours. It is very rare for employees to work long hours as the work is planned and organised well. We encourage team work at all levels and when an employee is absent there is another person to cover up the work, which eliminates working additional hours as far as possible.

### Culture

The Company encourages a culture of open communication in which any member of the staff can directly speak to the CEO or the COO. The management team also visits all branch locations every three months and listen to any concerns the staff may have. The visits also help us ensure that the working environment and service levels at all branches are of the same standard.

### Training and Development


High on our training agenda during the year was the training of customer service agents for our expanded, newly branded and relocated Call Centre. New recruits most of whom are multilingual were provided role-based training, and upon completion of the training, guided into those roles to offer customers in any corner of the country a superior service.

As customer centricity of MIFL continues to be a cornerstone of its success and ability to meet challenges, the soft skills of our people such as attitudes are also given emphasis in training as well as recruitment.



## > Human Capital

### Training Programmes Conducted During 2022-23



Training Programme	Number of Participants	Male	Female	Training Hours
FHA Webinar on Vehicle Evaluation	2	2	-	4
Drafting Letters of Appointment - What Every Manager Should Know	1	1	-	1
How to Become a Great People Manager Workshop	1	1	-	7
Online Programme on Regulatory Framework Relating to Non-banking Financial Institutions	5	3	2	7.15
ICAAP Development and Implementation for Non-banking Financial Institutions	2	1	1	7.15
Payment of EPF/ETF and Gratuity	1	-	1	4
Technical Workshop on the Personal Data Protection Act	2	1	1	5.30
AML/CFT Risk Assessment for Financial Institutions	1	-	1	7.30
Contact Centre Training	6	-	6	175.30
Induction for New Recruits	89	52	37	4
Cybersecurity Awareness	273	172	101	1
Cashier Training	27	5	22	1
KPMG Time and Attendance Training	273	174	99	1.30

Number of Programmes

4

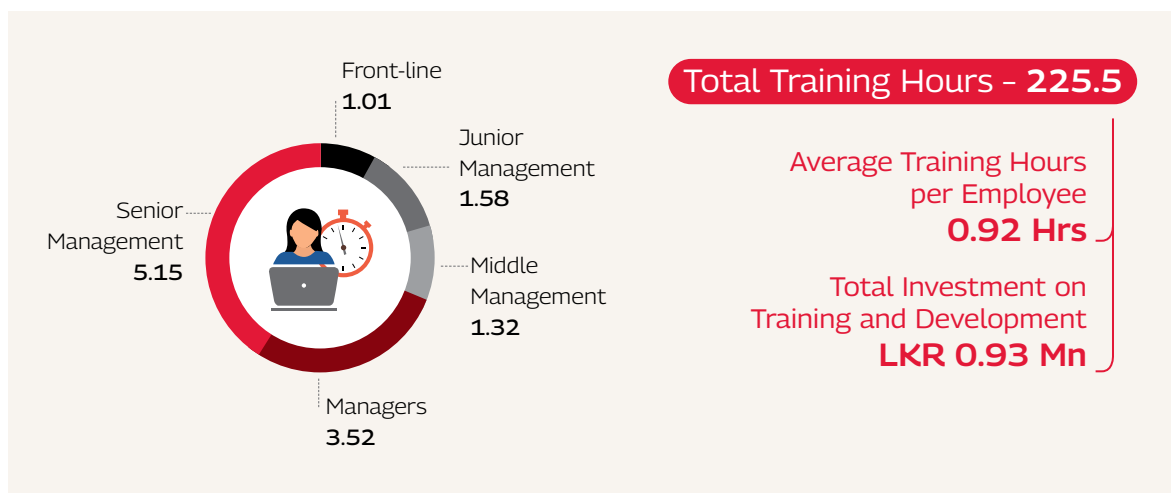
4

3

1

4

### Average Training Hours by Category



## > Human Capital

### Harnessing the Expanded Opportunities from being a Member of MMFL

The MMFSL's "MD's Club" recognises, rewards and offers opportunity to be groomed to take up leadership, for 50 to 60 of its best performing executives from a total cadre of 20,000 spread across India. Following on from the previous year, two high performers from MIFL were nominated this year as well and amongst their opportunities for knowledge acquisition would be the enrollment in a study programme at a top business school in India.

### Diversity and Inclusivity

MIFL advocates "equal opportunity" and creates a fair and an inclusive workplace and towards this end have established an "Equal Opportunity Employment" Policy.

We value the diversity of perspectives, ideas and talents as important to enhancing the value we create to our customers and our shareholders. As an equal opportunity employer our workforce represents age, ethnic, religious and gender diversity and we do not discriminate against people by age, gender, gender identity, gender expression, marital status, sexual orientation, veteran status, religion or caste. Only considerations for employment are if they meet the described job criteria and satisfy the Company's employment requirements. This policy also applies to promotions and increments to termination and retirement.

Hiring wages/salary, benefits and, promotions are strictly merit-based and depends solely on his/her ability to perform a job function. We also ensure that all employees have equal opportunity to benefit from training and development for career progression.

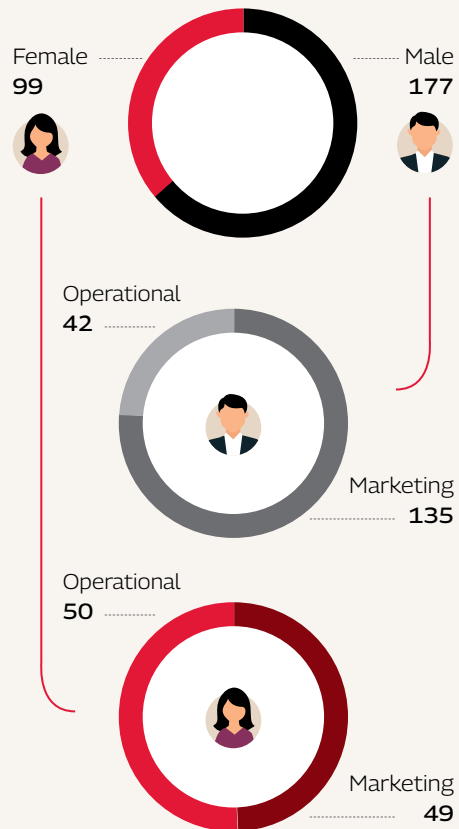
### Total Number of Employees

276

### Service Analysis of Employees



	Male	Female	Total
Below 5 years	144	91	235
6-10 years	29	7	36
11-15 years	4	1	5

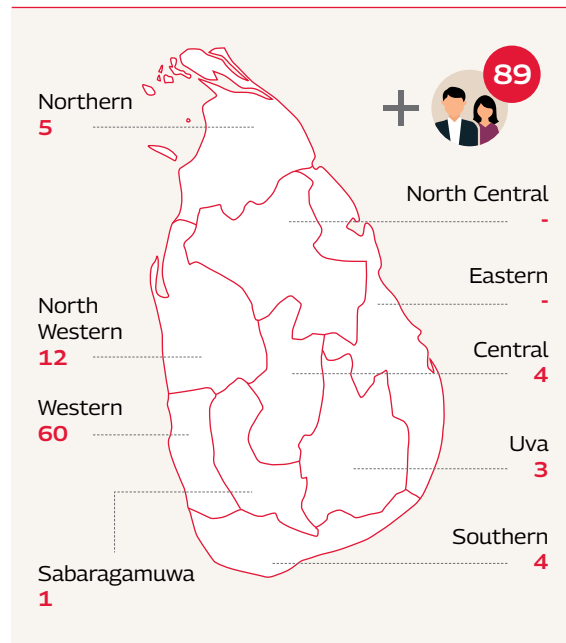


## > Human Capital

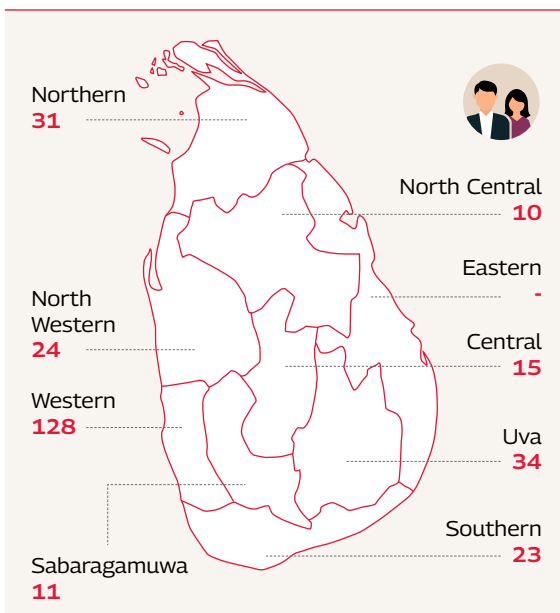
### Distribution by Employment Category



### New Hires-based on Region



### Employees by Region



### Accolades

During the year as well, MIFL participated in the Great Place to Work survey and we are most heartened by the fact that we were chosen as a "Great place to Work" for the 4th consecutive year. Following the integration with MMFSL, India, our employees continue to benefit from the sharing of knowledge, wider exposure and their best practices.

### MIFL was recognised as:

- a "Great Place to Work" by the Great Place to Work survey for the 4th consecutive year and
- a "Great Place to Work for Millennials" in Sri Lanka

### Future Plans

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 focus on building relationships through staff engagement events and staff feedback mechanisms. We will also emphasise a performance culture through incentive schemes based on performance targets.

> **Social and Relationship Capital**

# MIFL's customer centric approach

was a key contributor to its performance in a year in which the economic impacts spared no one.

While we empower the MSME sector to realise their business aspirations, we also stretch out a helping hand to those individuals who are in dire straits.



## > Social and Relationship Capital

### Customers

MIFL's customer centric approach was a key to its performance in a year in which the impacts of an economic crisis spared no one.

Our Customer Capital ranges from those who obtain vehicle leases, to those requiring funding for business or consumption, to those who seek cash backed loans against fixed deposits, to those who obtain loans on gold backed security, to those who place fixed deposits with us for interest income. We continued to focus more on rural and semi-urban markets in the country. Whilst we provide facilities to empower the MSME segment to achieve their business aspirations, we also support customers who may be in need of financial assistance at times of emergency. Such needs have been frequent during the pandemic and last year due to the economic crisis. MIFL's marketing strategy involves the Marketing, Sales, Compliance, and Service departments.

The personalised service offered by our marketing officers and a sustainable approach to customer acquisition and relationships, were key factors in the 59% growth in our deposit base as well as our ability to control the NPLs, during a challenging year. These factors were well augmented by the strength of our brand equity following the partnership with one of India's leading non-bank finance companies, MMFSL. Moreover, a better branch network, faster turnaround times and a customer referral programme were key strengths which enabled us to attract and retain customers during a hard pressed year.

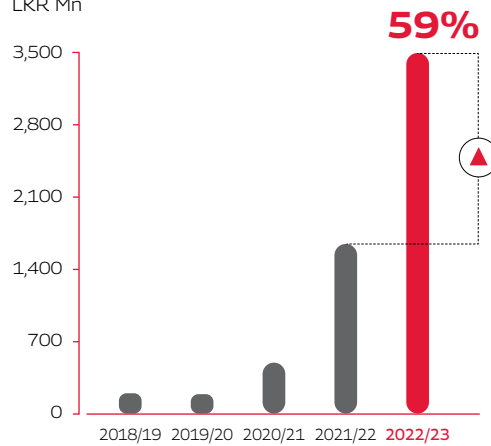
**Gold Loans Portfolio grew by 75%**

**Fixed Deposit Base grew by 59%**

Fixed deposits have fluctuated over the last five years as evidenced by the graph below. The growth from 2021-22 to 2022-23 was driven by the steep increase in interest rates and also by our overall marketing and promotional activities as well as those of our branches. A special three-month programme, FD Bonanza, was conducted from January to March 2023.

### Deposits

LKR Mn



### Marketing Communication

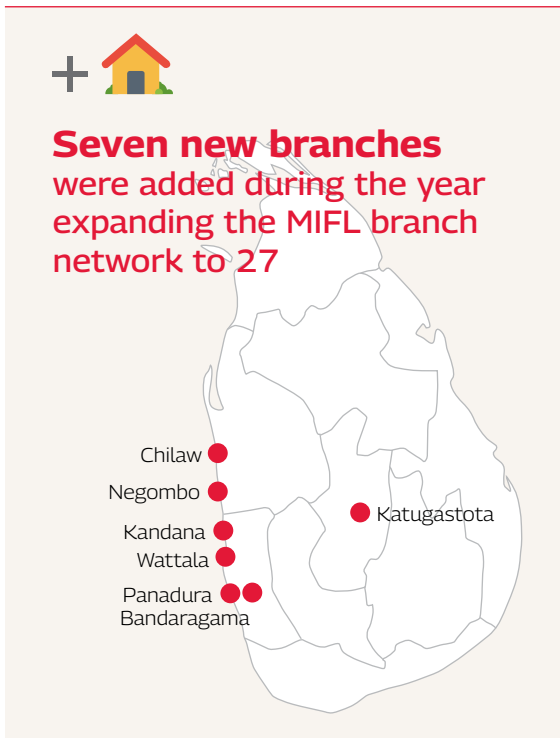
Key promotional activities during the year focused on gold loans and deposits and utilised Above the Line media such as hoardings, pyron, corrugated board promotions, leaflets, SMS campaigns and Radio campaigns.



## > Social and Relationship Capital

### Expanding Our Customer Reach

In line with the Company's strategy of organic growth, the branch network will be an important channel for customer reach. During the year, the Company added seven new branches to its network, bringing the total number of branches to 27 (as at end March 2023). The new branches were sited in keeping with the Company's key target market of rural and semi urban populations and in the following areas:



### Responsible Lending

Our lending is based on understanding and recognising the specific needs of each client and thus our staff is trained never to over-sell as it would be detrimental to the customer's financial foundation in the long term.

### Strengthening Our Call Centre as a Key Service Point

The year under review saw us rebrand, expand, enhance, and relocate the Customer Call Centre to Negombo. The choice of location was influenced by the fact that the population in the area comprised a source for a trilingual workforce, thus enabling us to address customer concerns and queries in the language of choice for customers from any corner of the country. Considering the operating environs of the past few years and the challenges customers faced, the Company also emphasised the quality of empathy in its staff training. A comprehensive training programme comprised role play and subsequent allocation of roles whilst all the new recruits were also rotated within the Company so that they obtained a thorough understanding of the business and the different functions and processes to be able to provide faster and more effective solutions to customer needs.

Equipped with a state-of-the-art customised CRM system which is cloud hosted, the new Call Centre monitors employee performance for different parameters daily, to ensure that the agents maintain the expected service levels. In addition to the facilitation of voice calls and emails, the system at the Centre also introduced social media such as WhatsApp as a more convenient option of communication for customers.

The service agents played a valuable role during the year in supporting recoveries by dealing with empathy, and providing guidance in structuring their balance sheets to be able to pay their installments to retain their asset.

### KPIs of the Call Centre in 2022-23

Average waiting time in queue

**5 seconds**



Average handling time (Max. 2 min. 30 seconds)

**1 minute and 48 seconds**

Percentage of calls abandoned (KPI 5%)

**4.66%**

Percentage of calls answered (above 90%)

**95.34%**

## > Social and Relationship Capital

### Service level of over - 85%

- Identifying peak times and staffing according to the requirement
- Monitor and track agents' performance

KPI achievement

95.34%

### Abandon level to be less than - 5%

- Reduce average call time
- Use wallboards and team broadcast
- Schedule according to call volume

KPI achievement

4.66%

### Maintain zero customer complaints on call centre operations

- Respond/direct and provide feedback within 24 hours
- Deliver on promised standards
- Improve internal communications

KPI achievement

100%

(No complaints received)

### Call Centre agent attrition rate of less than - 30%

- Enhance training programmes
- Build and maintain a positive working environment that attracts and retains high quality staff

KPI achievement

21%

## Community

Each of our branches engage with their neighbouring communities in a multitude of ways and reaching out at times of need is one of them. During the year, a number of branches supported school children obtain an essential need for education - school stationery which had become unaffordable for many since the sharp escalation in costs.

We have since inception, engaged in CSR and recognised the importance of communities, suppliers, and other stakeholders for the sustainability of our business. The integration with MMFSL has led to our adoption of best practices and systems and processes to create more formalised structures which would help us integrate an ESG sustainability driven model of value creation in the year ahead, thus making our efforts larger, more cohesive and integrated with the sustainability of the business.

The initiatives during the year include the following:

### Donation of School Stationeries to Under Privileged School Children

- On the occasion of their anniversary, the Bandarawela branch generously donated stationery items to the students of Sri Shakthi College in Bandarawela.
- The Matara branch made a valuable contribution by donating stationery items to the students of Wewahamanduwa Wanigasekera Maha Vidyalaya in Matara.
- On their anniversary, the Vavuniya branch extended their support by donating stationery items to the students of Hindu College in Vavuniya and Velikulam Vidyalaya.

### Other Contributions

- The Bandarawela branch contributed a name board to Sri Shakthi College as part of their donation efforts.
- In celebration of their anniversary, the Nelliady branch generously donated gift items to children as a thoughtful gesture.
- The Jaffna branch organised a heartwarming initiative by providing lunch for the children of Mahadeva Achchiraram orphanage in Jaffna.
- As part of a community service initiative, a lunch was provided to participants of an inter-provincial soft ball cricket tournament held in Monaragala.
- The Matara and Vavuniya branches actively organised blood donation campaigns as part of their community outreach efforts.



> Natural Capital

# As part of our future growth plans,

we will also proactively look at expanding the greening of our footprint and our contribution to combat climate change.





## > Natural Capital

As an enterprise engaged in the financial services, the direct impact we have on the environment is minimal and limited to a relatively low consumption of natural resources such as energy, water, and the carbon footprint of business related travel. However, we are unable to avoid the impact climate change has on our business and recognise the importance of making whatever small contribution we can towards reducing global warming.

The Company has been taking steps to reduce the footprint of its day to day operations by monitoring the usage of water and electricity and maximising daylight hours, ensuring that our air conditioners are regularly serviced to ensure they run at maximum efficiency. During the year we introduced an incentive to reduce/manage electricity and water consumption more efficiently and increase consciousness across our branch network, by rewarding the branch which has achieved the lowest per square foot electricity consumption and lowest water consumption per employee in the year.

Although overall consumption has increased due to the new branches opened, the proportionate consumption has been reduced.

### Electricity Consumption

**2022 - 244,632 kWh**

2021 - 223,000 kWh



### Water Consumption

**2022 - 123,645 litres**

2021 - 117,800 litres



We follow a policy of printing documents only where it is essential and it is also mandatory to reuse paper of which only one side has been printed on. Daily reports are hence saved as soft copies and printed if necessary only upon approval by the Head of the Department. Envelopes are also reused for internal inter-office communication. All HR related documentation such as leave applications are now paperless and done online. Furthermore, the completion of the HRIS in the year ahead will make most of our HR documentation paperless.

We are introducing the environment friendly option of inverters instead of generators as the standby power supply for these branches .

During the time of the fuel crisis last year, we encouraged our employees who lived in same locality to car pool and also reduced the fuel allocations provided to employees of manager and above categories, by an average of 40% per employee per month.

Looking ahead at the next few years, as we envisage organic growth and branch expansion we will also proactively look at expanding the greening of our footprint; first, enabled by increased use of technology and second by the integration of a formalised structure for the sustainability of social and environmental (ESG) aspects through the integration of an ESG structure and process of our parent company MMFSL. The establishment of a framework and formalised processes will help us reach new paradigms in protecting our natural capital.

## Governance and Risk >

### Board of Directors



#### Mr Nalin J Welgama

Chairman

Mr Nalin Jayaraj Welgama is a Senior Accountant having managed a leading firm of Chartered Accountants in the United Kingdom for several years prior to embarking upon an entrepreneurial function as founder Chairman of Ideal Group. He conceptualised and founded Ideal Plant and Vehicles Ltd. UK in 1986, a company engaged in the worldwide export of luxury motor vehicles, contractors plant, and machinery from the UK.

In 1996, with the formation of Ideal Automotive Parts (Pvt) Ltd., the seeds were sown for the establishment of the Group which at present comprises 15 companies, each of which are playing a leading role in their respective business segments. The Group has diversified into passenger cars, commercial vehicles, heavy machinery, motor cycles, import and distribution of tyres, financial services, automotive parts, and renewable energy, and constitutes a combined turnover in excess of LKR 20 Bn annually and employs over 1,000 people.

Mr Welgama is the Non-Executive Director in Ideal Motors (Pvt) Ltd., Ideal First Choice (Pvt) Ltd., Ideal Drive (Pvt) Ltd., Ideal Greentech (Pvt) Ltd., Ideal Wheels and Tyres (Pvt) Ltd., Ideal Industries Lanka (Pvt) Ltd., Mahindra Ideal Lanka (Pvt) Ltd., Skynet WWE (Pvt) Ltd., Ideal Commercial (Pvt) Ltd., Ideal Modicon Engineering (Pvt) Ltd., Ideal Premier (Pvt) Ltd., Ideal Automobile Parts (Pvt) Ltd., Ideal Automobile (Pvt) Ltd. and Beatrice Investments (Pvt) Ltd.

He was able to realise his dream for his Company of becoming the first Sri Lankan company to partner a world-renowned auto major in setting up a fully-fledged auto assembly plant which was launched in August 2019. Mahindra Ideal Lanka (Pvt) Ltd., was born to offer a selection of locally assembled vehicles to the Sri Lankan market.

Mr Nalin J Welgama is the youngest son of the renowned philanthropist entrepreneur, Mr S A Welgama whose name is synonymous with road haulage (transport) in Sri Lanka, a company whose origins date back to 1931.



#### Mr Aravinda De Silva

Deputy Chairman

An all-time legend in the cricketing world, Mr Aravinda De Silva with an international cricketing career spanning over 20 years, is the only cricketer to have scored a century and taken three wickets in a World Cup final. He was instrumental in winning the Cricket World Cup for Sri Lanka in 1996 and was adjudged as Man of the Match on two occasions, in the all-important semifinal and the final. He retired at the pinnacle of his career in 2003 as Sri Lanka's highest ever run-scorer in Test and ODI, having captained the side many times including the 1991-92 World Cup.

Mr Aravinda De Silva further continued his association with the game in Sri Lanka, serving in an advisory capacity to Sri Lanka Cricket and the Minister of Sports, as well as being Vice-President of Sri Lanka Cricket, Chairman of Selectors and Cricket Committee on numerous occasions.

Mr Aravinda De Silva joined the Ideal Group of Companies in 2009 where he infused his passion for automobiles and keen acumen for cricket and became a co-partner of the Ideal Group of Companies. He currently serves as the Deputy Chairman of the Group, which represents the global giant Mahindra & Mahindra in the automotive and finance sectors.

Mr Aravinda De Silva has been involved with property and infrastructure development in multiple countries. His experience in identifying investment opportunities and as a business strategist in mergers and acquisitions, keeps him actively involved as a private venture capital investor.

Mr Aravinda De Silva sits on a number of Executive Boards in the country and in 2017, he was appointed as Chairman of Thomas Cook Lanka (Pvt) Ltd., a fully owned subsidiary of Fairbridge Capital Canada. He is currently the Non-Executive Directors at Ideal Motors (Pvt) Limited, Ideal Premier (Pvt) Limited, Ideal First Choice (Pvt) Limited, Ideal Drive (Pvt) Limited, Digital Tech Creations (Pvt) Limited, Prompt Xpress (Pvt) Limited, Ideal Group (Pvt) Limited, Ideal Industries Lanka (Pvt) Limited, Mahindra Ideal Lanka (Pvt) Limited, Ideal Modicon (Pvt) Limited, Skynet WWE (Pvt) Limited, Arvana Investment (Pvt) Limited, Arcasia Investment and Trading (Pvt) Limited, Luxe Asia (Pvt) Limited, Sita World Travel Lanka (Pvt) Limited, STEAM Ed Global (Pvt) Limited, Bluesky Aviation (Pvt) Limited and Mayfair Capital (Pvt) Limited.

## > Board of Directors



### **Mr Sujeewa Mudalige**

Senior Independent Non-Executive Director

Mr Mudalige counts over 30 years of experience as a Chartered Accountant. He is also a Fellow member of CIMA (UK), ACCA (UK) and CPA (Australia). He has vast experience as the Audit Committee chair in both public and private sector organisations. Mr Mudalige is the managing partner of PricewaterhouseCoopers. He is also an Independent Non-Executive Director at National Development Bank PLC, CIC Feeds Group, Linked Samahan and is the Chairman of The Mercantile Service Provident Society. Mr Mudalige is a past President of CA Sri Lanka and has been a member of the Council of CA Sri Lanka and of the Governing Board of CIMA UK - Sri Lanka Division, a Commission member of the Securities and Exchange Commission of Sri Lanka and held several such other positions locally and globally during the span of his career. He was an Independent Non-Executive Director of Hatton National Bank PLC from 2012 to 2018.



### **Ms Chrishanthi Lucilla Jayawardena**

Independent Non-Executive Director

Ms Chrishanthi Lucilla Jayawardena is an Attorney-At-Law with over 30 years of post-qualification experience. She commenced her carrier at Messrs F J & G de Saram's Attorneys-At-Law. Thereafter she joined the National Development Bank and was a member of the Senior Management Team.

She served as a consultant at the Urban Development Authority. Currently she has commenced private practicing after retirement. Ms Jayawardena is a member of the Association of Development Finance Institutions in Asia and Pacific. She has also held Directorships in several companies.



### **Mr Rajnish Agarwal**

Non-Independent, Non-Executive Director

Mr Rajnish Agarwal had joined Mahindra Rural Housing Finance Limited a subsidiary of Mahindra & Mahindra Financial Services Limited as Managing Director and CEO from 1 October 2021 and resigned on 30 September 2022.

Prior to joining Mahindra Rural Housing Finance Limited Mr Rajnish Agarwal was Executive Vice-President, Operations of Mahindra & Mahindra Financial Services Limited (MMFSL). With over 29 years of overall rich experience, he has managed and led MMFSL to leadership position across diverse business segments like auto loans, asset risk management, rural management, business and product development, relationship and people management. Mr Rajnish Agarwal had been instrumental in restructuring the business model of MMFSL through "verticalisation" of various vehicle loan businesses which has led to enhanced customer focus. Leading a sales and recovery organisation of 12,000 plus team size through nine verticals, aggregating to 90% of the Company's AUM and Profitability. In a stellar career of almost three decades with MMFSL, he has led the Operations Vertical (Vehicle Financing) to a new high with his strategies and inclination towards future readiness.

Mr Rajnish Agarwal was also functioning as Director in another subsidiary company of MMFSL - Messrs MIBL from 2020 and consequent to his resignation his last working day will be 17 July 2023 in MIBL.

Prior to joining MRHFL, he has worked with MMFSL, Apple Industries and Tata Finance Limited. Mr Rajnish is an alumni of Mumbai University and has pursued multiple short-term Leadership programmes from IIM Bangalore, IIM Indore and Harvard Business School.

## > Board of Directors



### **Mr Vivek Karve**

Non-Independent Non-Executive Director

Vivek is a Chartered Accountant (1994), a Cost Accountant (1993) and a BCom from the University of Bombay (1991). He has more than 25 years of experience in sectors such as FMCG, Banking & Financial Services and IT across five organisations - Mahindra Finance, Marico, Siemens Information Systems, ICICI and P&G.

Vivek joined Mahindra & Mahindra Financial Services Limited as its CFO in September 2020. He also oversees the entire finance function for the Financial Services Sector under Mahindra Finance.

Prior to joining Mahindra Finance, Vivek worked as Group CFO of Marico. He joined Marico in 2000, as a Manager in Corporate Finance. He took over the charge as CFO of Marico Limited effective in April 2014. Over the years, he made significant contributions in the areas of performance management, investors relations, risk management, governance and controls. He has also played an active role in Marico's M&A efforts through due diligence, deal structuring, funding etc.

In 2017, he was recognised as the second Best CFO by Institutional Investor, a reputed magazine for investors. In 2018, Financial Express recognised him as the Best CFO in Large Enterprise Category.

Vivek has served as a member of FICCI's Corporate Finance Committee. He is currently a member of FICCI's CFO Conclave. Currently he is a Non-Executive Non-Independent Director at Process Intelligence and Dynamics Private Limited, Mahindra Insurance Brokers Limited, Mahindra Rural Housing Finance Limited and Mahindra Finance CSR Foundation (Section 8 company).



### **Mr Mufaddal A Choonia**

Non-Independent Non-Executive Director

As Vice President - Emerging Asian Markets at Mahindra Finance, Mufaddal is responsible for leading Mahindra Finance's expansion into Asian Markets and to ensure the planned financial returns on the Company's investments through a direct P&L responsibility for the businesses in these markets. He has been the anchor for Mahindra Finance's investment in Sri Lanka through the joint venture in Mahindra Ideal Finance Limited (MIFL) and now sits on MIFL's Board as Non-Executive Director.

Before joining Mahindra Finance, Mufaddal served as the Chief Executive Officer of Mahindra Racing SpA, an Italian subsidiary of the Mahindra Group, involved in the business of designing and manufacturing high-performance racing motorcycles. Mahindra Racing was the only Indian company that developed these motorcycles inhouse at its own, exclusive racing development centre near Milan, in Italy. He served as the CEO and Director of Mahindra Racing, Italy from 2012 to 2019.

Mufaddal started his career in the Mahindra Group in 1999 after passing from NITIE, one of India's leading business schools. He has held various key positions in marketing and sales across the automotive and financial services sectors of the Group. Mufaddal's first assignment in the Group as Brand Manager - Scorpio, saw him become part of the core team that developed and launched the iconic Scorpio. After gaining valuable experience in the automotive sector of the Group, he then moved on to spearhead the marketing function at Mahindra Finance, where he was responsible for launching the Company's first every integrated national marketing campaign. After a 2.5 year stint outside the Group with Emirates NBD Bank in Dubai, Mufaddal rejoined the Group in 2010 in the Group Strategy Office, where he worked with the business leaders of various Mahindra businesses and helped them develop their long-term business and growth strategies.

Mufaddal has extremely rich international experience of over a decade and is very widely travelled across the globe. His educational qualifications include a graduation in Automobile Engineering and post-graduation in Business Management from NITIE.

## > Corporate Management Team



### **Duminda Weerasekare**

Chief Executive Officer

With an expansive knowledge and skill experience garnered over three decades, Mr Duminda Weerasekare holds the distinction of being a Fellow of both The Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK. He has functioned in directorial, CEO, and COO positions in a number of leading corporate institutions. His work experience ranges from negotiating and sourcing funding from international funding organisations and agencies to introducing pioneering funding sources into the country to being commissioned by international agencies to develop strategic plans for development in various financial strata and sectors. He is a recipient of a fellowship by the Netherlands Development Bank.



### **Rohit Agarwalla**

Head of Finance

Prior to joining Mahindra Ideal Finance Limited Mr Agarwalla worked in the capacity of General Manager at Mahindra & Mahindra Finance Limited, Head Office, Mumbai. Prior to this he was placed as a Regional Accountant at Mahindra Finance Regional Office, Guwahati (2005-2017). He is a Chartered Accountant certified by Institute of Chartered Accountants of England and Wales (2012-2013), Cost and Management Accountant certified by Institute of Cost Accountants of India (2008-2011) and Chartered Accountant certified by Institute of Chartered Accountants of India (2002-2005).



### **Rohitha Bandusena**

Chief Operating Officer

Counting over 20 years experience in finance, operations, treasury, credit, and risk management he holds a BSc (Hons) in Business Administration - Special Degree from the University of Sri Jayewardenepura. Among the positions Mr Rohitha Bandusena has held are Senior Manager - Finance at Nations Leasing, the leasing arm of Nations Trust Bank PLC, and Assistant General Manager - Treasury and Operations at LB Finance PLC. Prior to joining Mahindra Ideal Finance Limited at its inception in April 2012, he was the Head of Credit and Risk Management at Sampath Leasing and Factoring Limited.



### **Pradeep De Silva**

Assistant General Manager - Gold Loans

With over 35 years experience in finance, Mr Pradeep De Silva commenced his career with L B Finance PLC in 1987 and once the gold business was inceptioned in 1998 was placed in charge of gold loan operations and promoted to Senior Manager. In 2008, he joined Alliance Finance as an Assistant General Manager gold loans, continuing in a similar position at Orient Finance Ltd. from 2016 until he joined Mahindra Ideal Finance Limited in 2017. With proven skills he is responsible for promoting and expanding the gold loan products through the entire branch network.

## > Corporate Management Team



### **Priyashantha Fernando**

Assistant General Manager - Asset Finance

Mr Fernando, worked in the capacity of Assistant Vice President - Leasing (Zone II) at Nations Trust Bank PLC.

He began his career in 1991 as an Executive Leasing at Central Finance Company PLC. Thereafter, he was promoted to the capacity of Assistant Manager. In 1998 he joined Mercantile Leasing Company PLC as a Branch Manager and was promoted to Senior Manager - Leasing in 2003. Thereafter, he joined Nations Trust Bank PLC as a Senior Manager and moved up the ranks of the Company until he was promoted to the post of Assistant Vice President in 2015.



### **Vishmith Kariyawasam**

Assistant General Manager - Human Resources

Vishmith has over 18 years of experience in Human Resource Management in Plantation, IT Consultancy, Telecommunication, and Financial Services industries. He began his career as a Human Resource Executive in year 2004 and subsequently practiced Human Resource Management in Virtusa (Pvt) Ltd. and Dialog Axiata PLC in the capacities of Human Resources Manager and Senior Business HR Partner.

He holds a BSc Human Resources Management degree from University of Sri Jayewardenepura and Master of Business Administration from Postgraduate Institute of Management (PIM) - University of Sri Jayewardenepura.

## > Corporate Governance Report

### Corporate Governance

Corporate Governance is defined as the system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of Management and Directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers.

The Board of Directors is responsible for the governance of the Company and has placed significant prominence on developing rules, structures, policies and processes to ensure integrity and transparency in all of the Company's dealings and making the best effort in achieving performance and quality profits. We have continuously refined our structure and systems to ensure governance on the lines as defined, aware at all times that we are accountable to our stakeholders and the general public.

This statement describes the application of the corporate governance practices carried out within the Company during the year under review.

### Board of Directors

The Board is the apex body of Mahindra Ideal Finance Limited that carries the responsibilities of directing the Company. The responsibilities of the Board includes making an accurate assessment of the Company's position, taking strategic decisions, holding regular meetings of the Board and Board Subcommittees, ensuring good governance and overseeing the risk management of the Company.

### Composition and Independence

The Board comprises Seven (07) members, including the Chairman, are Non-Executive Directors with the balance of skills and experience appropriate for the business carried out by the Company.

The Board has determined that two (02) Non-Executive Directors, namely, Ms Chrishanthi Jayawardena and Mr Sujeewa Mudalige are "Independent".

### Chairman and Chief Executive Officer

The functions of the Chairman and the Chief Executive Officer are separated, with a clear distinction drawn between responsibilities, which ensure a balance of power and authority.

Mr Nalin J Welgama is the Chairman of the Board of Directors and Mr Duminda M Weerasekare serves as the Chief Executive Officer of the Company.

### Tenure, Retirement and Re-election of Directors

There shall be a formal, considered, and transparent procedure for the appointment of new Directors to the Board.

If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka with the reasons for such removal or resignation.

The provisions of the Company's Articles of Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at such a Meeting.

### Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matter which requires the attention of the Board.

The Board meets once a month and whenever necessary, special meetings of the Board are held.

## > Corporate Governance Report

During the year ended 31 March 2023, twelve (12) meetings of the Board were held. The attendance at the meetings was:

Name of Director	Executive/ Non-Executive/ Independent Non-Executive	Attendance
Mr N J Welgama	Non-Executive	12/12
Mr P A De Silva	Non-Executive	9/12
Dr L Suren Peter (retired on 21.2.2023)	Independent Non-Executive	11/12
Ms Chrisanthi Jayawardena	Independent Non-Executive	12/12
Mr Sujeewa Mudalige	Independent Non-Executive	10/12
Mr Rajnish Agarwal	Non-Executive	10/12
Mr Vivek Karve	Non-Executive	12/12
Mr Choonia Mufaddal	Non-Executive	10/12

### Board Subcommittees

An Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Nomination Committee, Related Party Transactions Review Committee and an IT Steering Committee function as subcommittees of the Board. The names of the Directors who serve on the said Committees are mentioned below.

#### Audit Committee

The Audit Committee is currently comprised of Mr Vivek Karve, Mr Nalin J Welgama, Ms Chrisanthi L Jayawardena and is chaired by Mr D T Sujeewa H Mudalige.

In compliance with the Finance Companies (Corporate Governance) Direction No. 5 of 2021 and in the absence of a Chief Internal Auditor, Company Secretary acts as the Secretary to the Audit Committee.

#### Integrated Risk Management Committee (IRMC)

The Committee is chaired by Mr D T Sujeewa Mudalige, an Independent Non-Executive Director and Mr Vivek Karve, Mr P Aravinda De Silva and Mr Choonia Mufaddal are members of the IRMC which also consists of Key Management Personnel supervising broad risk categories.

#### Remuneration Committee

The Remuneration Committee is currently comprised of Mr Rajnish Agarwal/Mr Nalin J Welgama/Mr P Aravinda De Silva/Mr D T Sujeewa H Mudalige is chaired by Mr Choonia Mufaddal.

#### Nomination Committee

Nomination Committee was formed in March 2014 and is comprised of Mr Choonia Mufaddal, Mr Nalin J Welgama and Mr D T Sujeewa H Mudalige. Ms Chrisanthi L Jayawardena chairs the Committee.

#### IT Steering Committee

IT Steering Committee was formed in March 2014. Mr P Aravinda De Silva and Professor Suren Peter (Retired on 21 February 2023) are members of the Committee and is chaired by Mr Choonia Mufaddal.

#### Related Party Transactions Review Committee

Related Party Transactions Review Committee was formed in March 2022 where Mr Vivek Karve and Mr P Aravinda De Silva are members of the Committee and is chaired by Mr D T Sujeewa H Mudalige.

#### Compliance Officer

Company has appointed a Compliance Officer at the inception to ensure compliance with the regulatory and statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and business activities undertaken by the Company in general.

#### The Management

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Chief Executive Officer. They ensure that risks, uncertainties and opportunities are identified and necessary actions are taken to mitigate the risk exposure thus ensuring the achievement of targets within defined time frames and budgets.



## > Corporate Governance Report

### Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, International Financial Reporting Standards, the Companies Act, the Finance Companies Act and the directions and rules issued there under.

Messrs Ernst & Young, Chartered Accountants acts as External Auditors of the Company. The Auditors are allowed to act independently and without intervention from the Management or the Board of the Company to express an opinion on the Financial Statements of the Company. The Auditors are provided with all required information for examinations.

### Ethical Standards

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company.

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees.

### Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for.

Retirement gratuities have been provided for in accordance with Sri Lanka Accounting Standards LKS 19, Employee Benefits (Revised 2006).

### Compliance with Central Bank Regulations

As both a registered finance company and a registered finance leasing establishment, the Company is governed by the Non-Bank Financial Institutions directions and rules issued by the Monetary Board of the Central Bank of Sri Lanka.

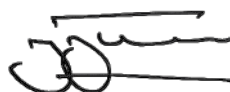
Accordingly, the Company is required to carry out and maintain business activities in compliance with the Directions from time to time issued by the Central Bank of Sri Lanka.

### Accountability and Disclosure

The members of the Board of Directors have reviewed in detail the Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs.

### Outlook

Corporate governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining the growth of the Company. Therefore, we believe in implementing a broad operating structure, monitoring internal control review, benchmark, feedback effective and transparent communication.



**Nalin J Welgama**  
Chairman

21 April 2023

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

Section	Corporate Governance Principle	Compliance
<b>1</b>	<b>Board's Overall Responsibilities</b>	
1.1	The Board shall have overall responsibility and accountability for the Finance Company (FC), including approving and overseeing Management's implementation of the FC's corporate strategy, setting up the governance framework, establishing a corporate culture, and ensuring compliance with regulatory requirements.	Strategic objectives and corporate values are communicated throughout the Company at Management and Staff meetings in order to enhance their understanding regarding the future goals and objectives of the Company.
<b>1.2</b>	<b>Business Strategy and Governance Framework</b>	
1.2.a	Approving and overseeing the implementation of strategic objectives, including, the overall business strategy with measurable goals for at least the next three years, and updating annually in light of the current developments.	Board approved business plan for 2023-2025 and projected Financial Statements/ budget for these years are in place. The Board measures corporate performance against predetermined goals. Amidst vehicle import ban and high interest rate environment, the Company's Strategic Plan for 2023-2025 was focused on its gold loan operations. The Company would revisit its strategy on leasing operations once the economic situation of the country stabilises.
1.2.b	Approving and implementing the Company's governance framework in light of the Company's size, complexity, business strategy, and regulatory requirements.	The Board approved governance framework is in place.
1.2.c	Assessing the effectiveness of its governance framework periodically.	The governance framework is assessed periodically by the Board of Directors.
1.2.d	Appoint the Chairman and the Chief Executive Officer and define the roles and responsibilities.	The Board has appointed a Chairman and a CEO. The Board approved Corporate Governance Framework defines functions and responsibilities of the Chairman and the CEO.
<b>1.3</b>	<b>Corporate Culture and Values</b>	
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent, and professional behaviour.	A Board approved Code of Conduct for employees are in place. The Code of Conduct translates generic values into more specific policies and guidance, which in turn influences behaviour. The Code of Conduct emphasise that the Company sees the value in acting with integrity
1.3.b	Playing a lead role in establishing the Company's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	This Code focuses mainly on the following areas: Conflict of interest, corporate opportunities, antitrust and fair dealing, confidential information, Outside directorship and other activities, insider trading, families and relatives and harassment and discrimination areas.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
1.3.c	Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	Sustainable Development Goals will be considered when developing the strategic plan in future.
1.3.d	Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers, and other creditors, in the view of projecting a balanced view of the Company's performance, position and prospects with the public and regulators.	The Board approved Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholders, and Borrowers.
<b>1.4</b>	<b>Risk Appetite, Risk Management, and Internal Controls</b>	
1.4.a	Establishing and reviewing the Risk Appetite Statement (RAS) in line with Company's business strategy and governance framework.	Risk appetite is defined in respective Board approved policies like Liquidity Risk Management Policy, Investment Policy and Credit Policy. These are in line with companies' strategies and government framework and the Company is in the process of establishing a separate Risk Appetite Statement.
1.4.b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	Risk indicators and monitoring pertaining to Credit Risk, Liquidity risk, Operational Risks, and other residual risks are discussed and appropriate mitigating actions are recommended at the BIRMC meeting.
1.4.c	Adopting and reviewing the adequacy and the effectiveness of the Company's internal control systems and management information systems periodically.	<p>The Board Audit Committee assists the Board in assessing the adequacy and integrity of the internal controls system, management information system (MIS), and financial reporting processes of the Company. The Internal Auditors add to the process by monitoring compliance with policies and procedures and their suitability of design and effectiveness on an ongoing basis. This process will be strengthened when inhouse Audit department is built.</p> <p>Further, the External Auditors were engaged in providing assurance on the Directors' Responsibility Statement on Internal Controls over financial reporting included in the Annual Report, and their opinion was submitted to the Board.</p>
1.4.d	Approving and overseeing Business Continuity and Disaster Recovery Plan for the Company to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.	Board approved comprehensive Business Continuity and Disaster Recovery Plan (BCP) is in place and Company ensure stability and preserve critical operations and services under unforeseen circumstances.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>1.5</b>	<b>Board Commitment and Competency</b>	
1.5.a	All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the Company.	The views of the Board of Directors on issues under consideration are ascertained, and a record of such deliberations are reflected in the minutes. Further, the Board is in complete control of the Company's affairs and aware of its obligations to all shareholders and other stakeholders.  Board of Directors regularly attend for the Board and subcommittee meetings.
1.5.b	All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.	All members of the Board possess vast experience, qualifications, adequate skills, and knowledge in the relevant fields.
1.5.c	The Board shall regularly review and agree on the training and development needs of all the members.	Directors have recognised the need for continuous training and take part in professional development as they consider it necessary in carrying out their duties as Directors. Any training programmes relevant to the Board are communicated to the Board by the Company Secretary for the Directors' participation.
1.5.d	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually on individual performance, of its Boards as a whole and that of its committees and maintain records of such assessments.	A process is in place for annual self-assessments to be undertaken by each Director, of its Board as a whole and that of its committees. The records of such assessments are maintained by the Company Secretary. The summary of the assessments is submitted to the Board.
1.5.e	The Board shall resolve to obtain external, independent, professional advice to the Board to discharge duties to the FC.	Procedure manual of the Company contains a section providing the procedures on seeking independent professional advice by Directors at company expense.
<b>1.6</b>	<b>Oversight of Senior Management</b>	
1.6.a	Identifying and designating Senior Management, who are in a position to significantly influence policy, direct activities, and exercise control over business operations and risk management.	In line with the Central Bank of Sri Lanka (CBSL) direction on Corporate Governance, the Board of Directors and all Heads of Departments have been identified as Key Responsible Persons (KRPs).
1.6.b	Defining the areas of authority and key responsibilities for the Senior Management.	Job descriptions are in place and company is in the process of reviewing the same.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
1.6.c	Ensuring the Senior Management possesses the necessary qualifications, skills, experience, and knowledge to achieve the FC's strategic objectives.	The set of skills and competencies expected by the Company is determined through the recruitment process. A candidate is evaluated and verified during the interview process. Information related to experience and qualifications is verified through their affidavit and declaration, which is submitted to the CBSL. Further, the physical documents/confirmations are verified and obtained from the candidates during the on-boarding process.
1.6.d	Ensuring there is appropriate oversight of the affairs of the Company by Senior Management.	To safeguard better governance practices, the affairs of the Company are reviewed and monitored by the Board of Directors through CEO. To ensure better management, development, and effective performance of the Company, KRPs make regular presentations to the Board on matters under their purview.
1.6.e	Ensuring the FC has an appropriate succession plan for Senior Management.	The Company is in the process of establishing a succession plan for the KRPs.
1.6.f	Meeting regularly with the Senior Management to review policies, establish lines of communication and monitor progress towards strategic objectives.	CEO and HOF are represented at the Board, IRMC and IT Steering Committees. CEO attends the Audit Committee upon invitation. Key Management Personnel are invited as and when the need arises by the Board or the Committee to explain matters relating to their areas of functions.
<b>1.7</b>	<b>Adherence to the Existing Legal Framework</b>	
1.7.a	Ensuring that the FC does not act in a manner that is detrimental or prejudicial to the interests of, and obligations to, depositors, shareholders and other stakeholders.	A Board approved Governance Framework and Communication policies are in place. The Company operates within the Governance Framework and the laws and directions issued by the regulator.
1.7.b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	The Company adheres to the directions, regulations, rules, and circulars issued by the Central Bank of Sri Lanka. Further, the Company ensures that all employees adhere to the internal policies and procedures.  Additionally, the Board approved Code of Conduct for all employees is in place, and the Board regularly monitors compliance with the Code of Conduct.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
1.7.c	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.	Continuous monitoring is in place to avoid criminal liabilities through implementing a governance framework, recruiting Directors of suitable calibre and obtaining fit and propriety of members annually.
<b>2</b>	<b>Governance Framework</b>	
2.1	Board shall develop and implement a governance framework in line with the Finance Business Act Directions No. 05 of 2021.	A Board approved Governance Framework is in place.
<b>3</b>	<b>Composition of the Board</b>	
3.1	The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the Company.	All members of the Board possess vast experience, qualifications, adequate skills, and knowledge in the relevant fields.
3.2	The number of Directors on the Board shall not be less than 7 and not more than 13.	As at 31 March 2023 the Board consists of seven Directors, which is within the statutory requirement. Within the financial year one Non-Independent Director resigned on 14 July 2022 and Senior Independent Director retired on 21 February 2023.
3.3	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer/Executive Director shall not exceed nine years, subject to Direction 3.4.	Two Non-Executive Directors hold more than nine years subject to Section 3.4 with the CBSL approval.
3.4	Non-Executive Directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in Direction 4.2 and 4.3. Provided, however, the number of Non-Executive Directors eligible to exceed 9 years is limited to one-fourth (¼) of the total number of Directors on the Board.	Two of the Non-Executive Directors of the Company have exceeded nine years of service as at 31 March 2023 and obtained the CBSL approval subject to 3.4.
<b>3.5</b>	<b>Executive Directors</b>	
3.5.a	Only an employee of a company shall be nominated, elected, and appointed, as an Executive Director of the Company, provided that the number of Executive Directors shall not exceed one-third (1/3) of the total number of Directors of the Board.	There were No Executive Directors during the year 2022-23.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
3.5.b	A shareholder, who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an Executive Director or as Senior Management. Provided however, existing Executive Directors with a contract of employment and functional reporting line and existing Senior Management are allowed to continue as an Executive Director/Senior Management until the retirement age of the FC and may be reappointed as a Non-Executive Director subject to provisions contained in Directions 4.2 and 4.3. Existing Executive Directors without a contract of employment and functional reporting line need to step down from the position of Executive Director from the effective date of this direction and may be reappointed as Non-Executive Directors subject to provisions contained in Directions 4.2 and 4.3.	No such circumstance transpired.
3.5.c	In the event of the presence of the Executive Directors, CEO shall be one of the Executive Directors and may be designated as the Managing Director of the Company.	There were No Executive Directors during the year 2022-23
3.5.d	All Executive Directors shall have a functional reporting line in the organisation structure of the Company.	
3.5.e	The Executive Directors are required to report to the Board through the CEO.	
3.5.f	Executive Directors shall refrain from holding Executive Directorships or Senior Management positions in any other entity.	
<b>3.6</b>	<b>Non-Executive Directors</b>	
3.6.a	Non-Executive Directors (NED) shall possess credible track records and have the necessary skills, competency, and experience to bring independent judgement on the issues of strategy, performance, resources, and standards of business conduct.	The Non-Executive Directors of the Company possess vast experience and skills in the relevant fields.
3.6.b	A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the Company.	None of the Non-Executive Directors are appointed or function as the Executive Directors of the Company.
<b>3.7</b>	<b>Independent Directors</b>	
3.7.a	The number of Independent Directors of the Board shall be at least three or one-third of the total number of Directors, whichever is higher.	During the year, the Board comprised of three Independent Non-Executive Directors where one Director retired upon completion of nine years of service. By 31 March 2023 the Board comprised of 2 Independent Directors complying with Corporate Governance Direction No. 03 of 2008. Company has obtained transitional provision until 1 July 2024 to comply with the new direction.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
3.7.b	Independent Directors appointed shall be of the highest calibre, with professional qualifications, proven track records, and sufficient experience.	All Independent Non-Executive Directors of the Company are of the highest calibre with professional qualifications, a proven track records, and sufficient experience in the given fields.
3.7.c	<b>A Non-Executive Director shall not be considered independent if such:</b>	
3.7.c.i	Director has a direct or indirect shareholding exceeding 5% of the voting rights of the Company or exceeding 10% of the voting rights of any other Company.	In 2022-23, no such circumstance transpired.
3.7.c.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.	In 2022-23, no such circumstance transpired.
3.7.c.iii	Director has been employed by the Company 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.	In 2022-23, no such circumstance transpired.
3.7.c.iv	Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the Company or its affiliates during the one year preceding the appointment as Director.	In 2022-23, no such circumstance transpired.
3.7.c.v	Director has a relative, who is a Director or Senior Management of the Company or has been a Director or Senior Management of the Company during the one year, immediately preceding the appointment as Director or holds shares exceeding 10% of the voting rights of the Company or exceeding 20% of the voting rights of another Company.	In 2022-23, no such circumstance transpired.
3.7.c.vi	Director represents a shareholder, debtor, or such other similar stakeholder of the FC;	Non-Independent Directors Mr Rajnish Agarwal, Mr Choonia Mufaddal and Mr Vivek Karve - represents Mahindra and Mahindra Financial Services Limited which is the parent company of MIFL. Mr Nalin Welgama and Mr Aravinda De Silva represent Ideal Motors (Pvt) Limited which is a shareholder of the Company.



## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
3.7.c.vii	Director is an employee or a Director or has a direct or indirect shareholding of 10% or more of the stated capital in a company or business organisation, in which any of the other Directors of the FC is employed or a Director;	In 2022-23, no such circumstance transpired.
3.7.c.viii	Director is an employee or a Director or has a direct or indirect shareholding of 10% or more of the voting rights in a company, which has a transaction with the Company as defined in Direction 12.1 (c), or in which any of the other Directors of the Company 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.	In 2022-23, no such circumstance transpired.
3.7.d.	The Nomination Committee and Board should determine whether there is any circumstance or relationship, which is not listed in Direction 3.7, which might impact a Director's independence or the perception of the independence.	In 2022-23, no such circumstance transpired.
3.7.e.	An Independent Director shall immediately disclose to the Board any change in circumstances that may affect the status as an Independent Director. In such a case, the Board shall review such Director's designation as an Independent Director and notify the Director/DSNBFI in writing of its decision to affirm or change the designation.	In 2022-23, no such circumstance transpired.
<b>3.8</b>	<b>Alternate Directors</b>	There were no alternate Director appointments.
<b>3.9</b>	<b>Cooling off Periods</b>	No such appointments were made.
<b>3.10</b>	<b>Common Directorships</b> Director or Senior Management of a company shall not be nominated, elected, or appointed as a Director of another company except where such company is a parent company, subsidiary company, or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5 (f).	No Directors or Senior Managers held positions in other Finance Companies during the year.
<b>3.11</b>	The Board shall determine the appropriate limits for directorships that can be held by Directors. However, a Director of a Finance Company shall not hold office as a Director or any other equivalent position (shall include Alternate Directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	None of the Directors holds office as a Director of more than 20 companies.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>4</b>	<b>Assessment of fit and Proper Criteria</b>	
4.1	No person shall be nominated, elected, or appointed as a Director of the Company or continue as a Director of such company unless that person is a fit and proper person to hold office as a Director of such company in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	The Board shall appoint Directors subject to the policy is in line with the Finance Business Act Direction No. 06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.
4.2	A person over the age of 70 years shall not serve as a Director of an FC.	None of the Directors of the Company are above the age of 70 years.
4.3	Notwithstanding provisions contained in 4.2 above, a Director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31 March 2025, is permitted to continue in office as a Director, exceeding 70 years of age up to a maximum of 75 years of age subject to the following:	No such appointments occurred.
4.3.a	Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	In 2022-23, no such appointments occurred.
4.3.b	Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3 (a).	In 2022-23, no such appointments occurred.
4.3.c	The maximum number of Directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of Directors.	No such appointments occurred.
4.3.d	The Director concerned shall have completed a minimum period of three continuous years in office, as at the date of the first approval.	No such appointments occurred.
<b>5</b>	<b>Appointment and Resignation of Directors and Senior Management</b>	
5.1	The appointments, resignations, or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	The Company conforms to the provisions of Finance Business Act Direction No. 6 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons for appointments, resignations, or removals.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>6</b>	<b>The Chair and the Chief Executive Officer</b>	
6.1	There shall be a clear division of responsibilities between the Chairperson and CEO and the responsibilities of each person shall be set out in writing.	The roles of the Chairman and the Chief Executive Officer are separated and not performed by the same individual.
6.2	The Chairperson shall be an Independent Director, subject to 6.3 below.	As the Chairman is a Non-Independent Director, the Board has appointed a Senior Independent Director. Terms of Reference for Senior Independent Director is in place.
6.3	In the case where the Chairperson is not independent, the Board shall appoint one of the Independent Directors as a Senior Director, with suitably documented Terms of Reference to ensure a greater independent element. The Senior Director will serve as the intermediary for other Directors and shareholders. Non-Executive Directors including Senior Directors shall assess the Chairperson's performance at least annually.	
<b>6.4</b>	<b>Responsibilities of the Chairperson</b>	
6.4.a	Provide leadership to the Board;	Chairman's key responsibilities and duties have been approved by the Board. The self-evaluation process ensures that the said requirements are fulfilled.
6.4.b	Maintain and ensure a balance of power between the Executive and Non-Executive Directors;	
6.4.c	Secure effective participation of both Executive and Non-Executive Directors.	Company Secretary prepares the agenda in consultation with the Chairman, as this function has been delegated to the Company Secretary by the Chairman.
6.4.d	Ensure the Board works effectively and discharges its responsibilities	The Board approved communication policy is in place for communication with all stakeholders including depositors, creditors, shareholders, and borrowers.
6.4.e	Ensure all key issues are discussed by the Board in a timely manner	
6.4.f	Implement decisions/directions of the regulator.	
6.4.g	Prepare the agenda for each Board meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the Company Secretary.	
6.4.h	Not engage in activities involving direct supervision of Senior Management or any other day-to-day operational activities.	
6.4.i	Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	
6.4.j	Annual assessment of the performance and the contribution during the past 12 months of the Board and the CEO.	

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>6.5</b>	<b>Responsibilities of the CEO</b> The CEO shall function as the apex executive in charge of the day-to-day management of the FC's operations and business. The responsibilities of the CEO shall include.	The Board approved functions and responsibilities of the Chief Executive Officer are in place.
6.5.a	Implementing business and risk strategies in order to achieve the FCs strategic objectives;	The Chief Executive Officer functions as the apex executive in charge of the day-to-day operations of the Company and he acts as a direct liaison between the Board and Management of the Company.
6.5.b	Establishing a management structure that promotes accountability, and transparency throughout the FC's operations, and preserves the effectiveness and independence of control functions;	
6.5.c	Promoting, together with the Board, a sound corporate culture within the FC which reinforces ethical, prudent, and professional behaviour.	
6.5.d	Ensuring the implementation of a proper compliance culture and being accountable for accurate submission of information to the regulator.	
6.5.e	Strengthening the regulatory and supervisory compliance framework.	
6.5.f	Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.	
6.5.g	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.	
<b>7</b>	<b>Meetings of the Board</b>	
<b>7.1</b>	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.	Board has met 12 times during the year 2022-23. There were instances where the Board's consent has been obtained through the circulation of written resolutions/papers during the year 2022-23
<b>7.2</b>	The Board shall ensure that arrangements are in place to enable matters and proposals by all Directors of the board are to be represented in the agenda for scheduled Board meetings.	Agenda is circulated by the Company Secretary, among the Board members by electronic mail prior to the meeting, which enables Directors to communicate any matters which they wish to be discussed at the meeting, to be included in the agenda. Procedure manual of the Company includes the procedure on enabling all Directors to include matters and proposals in the agenda.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
7.3	A notice of at least three days shall be given for a scheduled Board meeting. For all other Board meetings, reasonable notice shall be given.	As a practice, Directors are given a notice of at least seven days for regular Board meetings and also the next Board meeting is finalised at the end of the previous meeting.
7.4	A Director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	The views of the Board of Directors on issues under consideration are ascertained and a record of such deliberations are reflected in the minutes.
7.5	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present unless at least one-fourth of the number of Directors that constitute the quorum at such meeting are Independent Directors.	In 2022-23, no such incidents occurred.
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.	Presently we do not have any Executive Directors in the Board but going forward will ensure to adhere to hold meetings only with Non-Executive Directors without CEO's presence.
7.7	A Director shall abstain from voting on any Board resolution in relation to a matter in which he/she or any of his relatives or a concern, in which he has a substantial interest, is interested, and he/she shall not be counted in the quorum for the relevant agenda item in the Board meeting.	Articles of Association give evidence on the procedure for "Restrictions on Voting" by Board of Directors when they have a substantial interest on any matter and not to be counted in the quorum. No such transaction has taken place during the year.
7.8	A Director, who has not attended at least two-thirds of the meetings in the period of 12 months, immediately preceding or has not attended three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an Alternate Director shall be acceptable as attendance.	The Board of Directors has fully complied with the requirement and each Director of the Board is well-informed and acquainted with their attendance. Further, the Company Secretary monitors attendance.  During the year 2022-23, none of the Directors has been absent for three consecutive meetings. Details of the Director's attendance are set out on page 54 of the Annual Report.
7.9	<b>Scheduled Board Meetings and Ad Hoc Board Meetings</b>  For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where the Director cannot attend on short notice, participation through electronic means is acceptable.	Please refer "Directors" Attendance and Committee attendance in the subcommittee reports on the Annual Report. Further, participation in person or through electronic media is clearly recorded in the minutes.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>8</b>	<b>Company Secretary</b>	
8.1.a.	The Board shall appoint a Company Secretary considered to be Senior Management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings and to carry out other functions specified in the statutes and other regulations.	In terms of Section 221 of the Companies Act No. 07 of 2007, a qualified company secretarial services provider (S S P Corporation) with adequate experience has been appointed by the Board as the Company Secretary. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures, and other applicable rules and regulations are followed.
8.1.b.	The Board shall appoint its Company Secretary, subject to the transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a Company under section 222 of the Companies Act No. 07 of 2007, on being appointed the Company Secretary, such person shall become an employee of the Company and shall not become an employee of any other institution.	The Company would comply with the direction by appointing a Company Secretary considered as Senior Management by 1 July 2024. A transitional period until 1 July 2024 has been granted to comply with the same.
<b>8.2</b>	All Directors shall have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures laws, directions, rules, and regulations are followed.	A Board approved procedure is in place to enable all Directors to have access to the advice and services of the Company Secretary and to ensure all Board procedures, applicable laws, rules, directions, and regulations are followed.
<b>8.3</b>	The Company Secretary shall be responsible for preparing the agenda in the event the Chairperson has delegated carrying out such function.	Agenda and previous month's Board minutes are sent to the Board members by the Company Secretary via email.
<b>8.4</b>	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 six years.	Company Secretary maintains the minutes of Board meetings with sufficient details. Upon a reasonable request, any Director can inspect the minutes.
<b>8.5</b>	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.	Minutes of the Board meetings with all submissions to the Board are maintained for a minimum period of six years.
<b>8.6</b>	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: <ul style="list-style-type: none"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> </ul>	Minutes of the Board meetings are recorded in sufficient detail.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
	<p>(c) fact-finding discussions and the issues of contention or dissent including contribution of each individual Director;</p> <p>(d) the explanations and confirmations of relevant parties which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations, directions;</p> <p>(e) the Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted;</p> <p>(f) the decisions and Board resolutions.</p>	
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Company Secretary maintains the minutes of Board meetings. Procedure manual of the Company includes a chapter; "Maintaining Minutes of the Board Meetings" in this regard.
<b>9</b>	<b>Delegation of Functions by the Board</b>	
9.1	The Board shall approve a DA and give clear directions to the Senior Management, as to the matters that shall be approved by the Board before decisions are made by Senior Management, on behalf of the FC.	The Board approved delegation authority limits is in place.
9.2	In the absence of any of the subcommittees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	Board subcommittees are in operation.
9.3	The Board may establish appropriate Senior Management level subcommittees with appropriate DA to assist in Board decisions.	Asset and Liability Committee and Credit Committee are in operation.
9.4	The Board shall not delegate any matters to a Board Subcommittee, Executive Directors, or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board is empowered by the Articles of Association to delegate its powers to a committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit.
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Company.	The delegation process is periodically reviewed to ensure it fulfils the demands of the Company.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>10</b>	<p><b>Board Subcommittees</b></p> <p>A transitional period until 1 July 2024 will be granted. However, during the transitional period provisions contained in “Section 8: Board Appointed Committees” of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 will be applicable.</p> <hr/> <p>Board Subcommittees</p> <hr/> <p>FCs with asset base of less than LKR 20 Bn.</p> <hr/> <p>Shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), and Related Party Transactions Review Committee.</p> <hr/> <p>Meetings – Meetings shall be held at least quarterly for BAC and BIRMC. Other committees shall meet at least annually.</p>	<p>In terms of the FBAD No. 05 of 2021, the Company has in operation a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Nomination Committee (BNC), Board Human Resource and Remuneration Committee (BHRRC), and Board Related Party Transactions Review Committee (BRPTRC).</p> <hr/> <p>There were four BAC meetings and four BIRMC meetings held during the year 2022-23, which comply with the requirements. Please refer Board subcommittee reports given in the Annual Report.</p>
10.1.b	Each Board subcommittee shall have a written Term of Reference specifying clearly its authority and duties.	Written Term of References clearly specifying the authority and duties are in place for each subcommittee.
10.1.c	The Board shall present a report on the performance of duties and functions of each Board Subcommittee, at the Annual General Meeting of the Company.	Performance, duties, and functions of all subcommittees are disclosed on pages 88, 90, 94 and 95 of the Annual Report.
10.1.d	Each subcommittee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records, and carry out such other such secretarial functions under the supervision of the Chairperson of the Committee.	The Company Secretary is the Secretary to the Board Nomination Committee, Board Remuneration Committee and the Board Audit Committee
10.1.e	Each Board Subcommittee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge, and experience relevant to the responsibilities of the committees.	Members of all Board Subcommittees consist of Board members and the performance, duties, and functions of all subcommittees are disclosed on pages 88, 90, 94 and 95 of the Annual Report.
10.1.f	The Board may consider the occasional rotation of members and of the Chairperson of Board subcommittees to avoid undue concentration of power and promote new perspectives.	We have not mentioned this in TORs where members rotate with appointment and retirement of Directors. Latest rotation was happened on 25 March 2022.



## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
<b>10.2</b>	<b>Board Audit Committee (BAC)</b> The following shall apply in relation to the Board Audit Committee.	
10.2.a	The Chairperson of the Committee shall be an Independent Director who possesses qualifications and experience in accountancy and/or audit.	Chairman of the Audit Committee is an Independent Non-Executive Director and possesses qualifications and related experience.
10.2.b	The Board members appointed to the BAC shall be Non-Executive Directors and the majority shall be Independent Directors with the necessary qualifications and experience relevant to the scope of the BAC.	All members of the Board Audit Committee are Non-Executive Directors. All of them have expertise and knowledge in the fields of banking, finance, leasing, information technology, etc.
10.2.c	The Secretary to the Board Audit Committee shall preferably be the Chief Internal Auditor (CIA)	The Company will adhere to the aforesaid section once it takes effect on 1 July 2024.
10.2.d	External Audit Function	
	i. The BAC shall make recommendations on matters in connection with the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the Auditor.	The Auditor's appointments, service periods, and fees are determined and recommended by the BAC at the end of each financial year.
	ii. Engagement of an audit partner shall not exceed five years, and the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.	E&Y functions as the External Auditor of the Company.  The Company will adhere to the aforesaid section once it takes effect on 1 July 2024.
	iii. The audit partner of an FC shall not be a substantial shareholder, Director, Senior Management or employee of any FC.	E&Y functions as the External Auditor of the Company.
	iv. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	External Auditor is independent since they directly report to the Board Audit Committee and their report on the Financial Statements of the Company for the year 2022-23 indicates that the audit is carried out in accordance with SLAuS.
	vi. The BAC shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including (i) an assessment of the Company's compliance with Directions issued under the Act and the Management's internal controls over financial reporting; (ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one Auditor is involved.	Committee has developed a mechanism to meet the Auditors before commencing the audit to inquire about the nature and scope of the audit, with the External Auditors in accordance with SLAS.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
	<p>vii. The BAC shall review the financial information of the Company's, in order to monitor the integrity of the Financial Statements of the Company in its Annual Report, Accounts and Periodical Reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Company's Annual Report and Accounts and Periodical Reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> <li>(i) major judgemental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>	<p>Committee has a process to review the financial information of the Company.</p>
	<p>viii. The BAC shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Senior Management, if necessary.</p>	<p>The Board Audit Committee discusses issues, problems, and reservations arising from the interim and final audits with the External Auditors. During the year the Committee has held two meetings with the External Auditors, without the Executive Management being present, to discuss any matters the Auditor may wish to discuss.</p>
	<p>ix. The BAC shall review the External Auditor's Management letter and the Management's response thereto within three months of submission of such, and report to the Board.</p>	<p>The Committee has reviewed the External Auditor's Management letter and management responses thereto, relating to the audit for the year ended 31 March 2023.</p>
10.2.e	<p>The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.</p>	<p>Presently the effectiveness of the Company's internal control mechanism has been certified by the Directors on page 102 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting" where company will adhere to the said criteria with effective from the next financial year.</p>
10.2.f	<p>The BAC shall ensure that the Senior Management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by Auditors and supervisory bodies with respect to the Internal Audit function of the Company.</p>	<p>BAC monitors this through regular reporting from the Internal Auditors.</p>

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
10.2.g	Internal audit function:	
	i. The Committee shall establish an independent internal audit function, either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the Company's internal control, risk management, governance systems and processes.	Internal audit function of the Company has been outsourced to a firm of Chartered Accountants. (BDO Partners)
	ii. The internal audit function shall have a clear mandate, be accountable to the BAC, and be independent of the audited activities. It shall have sufficient expertise and authority within the Company to carry out their assignments effectively and objectively.	There is a Board approved Internal Audit Charter that defines the purpose, authority and responsibility of the Internal Auditor. The said mandate establishes the independence of the department too.  The Board Audit Committee has reviewed and approved the Annual Internal Audit Program. Internal Audit Reports, with the Management comments, have been discussed at length, and action is taken to rectify the same.
	iii. The BAC shall take the following steps with regard to the internal audit function of the Company:	
	(i) Review the adequacy of the scope, functions and skills and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	Internal audit function of the Company has been outsourced to a firm of Chartered Accountants and their scope of the audit has been included in their audit reports. Internal Audit Reports have been submitted to the Audit Committee for their review.
	(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit ;	The Board Audit Committee has reviewed and approved the Annual Internal Audit Program. Internal Audit Reports, with the Management comments, have been discussed at length, and action is taken to rectify the same.
	(iii) Assess the performance of the head and senior staff members of the Internal Audit Department;	Not relevant as the internal audit function of the Company has been outsourced to a firm of Chartered Accountants.
	(iv) Ensure that the Internal Audit Function is independent and activities are performed with impartiality, proficiency, and due professional care;	The Internal Audit function is independent as it is outsourced and reports directly to the Board Audit Committee and is performed in with proficiency and due professional care, in an impartial manner.

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
	(v) Ensure the internal audit function carries out a periodic review of the Compliance Function and regulatory reporting to regulatory bodies.	BAC reviews the annual compliance review conducted by internal audit function.
	(vi) Examine the major findings of internal investigations and Management's responses thereto;	There is regular reporting to the BAC on the status of investigations.
10.2.h	Committee shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly.	BOD reviews the status of the pending action points of the statutory examination report of the CBSL on a monthly basis and ensure necessary actions are taken.
10.2.i	Meetings of the Committee	
	i. The Committee shall meet as specified in Direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	BAC has met four times for the financial year and meeting minutes are in place.
	ii. Other Board Members, Senior Management, or any other employee may attend meetings upon the invitation of the Committee when discussing matters under their purview.	Members of the Board Audit Committee and Head of Finance attend the meetings. Chief Executive Officer and Chief Operating Officer attend by invitation.
	iii. BAC shall meet at least twice a year with the External Auditors without any other Directors/ Senior Management/employees being present.	Two meetings were held with the External Auditors without any other Directors/ Senior Management being present.
<b>10.3</b>	<b>Board Integrated Risk Management Committee (BIRMC)</b> The following shall apply in relation to the BIRMC	
10.3.a.	The Committee shall be chaired by an Independent Director. The Board Members appointed to BIRMC shall be Non-Executive Directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with Senior Management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	The Committee consisted of four Non-Executive Directors and the Committee is chaired by Independent Director. The Chief Executive may attend the meetings upon invitation.  The Committee closely works with Key Responsible Personnel and makes decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
10.3.b	The secretary to the committee may preferably be the CRO.	The Assistant Manager - Compliance acts as the secretary of the IRMC
10.3.c	The Committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, compliance and technology to the Company at least once in two monthly basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board;	The Committee has an appropriate process to assess the impact of all risks quarterly through identified risk indicators and management information

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
10.3.d	Developing the Company's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns throughout the FC.;	<p>Risk Appetite presently is defined in respective Board approved policies like Liquidity Risk Management policy, Investment policy and Credit Policy.</p> <p>The Company will ensure to implement an independent Risk Appetite Statement in the next financial year 2023-24 as we are in the process of developing it.</p>
10.3.e.	The BIRMC shall review the Company's risk policies including RAS, at least annually.	All policies including the risk policies are reviewed by BIRMC on an annual basis.
10.3.f	The BIRMC shall review the adequacy and effectiveness of Senior Management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	<p>In fulfilling its responsibilities, the Committee reviewed the adequacy and effectiveness of Management Committees to manage risks.</p> <p>BIRMC assessed the adequacy and effectiveness of the Assets and Liabilities Committee (ALCO) to address specific risks.</p>
10.3.g	The Committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Any event which impacts the business continuity is discussed in the meeting. Disaster recovery is an important part of Company's IT Policy.
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO.	The Company is in the process of appointing a dedicated Compliance and Chief Risk Officer.
10.3.i	Compliance function	
10.3.ii	BIRMC shall establish an independent compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business' operations.	The BIRMC has established an independent compliance function.
10.3.iii	For a Company with an asset base of more than LKR 20 Bn, a dedicated Compliance Officer considered to be Senior Management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be "dual hatting", i.e. the chief operating officer, chief financial officer, chief Internal Auditor, chief risk officer or any other Senior Management shall not serve as the Compliance Officer.	Though the Company is below LKR 20 Bn asset base BIRMC had appointed a dedicated Compliance Officer but with his demise the Company is in the process of recruiting a suitable replacement.

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Section	Corporate Governance Principle	Compliance
10.3.i.iii	For FCs with an asset base of less than LKR 20 Bn, an officer with adequate seniority considered to be Senior Management shall be appointed as Compliance Officer avoiding any conflict of interest.	Though the Company is below LKR 20 Bn asset base BIRMC had appointed a dedicated Compliance Officer but with his demise the Company is in the process of recruiting a suitable replacement.
10.3.i.iv	The responsibilities of a Compliance Officer would broadly encompass the following:	
	(i) Develop and implement policies and procedures designed to eliminate or minimise the risk of breach of regulatory requirements;	Board approved policies and procedures are in place and available on the intranet which is accessible by all employees of the Company.
	(ii) Ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;	IRMC approved Compliance Policy is in place.
	(iii) Ensures that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;	Periodic reviews are conducted to assess the level of compliance with regulatory rules and internal compliance standards.
	(iv) Understand and apply all new legal and regulatory developments relevant to the business of FC;	The Company implements all new legal and regulatory developments that are applicable to its business.
	(v) Secure early involvement in the design and structuring of new products and systems, to ensure that they conform to regulatory requirements, internal compliance, and ethical standards;	All regulatory compliances are ensured before launch of any new product.
	(vi) Highlight serious or persistent compliance problems and where appropriate, work with the Management to ensure that they are rectified within an acceptable time-frame, and	Compliance testing is carried out periodically and action is taken to rectify if deviations are noted. Currently this is tested by the Compliance and reported periodically. To enhance this process, we have developed a compliance testing plan where we have given responsibility for the relevant departments to comply and to confirm the testing in each quarter
	(vii) Maintain regular contact and a good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with the highest integrity.	With the regulators, a positive working relationship is upheld. There is maintenance of timely reporting and communications.
10.3.j	Risk management function	
10.3.j.i	BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.	The Company is in the process of establishing an independent risk management function. The Head of Finance presently overlooking the function.

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Section	Corporate Governance Principle	Compliance
10.3.j.ii	For FCs with an asset base of more than LKR 20 Bn, it is expected to have a separate Risk Management Department and a dedicated CRO, considered to be Senior Management, shall carry out the risk management function and report to the BIRMC periodically.	This is not required as we are a company with an asset base less than LKR 20 Bn.
10.3.j.iii	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfil broader responsibilities to various stakeholders.	The Company is in the process of developing Risk Appetite Statement.
10.3.j.iv	<p>The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers:</p> <ul style="list-style-type: none"> <li>• various potential risks and frauds</li> <li>• possible sources of such risks and frauds;</li> <li>• mechanism of identifying, assessing, monitoring and reporting of such risks and frauds; includes quantitative and qualitative analysis covering stress testing.</li> <li>• effective measures to control and mitigate risks at prudent levels; and</li> <li>• relevant officers and committees responsible for such control and mitigation.</li> </ul> <p>The framework shall be reviewed and updated at least annually.</p>	<p>The Company has established risk management policies covering various types of risks, their identification and mitigation plan.</p> <p>The policy is reviewed in periodical basis.</p>
10.3.j.v	The Chief Risk Officer shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc, and make recommendations on risk management.	Head of Finance who is also taking care of risk function is a part of the strategic planning session of the Company.
10.3.j.vi	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	Presently the Company is not maintaining a risk register and we will ensure to implement for the upcoming meetings.
10.3.j.vii	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	<p>Presently there is no such RAR presented to Board by IRMC. Only when there is a concern, it is discussed.</p> <p>We will ensure to submit a RAR from the next financial year 2023-24.</p>

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Section	Corporate Governance Principle	Compliance
<b>10.4</b>	<b>Nomination Committee</b> The following shall apply in relation to the Nomination Committee:	
10.4.a.	The Committee shall be constituted of Non-Executive Directors and preferably the majority may be Independent Directors. An Independent Director shall chair the Committee. The CEO may be present at meetings by invitation of the Committee.	The Committee is comprised of four Non-Executive Directors and two of the Directors are independent. We will comply with it as this will be effective from 1 July 2024.
10.4.b	Secretary to the Nomination Committee may preferably be the Company Secretary.	Secretary to the committee is the Company Secretary.
10.4.c	The Committee shall implement a formal and transparent procedure to select/appoint new Directors and Senior Management.  Senior Management is to be appointed with the recommendation of CEO, excluding CIA, CRO and Compliance officer.	A Board approved policy for the selection, nomination, appointment, and election of Directors is in place.  Selection and appointment of KRPs are carried out with the recommendation of the Board Nomination Committee where the Company will adhere to the said criteria's when going forward.
10.4.d	The Committee shall ensure that Directors and Senior Management are fit and proper persons to perform their functions as per the FBA (Assessment of Fitness and Propriety of Key Responsible Persons).	The Committee ensures that this has complied with the terms of FBA (Assessment of Fitness and Propriety of Key Responsible Persons) and with the Committee recommendation for the Board approved.
10.4.e	The selection process shall include reviewing whether the proposed Directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfil their responsibilities on the Board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.	The selection process is carried out to confirm with the stated section.
10.4.f	The Committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.	The composition of the Board is not in any manner dominated by an individual or a small group of individuals.
10.4.g	The Committee shall set the criteria, such as qualifications, experience, and key attributes required for eligibility, to be considered for the appointment to the posts of CEO and Senior Management.	The Committee considers and recommends to the Board the criteria, such as qualifications, experience, and key attributes required for eligibility, to be considered for the appointment to the posts of CEO and Senior Management.



## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
10.4.h	<p>Upon the appointment of a new Director to the Board, the Committee shall assign the responsibility to the Company Secretary to disclose to shareholders:</p> <p>(i) a brief résumé of the Director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the Director holds directorships or memberships in Board Committees; and (iv) whether such Director can be considered as independent.</p>	The Company will adhere to the said section when applicable.
10.4.i	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the Director concerned towards the discharge of the Board's overall responsibilities.	Presently the re-election of the Directors are recommended at the AGM where we will ensure to conform to the stated section by going forward.
10.4.j	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Senior Management.	The Company is in the process of establishing a succession plan for the KRPs.
10.4.k	A member of the Nomination Committee shall not participate in decision-making relating to their own appointment/reappointment and the Chairperson of the Board should not chair the Committee when it is dealing with the appointment of the successor.	Members of the Board Nomination Committee is not involved in the decision-making process for their own appointment or reappointment.
<b>10.5</b>	<b>Human Resources and Remuneration Committee</b> The following shall apply in relation to the Human Resources and Remuneration Committee:	
10.5.a	The committee shall be chaired by a Non-Executive Director and the majority of the members shall consist of Non-Executive Directors.	The Committee is comprised of Five Non-Executive Directors.
10.5.b	The secretary to the Human Resource and Remuneration Committee may preferably be the Company Secretary.	The Company Secretary functions as the Secretary to the Committee.
10.5.c	The Committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and Senior Management of the FC and fees and allowances structure for Non-Executive Directors.	<p>A Board approved remuneration policy is in place where the Company is in the process of updating it according to the said criteria's.</p> <p>Presently the remuneration and benefits of the Senior Management are decided by the BRC where we don't have any Executive Directors.</p>

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Section	Corporate Governance Principle	Compliance
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	The Remuneration Policy has been formulated and developed to achieve fair and equitable benefits with transparent guidelines which integrate with the market-related modern remuneration practices.
10.5.e	The Committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances, and other financial incentives for all employees of the FC. The policy shall be subject to periodic review by the Board, including when material changes are made.	The remuneration and benefits are reviewed annually and recommended by the Committee and approved by the Board.
10.5.f	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests, and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivise employees to take an excessive risk or to act in self-interest.	The remuneration structure is in line with the business strategy, objectives, values, long-term interests, and cost structure of the Company. It also includes measures to prevent conflicts of interest.
10.5.g	The Committee shall review the performance of the Senior Management (excluding Chief Internal Auditor, Compliance Officer, Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits, and other payments of performance-based incentives.	The performance of the Senior Management has been reviewed by the BRC. Financial benefits have been decided based on their Performances and with the appointment of the Compliance officer will ensure to review her performance through IRMC based on set goals with effective from next financial year.
10.5.h	The Committee shall ensure that the Senior Management shall abstain from attending Committee meetings when matters relating to them are being discussed.	The Committee adheres to the stated section.
<b>11</b>	<b>Internal Controls</b>	
11.1	FCs shall adopt well-established internal control systems, which include the organisational structure, segregation of duties, clear management reporting lines, and adequate operating procedures in order to mitigate operational risks.	<p>Company is assessing the adequacy and the integrity of the internal controls system and the management information system and the financial reporting processes of the Company.</p> <p>The External Auditors were engaged in providing assurance on the "Directors" Responsibility Statement on Internal Controls over Financial Reporting included in the Annual Report.</p>

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Section	Corporate Governance Principle	Compliance
11.2	<p>A proper internal control system shall:</p> <ul style="list-style-type: none"> <li>• promote effective and efficient operations;</li> <li>• provide reliable financial information;</li> <li>• safeguard assets;</li> <li>• minimise the operating risk of losses from irregularities, fraud, and errors;</li> <li>• ensure effective risk management systems; and</li> <li>• ensure compliance with relevant laws, regulations, directions, and internal policies.</li> </ul>	
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	
<b>12</b>	<b>Related Party Transactions</b>	
12.1	Board shall establish a policy and procedures for related party transactions, which covers the following.	
12.1.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.	The Board has established a Board Related Party Transactions Review Committee, in conformity with the Direction.
12.1.b	All related party transactions shall be prior reviewed and recommended by the RPTRC.	A Board approved mechanism is in place in this regard.
12.1.c	<p>The business transactions with a related party that is covered in this Direction shall be the following:</p> <p>Granting accommodation;</p> <p>Creating liabilities to the FC in the form of deposits, borrowings and any other payable;</p> <p>Providing financial or non-financial services to the FC or obtaining those services from the FC.</p> <p>Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to sharing proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.</p>	<p>The policy which speaks on types of related party transactions for the Company to avoid any conflicts of interest that may arise from any transaction with the related parties is in place.</p> <p>All related party transactions have been disclosed in the Financial Statements.</p>

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Section	Corporate Governance Principle	Compliance
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> <p>Directors and Senior Management.</p> <p>Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.</p> <p>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</p> <p>Directors and Senior Management of legal persons in paragraph (b) or (c).</p> <p>Relatives of a natural person described in paragraph (a), (b) or (d).</p> <p>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.</p>	<p>The Board is well aware of the requirement of identification of related party transactions and a Board approved Related Party Transaction Guide is in place which discusses categories of related parties, and aids the Company to avoid any conflicts of interest that may arise from any transaction of the Company.</p>
12.3	<p>The Committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, “more favourable treatment” shall mean:</p> <p>Granting of “total accommodation” to a related party, exceeding a prudent percentage of the FC’s regulatory capital, as determined by the committee.</p> <p>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 counter-party;</p> <p>Providing preferential treatment, such as favourable terms, that extends beyond the terms granted in the normal course of business with unrelated parties;</p> <p>Providing or obtaining services to or from a related party without a proper evaluation procedure;</p> <p>Maintaining reporting lines and information flows between the FCs 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.</p>	<p>There is a documented process approved by the Board which clearly defines related party transactions and ensures that the Company does not engage in such transactions in a manner that would grant such related parties “more favourable treatment” than what is accorded to other constituents of the Company carrying out similar transactions with the Company.</p>

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Section	Corporate Governance Principle	Compliance
<b>13</b>	<b>Group Governance</b>	
13.1	Responsibilities of the FC as a holding company.	The Company is a fully owned subsidiary of Mahindra and Mahindra Financial Services Limited India. The Company does not have subsidiaries or associates.
13.2	<b>Responsibilities as a Subsidiary</b> If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.	The Company is a fully-owned subsidiary of Mahindra and Mahindra Financial Services Limited. The Company fulfils its own legal and governing obligations.
<b>14</b>	<b>Corporate Culture</b>	
	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, the integrity of reporting, protection and proper use of Company assets and fair treatment of customers.	The Company has an internally developed Code of Conduct for all employees including Corporate and Senior Management. This Code focuses mainly on the following areas: Fair dealing, protection and proper use of the Company assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination and harassment, health and safety, discipline, etc
14.2	The FC shall maintain records of breaches of the Code of Conduct and address such breaches in a manner that upholds high standards of integrity.	The Company maintains records of breaches of the Code of Conduct. If any breach of the Code of Conduct is reported, the disciplinary procedure is implemented and subsequent actions are taken as per the gravity of such incidents.
14.3	A FC shall establish a Whistle Blowing Policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confident manner and without the risk of reprisal. The BAC shall review the policy periodically.	A Board approved Whistle Blowing Policy is in place. All employees are encouraged to raise any matter which they genuinely believe, constitutes a potential or existing wrongdoing such as a breach of the Code of Ethics of the Company.
<b>15</b>	<b>Conflicts of Interest</b>	
15.1.a	Relationships between the Directors shall not exercise undue influence or coercion. A Director shall abstain from voting on any Board resolution in relation to a matter in which such Director or any of the relatives or a concern in which such Director has a substantial interest, is interested, and such Director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	The Board is well aware of the requirement of identification of related party transactions and a Board approved Related Party Transaction Policy is in place which speaks on categories of related parties, and aids the Company to avoid any conflicts of interest that may arise from any transaction of the Company.

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Section	Corporate Governance Principle	Compliance
15.1.b	<p>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;</p> <p>Identify circumstances that constitute or may give rise to conflicts of interests.</p> <p>Express the responsibility of Directors and Senior Management to avoid, to the extent possible, activities that could create conflicts of interest.</p> <p>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.</p> <p>Implement a rigorous review and approval process for Directors and Senior Management to follow before they engage in certain activities that could create conflicts of interest.</p> <p>Identify those responsible for maintaining updated records on conflicts of interest with related parties, and</p> <p>Articulate how any non-compliance with the policy is to be addressed.</p>	<p>A policy on Related party transaction is in place where we are in process of updating the policy as per the latest direction.</p>
<p><b>16 Disclosures</b></p>		
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.</p> <p>The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.</p>	<p>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.</p> <p>Further, such statements are published in the newspapers in Sinhala, Tamil, and English.</p>
	<p>i. Financial Statements - In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include</p> <p>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.</p> <p>A statement of responsibility of the Board in preparation and presentation of Financial Statements.</p>	<p>This is being disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company" appearing on pages 91 to 93 of the Annual Report.</p>

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Section	Corporate Governance Principle	Compliance
ii.	<p>Chairperson, CEO and Board Related Disclosures Name, qualification and a brief profile.</p> <p>Whether Executive, Non-Executive and/or Independent Director.</p> <p>Details of the Director who is serving as the senior Director, if any.</p> <p>The nature of expertise in relevant functional areas.</p> <p>Relatives and/or any business transaction relationships with other Directors of the Company.</p> <p>Names of other companies in which the Director/CEO concerned serves as a Director and whether in an Executive or Non-Executive capacity.</p> <p>Number/percentage of Board meetings of the FC attended during the year; and</p> <p>Names of Board Committees in which the Director serves as the Chairperson or a member.</p>	<p>Details of the Directors including names and transactions with the Finance Company are given on pages 48 to 52 and page 149 under Note 38 of the Annual Report.</p>
iii.	<p>Appraisal of Board performance</p> <p>An overview of how the performance evaluations of the Board and its committees have been conducted.</p>	<p>A process is in place for the annual self-assessments of Directors to be undertaken by each Director and the records of such assessments are maintained by the Company Secretary. The summary of the self-assessment is submitted to the Board enabling Directors to discuss relevant matters if any.</p>
iv.	<p>Remuneration</p> <p>A statement on the 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).</p> <p>The aggregate values of remuneration paid by the FC to its Directors and Senior Management.</p>	<p>Performance driven remuneration and increments to the remuneration package shall depend on achievement of agreed performance standards or financial benchmarks which have been set as per the Annual Strategic Plan and the Budget.</p> <p>All employee's annual promotions, increments, bonus are directly in relation with the employee's performance, contribution, commitment, professional conduct and behaviour.</p> <p>The remuneration structure of the staff and Senior Management shall be in line with the business strategy, objectives, values, long-term interest, cost structure of the Company, incorporating prevention of conflict of interest in particular incentives embedded within the remuneration structures that does not incentivise employees to take excessive risk or act in self-interest.</p> <p>Aggregate values of remuneration paid for:</p> <p>Senior Management Remuneration - LKR 36,992,968</p> <p>Directors' fees are given in Note 9 of the Financial Statement.</p>

## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
v.	<p><b>Related Party Transactions</b></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>There was no relationship between the Chairman and CEO and the relationships among the members of the Board.</p> <p>Total of net accommodation granted in respect of each category of related parties</p> <p>Net accommodation for Directors - Nil</p> <p>Net accommodation for Senior Management - LKR Nil</p> <p>The aggregate values of the transactions of the FC with related parties;</p> <p>Deposits - LKR 11,766,000</p>
vi.	<p><b>Board Appointed Committees</b></p> <p>The details of the Chairperson and members of the Board Committees and attendance at such meetings.</p>	<p>Please refer "Directors" attendance and Committee Memberships' on the relevant subcommittee reports of the Annual Report.</p>
vii.	<p><b>Group Structure</b></p> <p>The group structure of the FC within which it operates.</p> <p>The group governance framework</p>	<p>The Company is a fully-owned subsidiary of Mahindra and Mahindra Financial Services Limited, India. The Company fulfils its own legal and governing obligations.</p>
viii.	<p><b>Director's Report - A report, which shall contain the following declarations by the Board</b></p> <p>The FC has not engaged in any activity, which contravenes laws and regulations.</p> <p>The Directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.</p> <p>The FC has made all endeavours to ensure the fair treatment for all stakeholders, in particular the depositors.</p> <p>The business is a going concern with supporting assumptions; and</p> <p>The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.</p>	<p>This is disclosed in the Corporate Governance Report on page 91 of the Annual Report.</p> <p>This is given on page 91 under the Annual Report of the Board of Directors on the State of Affairs of the Company.</p> <p>This is disclosed in the Chairman's Message on pages 10 to 12.</p> <p>This is given on pages 102 and 103 of the Annual Report.</p>



## > Corporate Governance Report

Section	Corporate Governance Principle	Compliance
ix.	<p><b>Statement of Internal Control</b></p> <p>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.</p> <p>The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.</p> <p>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</p> <p>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.</p>	<p>The said criteria are disclosed in pages 101 and 102 of the Annual Report.</p>
x.	<p><b>Corporate Governance Report</b></p> <p>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.</p>	<p>The Corporate Governance Report is set out on pages 53 to 87 of the Annual Report of the Company.</p> <p>The Company has obtained an independent assurance report from the External Auditors over compliance with Finance Business Act Direction No. 05 of 2021 on Corporate Governance.</p>
xi.	<p><b>Code of Conduct</b></p> <p>FC's Code of Business Conduct and Ethics for Directors, Senior Management and employees.</p> <p>The Chairperson shall certify that the Company has no violations of any of the provisions of this Code.</p>	<p>A Board approved Code of Conduct is in place.</p> <p>Please refer the Chairman's message on pages 10 to 12 that the Company has no violations of any of the provisions of this Code.</p>
xii.	<p><b>Management Report</b></p> <p>Industry structure and developments</p> <p>Opportunities and threats</p> <p>Risks and concerns</p> <p>Sustainable finance activities carried out by the Company</p> <p>Prospects for the future</p>	<p>Please refer the Management Discussion and Analysis of the Report from pages 26 to 47.</p>
xiii.	<p><b>Communication with Shareholders</b></p> <p>The policy and methodology for communication with shareholders.</p> <p>The contact person for such communication.</p>	<p>The Board approved Communication Policy is in place which covers all stakeholders including depositors, creditors, shareholders, and borrowers. The Board of Directors, officers, and employees comply with the policy in order to ensure effective communication for the best interests of all stakeholders.</p> <p>The Company Secretary shall communicate with the shareholders through the Annual Report and by notices issued to the shareholders.</p>

## > Report of the Audit Committee

### Composition

The composition of the Audit Committee during the year was as follows:

- Mr D T Sujeewa H Mudalige (Chairman)
- Mr Vivek Karve
- Mr Nalin J Welgama
- Dr Suren P L Peter (retired on 21 February 2023)
- Ms Chrishanthi L Jayawardena

Mr Mudalige is also a Fellow member of CIMA (UK), ACCA (UK) and CPA (Australia). He has vast experience as the Audit Committee Chair in both public and private sector organisations. Mr Mudalige is a past President of CA Sri Lanka and has been a member of the Council of CA Sri Lanka and of the Governing Board of CIMA UK - Sri Lanka Division, a Commission member of the Securities and Exchange Commission of Sri Lanka

### Meetings

The Committee met four times during the year under review.

Mr D T Sujeewa H Mudalige (Chairman) -	2/4
Mr Vivek Karve	4/4
Mr Nalin J Welgama	4/4
Dr Suren P L Peter (retired on 21 February 2023)	3/4
Ms Chrishanthi L Jayawardena	4/4

The Chief Executive Officer and the Senior Management attended the meetings by invitation. Internal audit consultants and the External Auditors were invited to participate at the meetings as and when required.

The Company Secretaries, S S P Corporate Services (Private) Limited acted as Secretaries to the Audit Committee.

The proceedings of the Audit Committee were reported to the Board of Directors on a regular basis.

### Role of the Committee

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process, the system of internal controls and risk management, the independence and audit process of the External Auditors, and the process for monitoring compliance with laws and regulations.

Overseeing the appointment of the External Auditor for audit services in compliance with the relevant statutes; approval of the audit fee, service period and any matters relating to the resignation or dismissal of Auditors.

Ensuring that the internal audit function is independent of the activities it audits and it is performed with impartiality, proficiency and due professional care.

- Reviewing the internal audit programme, comment on the audit findings, recommend appropriate action, ensure coordination between the Internal and External Auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.

### Summary of activities

The Committee carried out the following activities during the year.

Reviewed the consistency and appropriateness of the accounting policies adopted by the Company to ensure compliance with the Sri Lanka Accounting Standards.

Reviewed the effectiveness of the internal financial controls to ensure reasonable assurance that the financial reporting system adopted by the Company can be relied upon in the preparation and presentation of the quarterly and annual Financial Statements.

Considered the Internal and External Audit Reports and identified the control weaknesses and accounting issues highlighted and directed Management to take appropriate and relevant follow up actions.

Held two special meetings with the External Auditors without the presence of Management to discuss the matters relating to management co-operation, quality, timeliness and accuracy of the accounting and management information provided.

## > Report of the Audit Committee

### **Internal Audit**

The internal audit function is outsourced to BDO Partners.

The scope of work covers the head office functions and all branches. The scope of work of the internal audit consultants includes the review of the efficacy of the internal controls and the actions taken to mitigate operational and business risks. In addition they monitor and report on compliance with statutory requirements and the Company's accounting and operational policies. Internal audit representatives are present at all Audit Committee meetings during discussion of the respective internal audit reports.

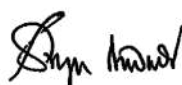
### **External Audit**

The Committee ensured that the Auditors have not carried out any non-audit services that would have impaired their independence.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as Auditors for the financial year ending 31 March 2024 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendations in regard to the remuneration of the Auditors

### **Conclusion**

The Audit Committee is satisfied that the internal controls and the procedure in place for assessing and managing risk are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded, and that the Financial Statements are reliable.



**Sujeewa Mudalige**  
Chairman  
Audit Committee

21 April 2023

## > Report of the Remuneration Committee

The Remuneration Committee, appointed by the Board of Directors comprised five Non-Executive Directors.

### Composition

Mr Choonia Mufaddal (Chairman)

Mr Rajnish Agarwal

Mr Nalin J Welgama

Mr P Aravinda De Silva

Mr D T Sujeewa H Mudalige

### Meetings

During the period committee reviewed to make recommendations on salaries, bonuses and increments, and also on matters relating to recruitment of Key Management Personnel to ensure that the management and staff at all levels are adequately rewarded for their performance and commitment. The Chief Executive Officer shall attend meetings of the Committee by invitation and provide relevant information and his view to the Committee for its considerations except when his own remuneration package and other matters relating to him are discussed.

### Functions

The primary objective of the committee is to attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company.

The Company remuneration framework for the Executive Directors and Corporate Management Team is designed to ensure alignment between short and long-term interests of the Company and thereby create and enhance value for all stakeholders of the Company.

### Directors' Remuneration

The total of Directors' remuneration paid during the year under review is set out in Note 9 to the Financial Statements.



**Choonia Mufaddal**  
Chairman  
Remuneration Committee

21 April 2023

# > Annual Report of the Board of Directors on the State of Affairs of the Company

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31 March 2023. The details set out herein provide pertinent information required by the Companies Act No. 07 of 2007 and are guided by recommended best accounting practices.

## 1. Principal Activities

The principal activity of the Company is to carry on finance business in conformity with the provisions of the Finance Business Act No. 42 of 2011 as amended or superseded from time to time and in conformity with provisions of all written laws for the time being in force and all regulations, directions, determinations, rules, orders or requirements made, given or imposed thereunder.

## 2. Financial Statements

The Financial Statements of the Company are given on pages 106 to 160.

## 3. Auditor's Report

The Auditor's report on the Financial Statements is given on page 104.

## 4. Accounting Policies

The accounting policies adopted in preparation of Financial Statements and the other explanatory Notes are given on pages 110 to 160. There were no material changes in the Accounting Policies adopted.

## 5. Interest Register

The Company maintains an interest register and the particulars of those Directors who were directly or indirectly interested in a contract of the Company are stated therein.

## 6. Directors' Interest

None of the Directors had direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in Note 38, related party transactions to the Financial Statements.

## 7. Directors Remuneration and Other Benefits

Directors' remuneration in respect of the Company for the year ended 31 March 2023 is given in Note 9 to the Financial Statements.

## 8. Corporate Donations

There were no donations made by the Company for the year ended 31 March 2023.

## 9. Directors

The Directors of the Company as at 31 March 2023:

Mr N J Welgama  
Non-Executive Chairman

Mr P A De Silva  
Non-Executive Director

Mrs C L Jayawardena  
Non-Executive, Independent Director

Mr R Agarwal  
Non-Executive Director

Mr D T S H Mudalige  
Senior Non-Executive, Independent Director

Mr V A Karve  
Non-Executive Director

Mr M A Choonia  
Non-Executive Director

Mr Nikhil Sohoni, Non-Executive Director resigned from the Board with effect from 14 July 2022.

Dr P L Suren Peter, Senior Non-Executive Independent Director resigned from the Board with effect from 21 February, 2023 in order to comply with Section 3.3 of the Finance Business Act No. 05 of 2021, having served the Board for a period of nine years.

The Board wishes to place on record the Company's sincere appreciation to Mr Nikhil Sohoni, Non-Executive Director and Dr P L Suren Peter, Non-Executive Independent Director for their valuable contribution extended to the Company during their tenure on the Board.

In terms of Article 24 (6) of the Articles of Association of the Company Mrs C L Jayawardena and Mr N J Welgama retire by rotation at the Annual General Meeting and being eligible offer themselves for reelection.

## > Annual Report of the Board of Directors on the State of Affairs of the Company

### 10. Board Subcommittees

The following Board Subcommittees are functional.

#### Audit Committee

Mr D T Sujeewa H Mudalige  
Chairman/Non-Executive Independent Director

Mr Nalin J Welgama  
Member/Non-Executive Director

Mr Vivek Karve  
Member/Non-Executive Director

Ms Chrishanthi L Jayawardena  
Member/Non-Executive Independent Director

#### Integrated Risk Management Committee

Mr D T Sujeewa H Mudalige  
Chairman/Member/Non-Executive  
Independent Director

Mr Vivek Karve  
Member/Non-Executive Director

Mr P Aravinda De Silva  
Member/Non-Executive Director

Mr Mufaddal A Choonia  
Member/Non-Executive Director

#### Human Resource and Remuneration Committee

Mr Mufaddal A Choonia  
Chairman/Non-Executive Director

Mr Nalin J Welgama  
Member/Non-Executive Director

Mr Rajnish Agarwal  
Member/Non-Executive Director

Mr P Aravinda De Silva  
Member/Non-Executive Director

Mr D T Sujeewa H Mudalige  
Member/Non-Executive Independent Director

#### Nomination Committee

Ms Chrishanthi L Jayawardena  
Chairperson/Non-Executive Independent Director

Mr Mufaddal A Choonia  
Member/Non-Executive Director

Mr Nalin J Welgama  
Member/Non-Executive Director

Mr D T Sujeewa H Mudalige  
Member/Non-Executive Independent Director

#### IT Steering Committee

Mr Mufaddal A Choonia  
Chairman/Non-Executive Director

Mr P Aravinda De Silva  
Member/Non-Executive Director

#### Related Party Transactions Review Committee

Mr D T Sujeewa H Mudalige  
Chairman/Non-Executive Independent Director

Mr Vivek Karve  
Member/Non-Executive Director

Mr P Aravinda De Silva  
Member/Non-Executive Director

### 11. Directors Shareholding

None of the Directors held shares in the Company as at 31 March 2023.

### 12. Auditors

The Financial Statements for the year ended 31 March 2023 have been audited by Messrs Ernst & Young, Chartered Accountants, who express their willingness to continue in office. In accordance with Section 158 of the Companies Act No. 07 of 2007, the Auditors are deemed to be reappointed and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The fees paid to the Auditors are disclosed in Note 9.

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

### 13. Dividends

The Directors do not recommend a dividend for the financial year ended 31 March 2023.

### 14. Investments

Details of investments held by the Company are disclosed in Note 14, 15, and 21. to the Financial Statements.

## > Annual Report of the Board of Directors on the State of Affairs of the Company

### 15. Intangible Assets

There were no intangible assets, other than Computer System Software, which is disclosed in Note 23 to the Financial Statements.

### 16. Property, Plant and Equipment

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 22 to the Financial Statements.

### 17. Capital Commitments

There were no capital commitments outstanding as at the balance sheet date.

### 18. Stated Capital

The stated capital of the Company is LKR 1,908,247,125/-.

### 19. Taxation

The tax position of the Company is given in Note 10, 11, and 29 to the Financial Statements.

### 20. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the government and the employees have been made on time.

### 21. Corporate Social Responsibility

Our Company specialises in maintaining high standards of corporate social responsibilities such as carrying out management practices and decisions which have no negative impact on the environment and on the community around which we operate.

Our products go a long way towards minimising the felling of trees and are completely recyclable without any negative impact on the environment. Schemes are in place to collect off-cuts and waste which are recycled in-house for special applications.

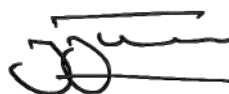
### 22. Contingent Liabilities

There were no material contingent liabilities outstanding as at 31 March 2023.

### 23. Post Balance Sheet Events

Subsequent to the date of the balance sheet no circumstances have arisen which would require adjustments to the accounts. There are also no significant post balance sheet events which in the opinion of the Directors require disclosure.

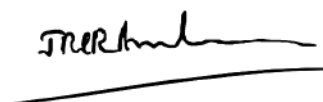
For and on behalf of the Board of Directors of Mahindra Ideal Finance Limited.



Nalin J Welgama  
Director



P A De Silva  
Director



S S P Corporate Services (Private) Limited,  
Secretaries

21 April 2023

## > Report of the Integrated Risk Management Committee

### Composition

The Integrated Risk Management Committee for the financial year ended 31 March 2023 comprised the following members:

Mr D T Sujeewa H Mudalige (Chairman)

Mr Vivek Karve

Mr P Aravinda De Silva

Mr Mufaddal Choonia

The following members participate for the Integrated Risk Management Committee:

Mr Duminda Weerasekare (Chief Executive Officer)

Mr Rohitha Bandusena (Chief Operating Officer)

Mr Pradeep De Silva (AGM - Gold Loan)

Mr Rohit Agarwalla - Head of Finance

Mr T M M B Tennakoon

(Senior Manager - Fixed Deposits)

Mr Channa Prabhath - (Senior Manager - Finance)

Ms Sarini Mallawarachchi

(Assistant Manager - Compliance)

### Meetings

The Committee met on a quarterly basis of which attendance of the members of the Board are as follows:

Dr P L Suren Peter (Past Chairman) (Retired on 21.2.2023)	3/4
Mr D T Sujeewa H Mudalige (Chairman)	4/4
Mr Vivek Karve	3/4
Mr P Aravinda De Silva	2/4
Mr Choonia Mufaddal	3/4

### Role of the Committee

- Assessing all risks, i.e. credit, liquidity, interest rate, currency, regulatory, operational and strategic risks to the finance company through appropriate risk indicators and management information.
- Reviewing 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.
- Taking 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.
- Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- 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.

### Conclusion

The Integrated Risk Management Committee is satisfied about comprehensive risk management strategies and procedures that are in place in order to mitigate MIFL's risk exposure.



**Sujeewa Mudalige**

Chairman

Integrated Risk Management Committee

21 April 2023



## > Board Related Party Transactions Review Committee Report

The Board Related Party Transactions Review Committee (the Committee) was established by the Board on 25 March 2022, in line with the Finance Business Act Direction No. 05 of 2021 on Corporate Governance.

### Composition

During the period ended 31 March 2023 the Committee comprised three Non-Executive Directors, including one Independent Non-Executive Director. The Committee is Chaired by an Independent, Non-Executive Director appointed by the Board.

### Members

Mr D T Sujeewa H Mudalige (Chairman)  
Mr Vivek Karve  
Mr P Aravinda De Silva

### Role and Responsibilities

Taking all necessary steps to avoid any conflicts of interest that may arise from any transaction conducted by the Company with any category deemed as "Related Parties" in line with the regulatory requirements.

Ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties a "More Favourable Treatment" than that accorded to other constituents of the Company carrying on the same business.

Committee shall establish a policy and procedures for related party transaction and review them frequently.

### Reporting to the Board

Related party transactions are reported at monthly Board meetings ensuring that the transactions are done at arms length.



**Sujeewa Mudalige**  
Chairman  
Board Related Party Transactions Review Committee

21 April 2023

## > Risk Management Report

### Introduction

Mahindra Ideal Finance Limited (MIFL) works in the space of financial services, offering an expansive range of financial products including leases, loans, fixed deposits and gold loans. The Company's expansion plans revolve around extending its branch network for more accessibility.

The MIFL Board of Directors continues to be very proactive in the Company's risk management, with expansive risk mitigation strategies introduced and implemented to ensure that operations are at its optimum while financial and business risks are minimised, thereby ensuring the protection of its depositors, investors and key stakeholder' interest.

The Integrated Risk Management Committee (IRMC) is a Board appointed committee which meets quarterly to discuss and evaluate the prevalent risk management procedures and risk levels faced by the Company at present and in the future. An Integrated Risk Management Report is presented to the IRMC and the Committee analyses and evaluates the adequacy and efficacy of the current risk mitigation strategies in place.

This is an imperative at MIFL as we remain aware that an effective risk management strategy will flag risks pertaining to the Company and enable us to evaluate these at their early stages in order to implement necessary measures to mitigate or minimise the impact of such risks.

### Risk Environment FY 2022-23

During the financial year 2022-23, in the backdrop of COVID-19, the complexity of the risk landscape intensified further due to macro-economic stress stemming from dwindling foreign exchange reserves. This led to a ban on import of vehicles and other macro-economic developments such as fuel shortages and planned power interruptions which had direct and indirect implications on the risk profile of the Company. There was also the impact of spiraling inflation and rising interest rates.

### Summary of Activities in FY 2022-23

Key areas addressed by the IRMC during the year under review are:

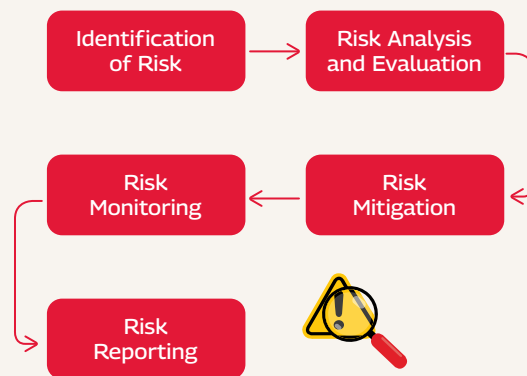
- Reviewed the liquidity position, funding pipeline, and liquidity management strategies of the Company.
- Key focus was given to the measures to be taken to improve the credit quality, given the stress in the economy.
- Assessed all risks - credit, market, liquidity, currency, strategic, operational, regulatory, reputational.

### Risk Management Strategy

MIFL has a comprehensive risk management system in place which includes a fully functional Integrated Risk Management Committee (IRMC), a Board Audit Committee (BAC), a Board Credit Committee, and an Assets and Liabilities Management Committee (ALCO) to oversee different spheres of risk management. MIFL's Risk Management strategy is fundamentally based on maintaining adequate capital, liquidity and operational controls at all times, to safeguard the interests of all stakeholders. The level of risk across our business and the uncertainties we face, are key areas of focus for the Board.

### Risk Management Process

Managing risk is a multistage process as shown below.



These are then monitored to avoid the accumulation of risk. Findings are reported to the Board through the IRMC.

## > Risk Management Report

Once risks are identified, these are analysed and evaluated using both quantitative and qualitative techniques. Based on these findings, necessary action is taken to manage risk and reduce the impact of risk occurrence.

### Key Risks Faced by the Company

Due to the nature of our business and inherent risks posed by the macro-economic environment, the Company is exposed to the following risks:

- Credit risk/Default risk
- Liquidity risk
- Interest rate risk
- Currency risk
- Collateral risk
- Strategic risk
- Operational risk
- Regulatory risk
- Reputational risk

The risk identification process involves identifying all risk categories and subcategories the business is exposed to. In the event of changes to the business environment or introduction of new products, all risks must be identified.

Prior to the design and introduction of a new product to the market, MIFL identifies and analyses all inherent risks to minimise and avoid facing unexpected and adverse outcomes.

### Credit Risk

Credit risk is the most significant and prevalent risk the Company is exposed to and can be categorised mainly into two - Default Risk and Concentration Risk.

#### i. Default Risk

Default risk is the risk arising due to customers being unable to meet their debt obligations. The Company has well-defined credit procedures to mitigate the default risk in daily business operations which include credit appraisal, credit approval, monitoring and recovery. MIFL obtains sufficient collateral as security as a fall-back measure in the event of non-payment by the borrower and all non-performing facilities are analysed periodically to make sure the Company maintains a very low NPL ratio. At the inception of the economic turmoil, MIFL prudently decided to pause fresh leasing disbursements anticipating that higher

lending rates may lead to unaffordable monthly rentals and will likely increase credit risk. Also enhanced focus and monitoring of existing portfolio recoveries helped MIFL to contain its NPL levels.

#### ii. Concentration Risk

Concentration risk occurs when facilities are extended to a single counterparty, industry or geographical area. MIFL has set prudential limits on maximum exposure which are reviewed periodically and single borrower limits as defined by the Finance Companies Direction No. 04 of 2006 issued by CBSL. Top 10 customers contributed 3.2% only of the lending portfolio as at the year end.

### Liquidity Risk

Liquidity risk arises when the Company has insufficient funds to meet obligations due to unmatched maturities in assets and liabilities. The primary objective of MIFL's liquidity management policy is to ensure availability of adequate funding for its daily business activities. The Company also maintains the statutory liquid assets ratios at required levels as a method to measure and control liquidity risk.

The following precautionary measures are implemented to maintain a healthy liquidity position.

- Adoption of a policy to maintain minimum one month of liquidity buffer
- Preparation of an annual budget and identification of future funding requirements
- Identification of the cumulative gap in the current year's assets and liabilities
- Identification of the amount of unpredicted cash requirements during the past six months
- Identification of the cash flows arising from interest earning assets

### Interest Rate Risk

Interest rate risk arises from adverse and unanticipated movements in future interest rates impacting credit facilities granted and deposits accepted by the Company. Several factors give rise to interest rate risk. Two main risks are identified as:

- Term structure risk - arising due to the mismatch in maturity of assets and liabilities
- Basis risk - arising due to differences in interest rates bases

## > Risk Management Report

MIFL conducts periodic review of interest rates by,

- Analysing the patterns of fluctuations of interest rates in the past and forecasting interest rate movements based on such past trends
- Monitoring other market factors including market liquidity and Treasury Bill rates
- Identifying the gap analysis of interest earning assets and interest bearing liabilities
- Identifying the effect on net interest income. Even in the high interest environment, with the help of the parent company MMFSL, MIFL was able to access low-cost funds from foreign banks which cushioned the net interest margins

### Currency Risk

Currency risk is defined as the potential changes arising from fluctuations in exchange rates of various currencies. MIFL is exposed to currency risk if the exchange rate risk is not transferable at the time of a transaction. The Company monitors currency rate fluctuations and forecasts exchange rate trends based on past movements.

### Collateral Risk

Collateral risk arises due to the value of security held being insufficient to meet the capital outstanding of the facilities in the event of default of payment by the customer.

MIFL ensures at all times that the value of collateral held as security is sufficient to meet the outstanding amount of facility in case of default and has the following in place to mitigate the collateral risk:

- Physical verification of the asset before granting facilities
- Checking absolute ownership of the asset
- Obtaining a valuation report from a CBSL approved valuer
- Obtain a full insurance policy for the asset
- Managing healthy margin levels and Loan to Value (LTV) ratios to mitigate the risk on our gold loans arising from fluctuations in gold prices

### Operational Risk

Operational risk is the risk of financial losses due to the failure or inadequacy of internal processes or systems, human error or external events. Mainly placed under fraud risk and technological risk, MIFL manages operational risks by maintaining a comprehensive system of internal controls and using technology to automate processes and minimise manual errors.

The Company has established a continuous internal audit process using the services of BDO Partners, Chartered Accountants.

### Regulatory Risk

Regulatory risk is the financial loss and damage to the reputation of the Company that may arise from failing to comply with applicable laws and regulations. As the financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies, the Company has established necessary internal procedures to ensure that all the regulatory reporting requirements are met and all statutory payments are made on or before the due dates.

### Reputational Risk

Reputational risk is minimal for MIFL given the implementation of comprehensive and rigorous risk management strategies and procedures. Reputational risk cannot be managed in isolation from other forms of risks, since all other risks can have an impact on reputation which in turn impact the MIFL brand, earnings and capital. Credit, liquidity, interest rate, operational and regulatory risks are managed effectively in order to safeguard the Company's reputation, as MIFL has identified reputation as a valuable business asset in its own right and is an essential component in optimising shareholder value.

### Plans for FY 2023-24

- Review of Key Risk Indicators (KRIs)
- Review the Risk Appetite Statement and Risk Management Policy for appropriateness and relevance
- Broaden the scope of the stress testing framework
- Developing a liquidity crisis management plan to be followed during a run on deposits caused due to external factors.
- Development of ICAAP (Internal Capital Adequacy Assessment Process) framework.



# Financial > Reports

	<b>100</b>	<b>102</b>
	Independent Assurance Report	Directors' Responsibility Statement on Internal Control over Financial Reporting
<b>103</b>	<b>104</b>	<b>106</b>
Statement of Directors' Responsibilities for Financial Reporting	Independent Auditor's Report	Statement of Comprehensive Income
	<b>107</b>	<b>108</b>
	Statement of Financial Position	Statement of Changes in Equity
	<b>109</b>	<b>110</b>
	Statement of Cash Flows	Notes to the Financial Statements

## > Independent Assurance Report



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Chartered Accountants  
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[ey.com](http://ey.com)

### To the Board of Directors of Mahindra Ideal Finance Limited

#### Report on the Directors' Statement on Internal Control

#### Report on the Directors' Statement on Internal Control Over Financial Reporting included in the Directors' Statement on Internal Control

We were engaged by the Board of Directors of Mahindra Ideal Finance Limited ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 March 2023.

#### 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 behaviour.

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.

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, 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 Yatagala ACA ACMA

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### 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.

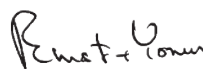
SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control 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.

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21 April 2023  
Colombo

## > Directors' Responsibility Statement on Internal Control over Financial Reporting

### Responsibility

In line with the Finance Companies Direction No. 05 of 2021 Corporate Governance Direction, the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Mahindra Ideal Finance Limited ("Company"). The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting especially when there are changes to the business environment or regulatory guidelines. This process is regularly reviewed by the Board assessing key processes related risks against the compensating controls which may affect significant accounts of the Company.

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 internal control over financial reporting.

The Board has established specialised subcommittees to assist in ensuring the effectiveness of the Company's day-to-day operations and to make sure that all such operations are performed in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

Policies/charters/procedures are in place covering functional areas of the Company and these are recommended by the Board-appointed Committees and are approved by the Board. All policies, charters, and procedures are regularly reviewed and approved by the Board.

The Internal Auditors of the Company monitors compliance with policies and procedures and their suitability of design and effectiveness on an ongoing basis and significant findings of non-compliance are highlighted. The annual audit plan is reviewed and approved by the Board Audit Committee. Branches and service departments are audited to provide independent and objective assurance reports on operations and performance

The respective process owners of the Company continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. The Internal Auditors verified the suitability of design and effectiveness of these procedures and controls on an ongoing basis and apprised the Board Audit Committee where necessary.

The Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification,

and disclosure. Financial reporting and management information processes will be further strengthened by constant monitoring and adaptation to market realities. The Company reviewed the existing models in use to assess the impact of the prolonged economic stress caused by the COVID-19 pandemic alongside the impact of the economic crisis, including the fuel and energy shortages on the business operations of Company and build in required management overlays in the model to address these unprecedented developments.

### Review of the Statement by External Auditor

The External Auditor, Messrs Ernst & Young, has reviewed the above Directors' Statement on Internal Control 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 internal control system of the Company.

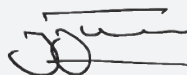
### Statement on Prudential Requirements, Regulations and Laws

There are no material non-compliances 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 the Department of Supervision of Non-Bank Financial Institutions 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, the Board 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 and has been prepared in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.



Nalin J Welgama  
Chairman



P A De Silva  
Deputy Chairman

21 April 2023



## > Statement of Directors' Responsibilities for Financial Reporting

The Directors are required by the Companies Act No. 07 of 2007 to prepare Financial Statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the Financial Statements comply with any regulations made under the Companies Act which specifies the form and content of Financial Statements and any other requirements which apply to the Company's Financial Statements under any other law.

The Directors consider that the Financial Statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and in compliance with the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Finance Business Act No. 42 of 2011 and the relevant Directions issued in respect of Registered Finance Companies.

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 and

presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the Financial Statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2022/23, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board  
**Mahindra Ideal Finance Limited**



**D M Weerasekare**  
Chief Executive Officer

21 April 2023

## > Independent Auditor's Report



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10, Sri Lanka

Tel: +94 11 246 3500  
Fax (Gen): +94 11 269 7369  
Fax (Tax): +94 11 557 8180  
Email: eysl@lk.ey.com  
ey.com

### To the Shareholders of Mahindra Ideal Finance Limited

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the Financial Statements of Mahindra Ideal Finance Limited ("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 of the Company give a true and fair view of the financial position of the Company as at 31 March 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

##### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's 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.

#### 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

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## > Independent Auditor's Report



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 scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- 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.

- 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.

### 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.

21 April 2023  
Colombo

## > Statement of Comprehensive Income

Year ended 31 March	Notes	2023 LKR	2022 LKR
<b>Income</b>	3	1,924,279,355	1,321,536,812
Interest Income	4.1	1,805,299,948	1,242,067,922
Interest Expenses	4.2	(921,725,959)	(328,347,452)
<b>Net Interest Income</b>		<b>883,573,989</b>	<b>913,720,470</b>
Fees and Commission Income	5	13,067,675	12,097,982
<b>Net Fee and Commission Income</b>		<b>13,067,675</b>	<b>12,097,982</b>
Other Operating Income	6	105,911,732	67,370,908
<b>Total Operating Income</b>		<b>1,002,553,396</b>	<b>993,189,360</b>
Impairment Charges for Loans and Other Losses	7	(70,983,116)	(88,336,470)
<b>Net Operating Income</b>		<b>931,570,280</b>	<b>904,852,890</b>
<b>Operating Expenses</b>			
Personnel Expenses	8	(349,974,582)	(272,916,930)
Depreciation of Property Plant and Equipment	22.2	(93,972,623)	(71,243,356)
Amortisation of Intangible Assets	23	(3,333,640)	(6,292,103)
Other Operating Expenses	9	(236,296,248)	(153,606,816)
<b>Operating Profit before VAT on Financial Services and Social Security Contribution Levy</b>		<b>247,993,187</b>	<b>400,793,685</b>
Value Added Tax on Financial Services	10	(88,673,219)	(90,504,774)
Social Security Contribution Levy	10	(6,227,766)	-
<b>Profit before Taxation</b>		<b>153,092,202</b>	<b>310,288,911</b>
Income Tax Expenses	11.1	(66,194,388)	(71,067,116)
<b>Profit/(Loss) for the Period</b>		<b>86,897,814</b>	<b>239,221,795</b>
Basic and Diluted Earnings per Share	12.2	0.60	1.64
<b>Profit/(Loss) for the Period</b>		<b>86,897,814</b>	<b>239,221,795</b>
<b>Other Comprehensive Income not to be Reclassified to Profit or Loss in Subsequent Periods</b>			
Actuarial Gain/(Loss) on Defined Benefit Obligations	28.3	2,130,956	2,083,840
Deferred Tax (Charge)/Reversal on Other Comprehensive Income	29	(639,287)	(500,122)
<b>Other Comprehensive Income for the Period, Net of Tax</b>		<b>1,491,669</b>	<b>1,583,718</b>
<b>Total Comprehensive Income for the Period, Net of Tax</b>		<b>88,389,483</b>	<b>240,805,513</b>

The Accounting Policies and Notes on pages 110 through 160 form an integral part of the Financial Statements.

## > Statement of Financial Position

As at 31 March	Notes	2023 LKR	2022 LKR
<b>Assets</b>			
Cash and Bank Balances	13	165,583,696	135,648,058
Investment in Government Securities at Amortised Cost	14	458,137,517	248,709,944
Placements with Banks and Other Financial Institutions	15	445,268,915	287,743,917
Gold Advances	16	3,950,688,495	2,258,859,086
Lease Rentals Receivable and Stock Out on Hire	17	2,374,025,383	3,564,076,376
Loans and Advances	18	798,812,852	1,406,622,800
Other Financial Assets	19	24,340,891	16,373,433
Other Non-Financial Assets	20	58,781,143	177,169,452
Financial Investments-measured at Fair Value Through OCI	21	457,700	457,700
Inventories		-	328,056
Property, Plant and Equipment	22.3	470,357,459	346,499,489
Intangible Assets	23	18,047,136	19,196,706
Deferred Tax Assets	29	27,648,433	23,683,867
<b>Total Assets</b>		<b>8,792,149,620</b>	<b>8,485,368,885</b>
<b>Liabilities</b>			
Interest Bearing Borrowings	24	1,989,957,781	2,872,386,024
Due to the Customers	25	3,487,076,917	2,195,018,842
Other Financial Liabilities	26	379,280,751	550,307,273
Other Non-Financial Liabilities	27	37,393,905	44,966,937
Post Employment Benefit Liability	28	30,896,045	26,338,562
Current Tax Liabilities		32,921,837	50,118,346
<b>Total Liabilities</b>		<b>5,957,527,236</b>	<b>5,739,135,984</b>
<b>Equity</b>			
Stated Capital	30	1,908,247,125	1,908,247,125
Retained Earnings		878,196,794	794,226,785
Reserves	31	48,178,465	43,758,991
<b>Total Equity</b>		<b>2,834,622,384</b>	<b>2,746,232,901</b>
<b>Total Liabilities and Equity</b>		<b>8,792,149,620</b>	<b>8,485,368,885</b>

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



**Rohit Agarwalla**  
Head of Finance

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by;



**Nalin J Welgama**  
Chairman



**P A De Silva**  
Deputy Chairman

The Accounting Policies and Notes on pages 110 through 160 form an integral part of the Financial Statements.

## > Statement of Changes in Equity

Year ended 31 March	Stated Capital LKR	Retained Earnings LKR	Statutory Reserve Fund LKR	Total LKR
<b>Balance as at 31 March 2021</b>	<b>1,908,247,125</b>	<b>565,461,548</b>	<b>31,718,715</b>	<b>2,505,427,388</b>
Total Income/(Loss) for the Period	-	239,221,795	-	239,221,795
Other Comprehensive Income (Net of Tax)	-	1,583,718	-	1,583,718
Transfer to Statutory Reserve Fund	-	(12,040,276)	12,040,276	-
<b>Balance as at 31 March 2022</b>	<b>1,908,247,125</b>	<b>794,226,785</b>	<b>43,758,991</b>	<b>2,746,232,901</b>
<b>Balance as at 1 April 2022</b>	<b>1,908,247,125</b>	<b>794,226,786</b>	<b>43,758,990</b>	<b>2,746,232,902</b>
Total Income/(Loss) for the Period	-	86,897,814	-	86,897,814
Other Comprehensive Income (Net of Tax)	-	1,491,669	-	1,491,669
Transfer to Statutory Reserve Fund	-	(4,419,474)	4,419,474	-
<b>Balance as at 31 March 2023</b>	<b>1,908,247,125</b>	<b>878,196,794</b>	<b>48,178,465</b>	<b>2,834,622,384</b>

The Accounting Policies and Notes on pages 110 through 160 form an integral part of the Financial Statements.

## > Statement of Cash Flows

Year ended 31 March	Note	2023 LKR	2022 LKR
<b>Cash Flows From/(Used in) Operating Activities</b>			
Profit before Income Tax Expense		153,092,202	310,288,911
Adjustment for Other Non-Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment and ROU Assets	22.3	93,972,623	71,243,356
Amortisation of Intangible Assets	23	3,333,640	6,292,103
Provision for Impairment	7	70,983,116	88,336,470
Interest Expenses on Borrowings	4.2	434,895,016	183,688,204
Defined Benefit Obligation	8	9,450,813	5,434,262
Dividend Income	6	(240,000)	(240,000)
Disposal (Gain)/Loss on Fixed Assets		-	(4,366,107)
<b>Operating Profit before Working Capital Changes</b>		<b>765,487,410</b>	<b>660,677,199</b>
(Increase)/Decrease in Lease Rentals Receivable and Stock out on Hire		1,135,054,895	(1,175,879,395)
(Increase)/Decrease in Loan Stock		603,795,207	(555,430,251)
(Increase)/Decrease in Gold Advance		(1,703,801,685)	(1,075,095,022)
(Increase)/Decrease in Other Financial Assets		(7,967,458)	(18,533,533)
(Increase)/Decrease in Other Non-Financial Assets		113,784,455	(150,114,732)
(Increase)/Decrease in Inventories		328,056	183,217
Increase/(Decrease) in Amounts Due to Customers		1,292,058,075	1,265,379,384
Increase/(Decrease) in Other Financial Liabilities		(110,978,929)	313,863,656
Increase/(Decrease) in Other Non-Financial Liabilities		(7,573,033)	18,672,458
Increase/(Decrease) in Current Tax liabilities		3,633,728	
<b>Cash Generated from Operations</b>		<b>2,083,820,723</b>	<b>(716,277,018)</b>
Retirement Benefit Liabilities Paid	28.2	(2,762,375)	(61,250)
Income Tax Paid		(87,024,625)	(137,748,935)
<b>Net Cash Flows from/(Used in) Operating Activities</b>		<b>1,994,033,723</b>	<b>(854,087,203)</b>
<b>Cash Flows from/(Used in) Investing Activities</b>			
Purchase of Property, Plant and Equipment	22.1	(141,303,856)	(75,779,480)
Purchase of Right-of-Use Assets	22.1	(76,526,736)	(160,707,218)
Purchase of Intangible Assets	23	(2,184,070)	(12,530,268)
Disposal of Property, Plant and Equipment			10,675,000
Dividend Received	6	240,000	240,000
Investment in Treasury Bills	14	(300,329,263)	-
Investment in Fixed Deposits	15	(157,524,998)	(71,441,158)
<b>Net Cash Flows from/(Used in) Investment Activities</b>		<b>(677,628,924)</b>	<b>(309,543,124)</b>
<b>Cash Flows from/(Used in) Financing Activities</b>			
Proceeds from Bank Borrowings		6,424,000,000	2,673,000,000
Repayment of Bank Borrowings		(7,494,177,824)	(1,866,078,525)
Rental Paid for Lease Obligation		(60,047,593)	(46,849,881)
Repayment of Other Borrowed Funds		-	(1,182,051)
<b>Net Cash Flows from/(Used in) Financing Activities</b>		<b>(1,130,225,417)</b>	<b>758,889,543</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>186,179,382</b>	<b>(404,740,785)</b>
<b>Cash and Cash Equivalents at the Beginning of the Period</b>		<b>65,735,701</b>	<b>470,476,486</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>32</b>	<b>251,915,083</b>	<b>65,735,701</b>

The Accounting Policies and Notes on pages 110 through 160 form an integral part of the Financial Statements.

## > Notes to the Financial Statements

Year ended 31 March 2023

### > 1. Corporate Information

#### 1.1 General

Ideal Investment Limited is a limited liability company, incorporated on 24 January 2012 under companies Act No. 7 of 2007 and then changed the name as Ideal Finance Limited on 12 March 2012 and domiciled in Sri Lanka. The registered office of the Company is situated at No. 299, Dr Colvin R De Silva Mawatha (Union Place), Colombo 2. On 28 January 2022 the Company changed its' name to Mahindra Ideal Finance Limited.

Mahindra Ideal Finance Limited is licensed by Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, and also registered under the Finance Leasing Act No. 56 of 2000.

#### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease, Loan Facilities and Gold Advances.

#### 1.3 Parent Entity and Ultimate Parent Entity

Mahindra and Mahindra Financial Services Limited, India is the parent of Mahindra Ideal Finance Limited. Further the Company does not have any investments in the form of subsidiary, joint venture or associate.

#### 1.4 Date of Authorisation for Issue

The Financial Statements of Mahindra Ideal Finance Limited for the period ended 31 March 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 21 April 2023.

### > 2. Accounting Policies

#### 2.1 Basis of Preparation

##### 2.1.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes, ("Financial Statements"), as at 31 March 2023 and for the period then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by The

Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and amendments thereto.

##### 2.1.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for these Financial Statements of the Company as per Sri Lanka Accounting Standards (SLFRSs and LKASs) and the provisions of the Companies Act No. 7 of 2007.

##### 2.1.3 Basis of measurement

The Financial Statements have been prepared on a historical cost basis except retirement benefits obligation, which was ascertained by an actuarial valuation.

##### 2.1.4 Presentation of Financial Statements

In compliance with LKAS 1 on Presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

The Company presents its Statements of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36.

##### 2.1.5 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, except when otherwise is indicated. No adjustments have been made for inflationary factors.

##### 2.1.6 Materiality, Aggregation Offsetting and Rounding Off

In compliance with LKAS 1 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.



## > Notes to the Financial Statements

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 any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

The amounts in the Financial Statements have been rounded off to the nearest Sri Lankan Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS 1) - "Presentation of Financial Statements".

### 2.1.7 Comparative Information

The Accounting Policies have been consistently applied by the Company and, are consistent with those used in the previous financial year. Further comparative information is reclassified whenever necessary to comply with the current presentation in the Financial Statements. However, the Company has not restated comparative information for 2022.

### 2.1.8 Statement of Cash Flow

The Cash Flow Statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), net of unfavourable bank balances and securities purchased under repurchase agreement (less than three months).

### 2.1.9 Events After the Reporting Date

Events after the Reporting Date are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 38 to the Financial Statements.

## 2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### (i) Going Concern

The Board has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Further, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Company, in making this assessment. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### (ii) Impairment Losses on Loans and Receivables

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 and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Number of days past due and the Guidelines issued by the Central Bank of Sri Lanka

## > Notes to the Financial Statements

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

### (iii) Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded in the Statement of Financial Position for which there is no observable market price is based on using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in Note 35 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 35.1 to the Financial Statements.

### (iv) Financial Assets and Financial Liabilities Classification

The Company's Accounting Policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instruments is given in Note 34 "Analysis of Financial Instruments by Measurement Basis".

### (v) Defined Benefit Plan

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 29.

### (vi) Useful Life-time of the Property, Plant, Equipment and Intangible Assets

The Company reviews the residual values, useful lives and methods of depreciation and amortisation

of property, plant, equipment and intangible assets at each reporting date. The judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

### (vii) Fair value of Property, Plant and Equipment

The free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages an independent valuation specialist to determine the fair value of free hold land in terms of Sri Lanka Accounting Standard - SLFRS 13, (Fair Value Measurement). The details of freehold land including methods of valuation are given in Note 26 to the Financial Statements. The Company has not revalued its freehold lands and buildings during this year for accounting purposes, on the basis that changes in property prices were not significant compared to the previous year.

## 2.3 Summary of Significant Accounting Policies

The Significant Accounting Policies applied by the Company in preparation of its Financial Statements are included in below.

### 2.3.1 SLFRS 09 Financial Instruments

SLFRS 9 - Financial Instruments replaces LKAS 39 for annual periods on or after 1 January 2018. The Company has adopted SLFRS-09 Financial Instruments with an initial application date of 1 April 2018.

#### 2.3.1.1 Classification and Measurement of Financial Assets and Liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised Cost,
- Fair Value through Other Comprehensive Income (FVOCI),
- Fair Value through Profit or Loss

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL or the fair value designation is applied.

## > Notes to the Financial Statements

### 2.3.1.2 Financial Assets and Liabilities

#### 2.3.1.2.1 Lease rental receivables, Loans and Receivables to Other Customers, Financial Investments at Amortised Cost.

The Company only measures Lease, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets. Financial liabilities are measured at amortised cost or fair value through profit or loss.

The details of conditions of business model assessment and the SPPI test are outlined below.

##### (a) Business Model Assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

##### (b) The 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.

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as "SPPI").

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

#### 2.3.1.2.2 Reclassification of Financial Assets and Liabilities

The Company does not reclassify its financial assets or liability subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. The Company did not reclassify any of its financial assets or liabilities in year 2022/23.

### 2.3.1.3 Derecognition of Financial Instruments

#### 2.3.1.3.1 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 financial asset have expired.

#### 2.3.1.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

## > Notes to the Financial Statements

### 2.3.1.4 Impairment of Financial Assets

#### Overview of the Expected Credit Loss (ECL) Principles

The Company's loan loss impairment method by using forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as "financial instruments". 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 12 months ECL is the portion of Life time ECLs 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 Life time ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has 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 and Stage 3.

#### Stage 1

When loans are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

#### Stage 2

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the Life time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

#### Stage 3

Loans considered credit-impaired. The Company records an allowance for the Life time ECLs.

#### 2.3.1.4.1 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs under three staging approaches 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:

##### Definition of default

The Company considers a financial asset to be in "default" and therefore Stage 3 (credit impaired) for ECL calculations when the borrower account becomes 90 days past due on its contractual payments.

##### Probability of Default (PD)

The Probability of Default (PD) 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 recognised and is still in the portfolio.

However, for placements with Banks and other financial investments classified as amortised cost and fair value through other Comprehensive Income the Company relies on external credit rating in determining their respective PDs.

##### Exposure at Default (EAD)

The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

##### Loss Given Default (LGD)

The Loss Given Default (LGD) 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.

#### 2.3.1.4.2 The mechanics of the ECL method are summarised below:

##### Stage 1

The 12 months ECL is calculated as the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are

## > Notes to the Financial Statements

possible within the 12 months after the reporting date. The Company calculates the 12 months ECL 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 to the original EIR. This calculation is made for each of the three scenarios, as explained above.

### 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 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 LTECL for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. The Company recognises the interest income on loans classified under stage 3 at the effective interest rate on amortised cost.

### Assessment of Significant Increase in Credit Risk

When determining whether the credit risk has increased significantly since initial recognition, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience, including forward-looking information. The Company considers reasonable and supportable information that is relevant and available without undue cost and effort. The Company's accounting policy is not to use the practical expedient that the financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Company monitors all financial assets and loan commitments that are subject to impairment for significant increase in credit risk.

As a part of the qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikelihood to pay. In such instances, the Company treats the customer with an increased credit risk level, following are such instances:

- Stage 1 and Stage 2 facilities of a Stage 3 customer are also classified as Stage 3.

- Stage 1 facilities of a Stage 2 customer are classified as Stage 2.
- Facilities related to management identified risk elevated industries are classified as Stage 3.
- Rescheduled facilities are categorised based on their aggregate days past due, ie, the aggregate of the present age of the facility and the age prior to reschedule.

### Forward Looking Information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	Global Economic Environment
Exchange Rates	

The inputs and models used for calculating ECLs may not always capture all the characteristics of the market at the date of the Financial Statements.

To reflect the uncertainties in the calculation of expected credit losses, the Company has changed the weightages assigned for multiple economic scenarios during the year. Weightages assigned for each scenario is given below along with the weightages used in 2022/23.

	2022/23	2021/22
Base case (%)	50	30
Best case (%)	10	10
Worst case (%)	40	60

The inputs and models used for calculating ECLs may not always capture all characteristics of the market as at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

To ensure completeness and accuracy, the Company obtains necessary data primarily from publications of Central Bank of Sri Lanka.

## > Notes to the Financial Statements

### 2.3.1.5 Determination of Fair Value

The 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.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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) market prices in active markets for identical assets or liabilities
- Level 2** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3** - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 35 to the Financial Statements.

### 2.3.2 Lease

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### 2.3.2.1 Finance Lease Company as a lessor

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as "Finance Lease". Amount receivables under finance lease are included under "Lease Rentals Receivable and Stock Out on Hire" in the Statement of Financial Position after deduction of unearned lease income and accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

#### 2.3.2.2 SLFRS 16 - Leases Company as a lessee

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. lessee and lessor. SLFRS 16 supersedes Sri Lanka Accounting Standard - LKAS 17 (Leases) and related interpretations, SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

## > Notes to the Financial Statements

The Company has adopted SLFRS 16 using modified retrospective method from 1 April 2019, without restating comparatives for the 2018/19 reporting period, as permitted under the specific transitional provisions in the standard. At the date of adoption, right of use was recognised as amount equal to the lease liability, adjusted by the amount of prepaid lease rentals.

Under this method, the standard is applied retrospectively and the cumulative effect as at initial date of application of the standard i.e 1 April 2019 has been duly adjusted. The Company elected to use the transitional practical expedient to not reassess whether an existing contract forms a lease as at 1 April 2019, under the definitions provided in the standard. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

The contracts which were previously classified as “operating leases” under the principles of LKAS 17 - Leases, have been recognised as “right-of-use-assets” with the adoption of SLFRS 16 - Leases.

### 2.3.3 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, and amounts due from banks on demand or with an original maturity of three months or less.

### 2.3.4 Property, Plant and Equipment

Property, plant and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Category	Years
Furniture and Fittings	5
Office Equipment	5
Motor Vehicles	5
Computer Equipment	5

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

Property plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and carrying amount of the assets) is recognised in “Other Operating Income” in the Statement of Comprehensive Income (Profit or Loss) in the year the asset is recognised.

### 2.3.5 Right-Of-Use Assets

#### 2.3.5.1 Basis of Recognition

The Company applies Sri Lanka Accounting Standard SLFRS 16 “Leases” in accounting for all lease hold rights except for leases due to expire during the financial year and leases on which implications to the Financial Statements are not considered to be material. The Company uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Company applies judgements in evaluating the level of certainty whether the option of renewing the lease exists or otherwise. That is, it considers all relevant factors that create an economic benefits for it to exercise either the renewal or termination.

#### Basis of Measurement

The Company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-Use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortised on the straight line basis over the lease term.

When measuring lease liabilities for leases that were classified previously as operating leases, the Company discounted future lease payments due as of 1 April 2019 using the incremental borrowing rate as at 1 April 2019. The rate applicable was 14%.

## > Notes to the Financial Statements

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### 2.3.6 Intangible Assets

The Company's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. 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 end.

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. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Statement of Comprehensive Income.

Computer System software is amortised over:  
10 years

### 2.3.7 Other Assets

All other assets are stated at amortised cost less accumulated impairment losses.

### 2.3.8 Inventories

Inventories include stationeries and these are valued at the lower of cost and net realisable value.

### 2.3.9 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the 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 the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income.

### 2.3.10 Employee Retirement Benefits

#### Defined Contribution Plan Costs

Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as a Personnel Expenses in the Statement of Comprehensive Income in the periods during which services are rendered by employees. Employees are eligible for Employees' Provident Fund and Employees Trust Fund Contributions in line with the respective Statutes and regulations. Accordingly, the Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employee Trust Fund respectively and is recognised as an expense under "Personnel Expenses".



## > Notes to the Financial Statements

### Defined Benefit Plan Costs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Statement of Financial Position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rate that are denominated in the currency in which the benefit will be paid, and that have terms of maturity approximating to the terms of the liability.

Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19 - "Employee Benefits".

However, according to the payment of Gratuity Act No. 12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services. The liability is not externally funded.

### 2.3.11 Provisions

Provisions are recognised 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. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

### 2.3.12 Other Liabilities

Other liabilities are recorded at the cash value to be realised when settled.

### 2.3.13 Foreign Currency Translation

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income" in the income statement.

### 2.3.14 Recognition of Income and Expenses

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.

#### (i) Interest Income and Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate 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. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as "Interest Income" for financial assets and Interest Expense for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## > Notes to the Financial Statements

### (ii) Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and service charges.

### Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### (iii) Dividend Income

Dividend income is recognised when the Company's right to receive the payment is established.

### (iv) Expenditure Recognition

Expenses are recognised in profit or loss in the Statement of Comprehensive Income 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 and equipment in a state of efficiency has been charged to the Statement of Comprehensive Income (Profit or loss). For the purpose of presentation of the Statement of Comprehensive Income, the "function of expenses" method has been adopted, on the basis that it presents fairly the element of the Company's performance.

## 2.3.15 Taxes

### (a) Current Tax

The provision for the income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of Inland Revenue Act No. 24 of 2017.

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

### (b) Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised 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 credit and unused tax losses can be utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### (c) Value Added Tax on Financial Services and Social Security Contribution Levy

Value Added Tax on Financial Services is calculated at the rate of 18% in accordance with the provisions of the Value Added Tax Act No. 14 of 2002 and amendments thereto. The Social Security Contribution Levy is calculated at the rate of 2.5% on the turnover applicable for Value Added Tax on Financial Services with effect from 1 October 2022.

## > Notes to the Financial Statements

### 2.3.16 Regulatory Provisions

#### (a) Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Companies Direction No.2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No. 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010. The said Scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

The deposits to be insured shall include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act (Corporate Governance) Direction No. 3 of 2008 for Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

#### (b) Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

### 2.3.17 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the liability to control or exercise significant influence over the financial and operating policies/ decisions of the other, irrespective of whether a price is being charged.

### 2.3.18 Segment Reporting

The Company's segmental reporting is based on the following operating segments identified based on products and services;

- Finance Lease and Stock Out on Hire
- Term Loans
- Gold Loans
- Others

A segment is a distinguishable component of a Company that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Accounting Policies adopted for segment reporting are those Accounting Policies adopted for preparing the Financial Statements of the Company.

### 2.3.19 Sri Lanka Accounting Standards Not Yet Effective as at 31 March 2023

#### SLFRS 17 Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. On effective, SLFRS 17 will replace SLFRS 4 (Insurance Contracts)

No material impact on the Financial Statements of the Company.

## > Notes to the Financial Statements

### **Amendments to LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**

These amendments clarify the following,

Distinction between changes in accounting estimates, changes in Accounting Policies and the correction of errors.

How entities use measurement techniques and inputs to develop accounting estimates.

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.

No material impact on the Financial Statements of the Company.

### **Amendments to LKAS 1 - Presentation of Financial Statements**

Replaces the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose "material accounting policies".

Provides guidance on how the entities apply the concept of materiality in making decisions about accounting policy decisions.

Specify the requirements for classifying liabilities as current or non-current.

No material impact on the Financial Statements of the Company.

### **Amendments to LKAS 12 - Income Taxes**

The amendments introduce an exception to the initial recognition exemption in LKAS 12. The effect of these amendments essentially mean that the initial recognition exemption is not available for transactions which involve the recognition of both an asset and liability which in turn leads to equal and opposite temporary differences. Therefore, deferred taxes are calculated and booked for both temporary differences, at initial recognition and subsequent.

No material impact on the Financial Statements of the Company.

## > Notes to the Financial Statements

### > 3. Income

Year ended 31 March	Notes	2023 LKR	2022 LKR
Interest Income	4.1	1,805,299,948	1,242,067,922
Fee and Commission Income	5	13,067,675	12,097,982
Other Operating Income	6	105,911,732	67,370,908
<b>Total Income</b>		<b>1,924,279,355</b>	<b>1,321,536,812</b>

### > 4. Net Interest Income

Year ended 31 March	2023 LKR	2022 LKR
<b>4.1 Interest Income</b>		
From Placements with Banks and Other Financial Institutions	55,087,026	11,404,986
From Government Securities	60,364,968	20,171,944
From Lease Rental Receivable and Stock Out on Hire	641,168,494	644,897,703
From Loans and Advances	239,486,405	220,135,915
From Gold Advances	807,982,594	344,470,014
From Refundable Deposits	1,210,461	987,360
<b>Total Interest Income</b>	<b>1,805,299,948</b>	<b>1,242,067,922</b>
<b>4.2 Interest Expense</b>		
Due to Banks	434,895,016	183,688,204
Due to Customers	452,995,806	126,140,678
On Intercompany Borrowings	-	-
On Obligation to Make the Lease Payment for Right-of-Use Assets	33,835,137	18,518,570
<b>Total Interest Expenses</b>	<b>921,725,959</b>	<b>328,347,452</b>
<b>Net Interest Income</b>	<b>883,573,989</b>	<b>913,720,470</b>

### > 5. Fee and Commission Income

Year ended 31 March	2023 LKR	2022 LKR
Commission Income	13,067,675	12,097,982
<b>Fee and Commission Income</b>	<b>13,067,675</b>	<b>12,097,982</b>

### > 6. Other Operating Income

Year ended 31 March	2023 LKR	2022 LKR
Dividend Income	240,000	240,000
Net Income from Real Estate Operations	-	6,491,505
Service Charges Gold Loan	88,672,799	42,484,947
Other Operating Income	16,998,933	18,154,456
<b>Total Other Operating Income</b>	<b>105,911,732</b>	<b>67,370,908</b>

## > Notes to the Financial Statements

### > 7. Impairment Charges for Loans and Other Losses

Year ended 31 March	2023 LKR	2022 LKR
Charge/(Write-back) to the Statement of Comprehensive Income		
- Impairment on Individually Significant Loans	1,568,253	(18,305,295)
- Impairment on Collective Loan Portfolio	20,749,444	106,857,765
- Write-offs Net of Recoveries	48,665,419	(216,000)
<b>Total Impairment Charge</b>	<b>70,983,116</b>	<b>88,336,470</b>
<b>Lease Rentals Receivable and Stock Out on Hire (Note 17.2.a)</b>		
Stage 1	(20,244,828)	24,236,878
Stage 2	5,722,590	17,631,143
Stage 3	20,852,917	12,506,829
	<b>6,330,679</b>	<b>54,374,850</b>
<b>Loans and Advances (Note 18.2.a)</b>		
Stage 1	(18,581,605)	16,691,200
Stage 2	1,983,542	5,147,957
Stage 3	20,612,805	10,099,872
	<b>4,014,741</b>	<b>31,939,029</b>

### > 8. Personnel Expenses

Year ended 31 March	2023 LKR	2022 LKR
Salaries	278,909,249	179,467,956
Employers' Contribution to Employee's Provident Fund	27,527,802	19,998,779
Employers' Contribution to Employee's Trust Fund	6,881,950	4,999,695
Gratuity Charge for the Year	9,450,813	5,434,262
Other Staff Related Expenses	27,204,768	63,016,238
<b>Total Personnel Expenses</b>	<b>349,974,582</b>	<b>272,916,930</b>

### > 9. Other Operating Expenses

Year ended 31 March	2023 LKR	2022 LKR
Directors' Emoluments	5,600,000	6,100,000
Auditors' Remuneration	965,613	1,593,648
Professional and Legal Expenses	8,989,716	8,337,708
Office Administration and Establishment Expenses	126,056,473	52,818,638
Advertising and Promotional Expenses	35,933,596	66,287,857
License and Renewal Fees	4,051,298	2,364,774
Other Expenses	54,699,552	16,104,191
<b>Total Other Operating expenses</b>	<b>236,296,248</b>	<b>153,606,816</b>

> Notes to the Financial Statements

> **10. Value Added Tax on Financial Services and SSCL**

Year ended 31 March	2023 LKR	2022 LKR
VAT on Financial Services	88,673,219	90,504,774
Social Security Contribution Levy (SSCL)	6,227,766	-
	<b>94,900,985</b>	<b>90,504,774</b>

> **11. Income Tax Expenses**

**11.1 The Major Components of Income Tax for the Year Ended 31 March 2022 is as Follows:**

Year ended 31 March	Notes	2023 LKR	2022 LKR
<b>Income Statement</b>			
<b>Current Income Tax</b>			
Income Tax for the Period		71,056,252	121,130,279
Due to Rate Reduction		-	(20,626,459)
Tax Adjustment with Final Payment		(258,011)	
<b>Deferred Tax</b>	<b>29</b>		
Due to Change in Temporary Differences		2,255,098	(30,187,092)
Due to Rate Change		(6,858,952)	750,388
<b>Income Tax Expenses Reported in the Income Statement</b>		<b>66,194,388</b>	<b>71,067,116</b>
<b>Statement of Other Comprehensive Income</b>			
Deferred Tax Related to Items Recognised in OCI during the Year			
Net Gain/(Loss) on Actuarial Gains/Losses during the Year		639,287	500,122
<b>Income Tax Expenses reported in the Other Comprehensive Income</b>		<b>639,287</b>	<b>500,122</b>
<b>Total Income Tax Expense for the Year</b>		<b>66,833,675</b>	<b>71,567,237</b>
Income Tax Rate Applicable (%)			
For the First Six Months		24	24
For the Balance Six Months		30	24

## > Notes to the Financial Statements

### 11.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Income tax rate for the year ended 31 March 2023 as follows:

Year ended 31 March	2023 LKR	2022 LKR
Accounting Profit/(Loss) Before Income Taxation	153,092,202	310,288,911
Aggregate Allowable Expenditure	(169,784,887)	(174,768,110)
Tax Loss Utilised	-	-
Aggregate Disallowable Expenditure	279,979,545	369,188,695
	263,286,860	504,709,497
Tax at Statutory Rates	71,056,252	121,130,279
Less: Due to Rate Reduction	-	(20,626,459)
Less: Tax Adjustment with Final Payment	(258,011)	-
	70,798,241	100,503,820
Deferred Taxation Charged/(Reversal)	2,255,098	(30,187,092)
Less : Due to Rate Change	(6,858,952)	750,388
	66,194,388	71,067,116
Effective Tax Rate (%)	43.24	22.90

### Amendments to the Income Tax Rate Announced by the Government

Income tax rate applicable on the Company's operations is 30% from 1 October 2022 and 24% up to 30 September 2022 (2021: 24%).

## > 12. Basic and Diluted Earnings Per Ordinary Share

**12.1** Basic and diluted earnings per share is calculated by dividing net profit for the period attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period, as per LKAS 33 - "Earnings Per Share".

### 12.2 The following reflect the income and share details used in Basic and Diluted Earnings Per Share computation;

Year ended 31 March	2023 LKR	2022 LKR
<b>Amount Used as Numerators</b>		
Profit Attributable to Ordinary Shareholders	86,897,814	239,221,795
<b>Number of Ordinary Shares Used as Denominator</b>		
Weighted Average Number of Ordinary Shares	145,639,098	145,639,098
<b>Basic and Diluted Earnings Per Ordinary Share</b>	0.60	1.64



## > Notes to the Financial Statements

### > 13. Cash and Bank Balances

Year ended 31 March	2023 LKR	2022 LKR
Cash in Hand	127,864,098	43,786,257
Bank Balances	37,719,598	91,861,801
	<b>165,583,696</b>	<b>135,648,058</b>

### > 14. Investment in Government Securities

Year ended 31 March	2023 LKR	2022 LKR
Investment in Treasury Bills with Original Maturity less than 3 Months	157,808,254	-
Investment in Treasury Bills with Original Maturity more than 3 Months	300,329,263	-
Investment in Reverse Repurchase Agreements (less than 3 Months)	-	248,709,944
	<b>458,137,517</b>	<b>248,709,944</b>

### > 15. Placement with Banks and Other Financial Institutions

Year ended 31 March	2023 LKR	2022 LKR
Fixed Deposits Placed with Banks	445,268,915	287,743,917
	<b>445,268,915</b>	<b>287,743,917</b>

### > 16. Gold Advances

Year ended 31 March	2023 LKR	2022 LKR
Gold Advances	3,971,326,248	2,267,524,563
Less: Allowance for Impairment Losses	(20,637,753)	(8,665,477)
<b>Net Gold Advances</b>	<b>3,950,688,495</b>	<b>2,258,859,086</b>
<b>Collective Impairment</b>		
As at 1 April	8,665,477	4,134,626
Charges/(reversals) for the Year	11,972,276	4,530,851
<b>As at 31 March</b>	<b>20,637,753</b>	<b>8,665,477</b>

## > Notes to the Financial Statements

### > 17. Lease Rentals Receivable and Stock Out on Hire

Year ended 31 March	Notes	2023 LKR	2022 LKR
Rental Receivable on Lease		3,224,676,754	5,015,220,313
<b>Gross Rentals Receivables</b>		<b>3,224,676,754</b>	<b>5,015,220,313</b>
Less: Unearned Income		(656,352,549)	(1,243,256,425)
		2,568,324,205	3,771,963,888
Less: Rentals Received in Advance		(14,828,488)	(34,747,857)
<b>Net Rentals Receivables Before Charging Allowance for Impairment Losses</b>		<b>2,553,495,717</b>	<b>3,737,216,031</b>
Less: Allowance for Impairment Losses	17.2	(179,470,334)	(173,139,655)
<b>Total Net Rentals Receivable</b>		<b>2,374,025,383</b>	<b>3,564,076,376</b>

#### 17.1 Net Rentals Receivable on Lease and Stock Out on Hire

	As at 31 March 2023			As at 31 March 2022		
	Gross Rentals Receivables LKR	Allowance for Impairment Losses LKR	Net Rentals Receivables LKR	Gross Rentals Receivables LKR	Allowance for Impairment Losses LKR	Net Rentals Receivables LKR
Stage - 1	1,120,683,413	29,933,069	1,090,750,344	2,363,139,989	49,803,710	2,313,336,278
Stage - 2	833,587,566	43,176,219	790,411,347	841,524,574	37,453,629	804,070,945
Stage - 3	599,224,738	106,361,046	492,863,691	532,551,469	85,882,316	446,669,153
	2,553,495,717	179,470,334	2,374,025,382	3,737,216,031	173,139,655	3,564,076,376

#### 17.2 Allowance for Impairment Losses

##### (a) Allowance for Impairment with Stage-wise

	Collective			Individual	Total LKR
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Stage 3 LKR	
Balance as at 1 April 2022	50,177,896	37,453,629	74,982,956	10,525,173	173,139,654
Charges/(Reversals) for the Year	(20,244,828)	5,722,590	26,330,044	(5,477,127)	6,330,679
Amount Written-off	-	-	-	-	-
<b>Balance as at 31 March 2023</b>	<b>29,933,069</b>	<b>43,176,219</b>	<b>101,312,999</b>	<b>5,048,046</b>	<b>179,470,334</b>

> Notes to the Financial Statements

**(b) Movement in Allowance for Impairment**

	2023 LKR	2022 LKR
As at 1 April	173,139,654	118,214,132
Charges/(Reversals) for the Year	6,330,679	54,925,522
Amounts Written-off	-	-
As at 31 March	<b>179,470,334</b>	<b>173,139,654</b>
Individual Impairment	5,048,046	10,525,173
Collective Impairment	174,422,287	162,614,481
<b>Total</b>	<b>179,470,334</b>	<b>173,139,654</b>

**(c) Movements in Individual and Collective Impairment Allowance for Leasing and Hire Purchase Rentals Receivables During the Year**

	2023 LKR	2022 LKR
<b>Individual Impairment</b>		
As at 1 April	10,525,173	28,022,433
Charges/(Reversals) for the Year	(5,477,127)	(17,497,260)
Amounts Written-off	-	-
As at 31 March	<b>5,048,046</b>	<b>10,525,173</b>
<b>Collective Impairment</b>		
As at 1 April	162,614,481	90,191,698
Charges/(Reversals) for the Year	11,807,806	72,422,783
Amounts Written-off	-	-
As at 31 March	<b>174,422,287</b>	<b>162,614,481</b>
<b>Total</b>	<b>179,470,333</b>	<b>173,139,654</b>

## > Notes to the Financial Statements

### 17.3 Credit Exposure and ECL Stage-Wise Movement

An analysis of changes in the gross carrying amount and the corresponding ECL of Lease Rental Receivables is as follows:

#### Gross Exposure Reconciliation

As at 31 March Particulars	2023			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>Gross Carrying Amount Balance as at 1 April 2022</b>	<b>2,363,139,989</b>	<b>841,524,574</b>	<b>532,551,469</b>	<b>3,737,216,031</b>
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	305,252,733	(227,982,508)	(77,270,225)	-
- Transfers to Stage 2	(650,847,342)	733,912,019	(83,064,676)	-
- Transfers to Stage 3	(280,333,439)	(195,939,914)	476,273,353	-
- Loans that have been Derecognised during the Period	(213,684,737)	(129,572,711)	(193,726,965)	(536,984,413)
New Loans Originated during the Year	35,329,389	22,163,570	12,596,816	70,089,776
Write-offs	-	-	49,227,956	49,227,956
Remeasurement of Net Exposure	(438,173,179)	(210,517,464)	(117,362,989)	(766,053,632)
<b>Gross Carrying Amount Balance as at 31 March 2023</b>	<b>1,120,683,414</b>	<b>833,587,566</b>	<b>599,224,738</b>	<b>2,553,495,717</b>
As at 31 March Particulars	2022			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>Gross Carrying Amount Balance as at 1 April 2021</b>	<b>1,595,877,180</b>	<b>542,967,305</b>	<b>419,792,301</b>	<b>2,558,636,786</b>
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	127,640,413	(103,172,596)	(24,467,818)	-
- Transfers to Stage 2	(306,230,491)	336,140,579	(29,910,088)	(0)
- Transfers to Stage 3	(145,091,497)	(123,621,602)	268,713,099	-
- Loans that have been Derecognised during the Period	(417,373,745)	(194,804,663)	(174,103,767)	(786,282,176)
New Loans Originated during the Year	1,771,072,134	479,838,302	136,039,913	2,386,950,349
Write-offs	-	-	-	-
Remeasurement of Net Exposure	(262,754,006)	(95,822,751)	(63,512,171)	(422,088,928)
<b>Gross Carrying Amount Balance as at 31 March 2022</b>	<b>2,363,139,989</b>	<b>841,524,574</b>	<b>532,551,469</b>	<b>3,737,216,031</b>

## > Notes to the Financial Statements

### Reconciliation of ECL Balance

As at 31 March Particulars	2023			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>ECL Allowance Balance as at 1 April 2022</b>	<b>49,803,710</b>	<b>37,453,629</b>	<b>85,882,316</b>	<b>173,139,655</b>
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	22,607,830	(10,146,789)	(12,461,041)	-
- Transfers to Stage 2	(13,819,851)	27,215,339	(13,395,488)	-
- Transfers to Stage 3	(5,952,496)	(8,720,673)	14,673,169	-
- Loans that have been Derecognised during the Period	(4,537,302)	(5,766,876)	(31,241,526)	(41,545,705)
New Loans Originated during the Year	943,649	1,147,977	2,235,907	4,327,532
Write-offs	-	-	7,938,784	7,938,784
Net Remeasurement of Loss Allowance	(19,112,471)	1,993,613	52,728,925	35,610,068
<b>ECL Allowance Balance as at 31 March 2023</b>	<b>29,933,070</b>	<b>43,176,219</b>	<b>106,361,045</b>	<b>179,470,334</b>
As at 31 March Particulars	2022			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>ECL Allowance Balance as at 1 April 2021</b>	<b>25,904,581</b>	<b>19,784,191</b>	<b>72,525,360</b>	<b>118,214,132</b>
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	7,986,496	(3,759,317)	(4,227,179)	-
- Transfers to Stage 2	(4,970,791)	10,138,204	(5,167,412)	-
- Transfers to Stage 3	(2,355,153)	(4,504,421)	6,859,574	-
- Loans that have been Derecognised During the Period	(6,774,890)	(7,098,130)	(30,079,014)	(43,952,034)
New Loans Originated during the Year	37,606,288	21,356,103	21,938,580	80,900,971
Write-offs	-	-	-	-
Net Remeasurement of Loss Allowance	(7,592,821)	1,537,000	24,032,408	17,976,586
<b>ECL Allowance Balance as at 31 March 2022</b>	<b>49,803,710</b>	<b>37,453,629</b>	<b>85,882,316</b>	<b>173,139,655</b>

### 17.4 Sensitivity Analysis of Accumulated Impairment for Lease Rentals Receivable and Stock Out on Hire as at 31 March

Changed Criteria	Changed Factor	2023	2022
		Sensitivity effect on Impairment Allowance Increase LKR	Sensitivity effect on Impairment Allowance Increase LKR
Loss Given Default (LGD)	Increase by 1%	9,352,206	9,512,162
Probability of Default (PD)	Increase by 1%	4,278,683	6,326,897
Economic Factor Adjustment (EFA)	Increase by 5%	2,209,628	3,086,601

## > Notes to the Financial Statements

### Rental Receivable on Lease

	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Rentals Receivables	1,434,672,788	1,789,967,016	36,949	3,224,676,753
Less: Unearned Income	341,353,166	314,998,836	547	656,352,549
	<b>1,093,319,622</b>	<b>1,474,968,180</b>	<b>36,402</b>	<b>2,568,324,205</b>
Less: Rentals Received in Advance				(14,828,488)
<b>Net Rentals Receivable Before Charging Allowance for Impairment Losses</b>				<b>2,553,495,717</b>

### > 18. Loans and Advances

Year ended 31 March	Notes	2023 LKR	2022 LKR
Loan Receivable		1,019,283,159	1,779,855,414
Less: Unearned Interest Income		(127,899,429)	(279,892,183)
<b>Net Receivable</b>		<b>891,383,730</b>	<b>1,499,963,231</b>
Less: Loan Received in Advance		(21,141,887)	(25,926,181)
<b>Net Loan Receivables Before Charging Allowance for Impairment Losses</b>		<b>870,241,843</b>	<b>1,474,037,050</b>
Less: Allowance for Impairment Losses	18.2	(71,428,991)	(67,414,250)
<b>Total Net Loan Receivable</b>		<b>798,812,852</b>	<b>1,406,622,800</b>

#### 18.1 Net Receivable on Loans

	As at 31 March 2023			As at 31 March 2022		
	Gross Loan Receivables LKR	Allowance for Impairment Losses LKR	Net Loan Receivables LKR	Gross Loan Receivables LKR	Allowance for Impairment Losses LKR	Net Loan Receivables LKR
Stage - 1	364,983,716	7,654,812	357,328,904	1,058,746,170	26,610,604	1,032,135,566
Stage - 2	202,548,041	10,006,164	192,541,877	210,345,614	8,022,622	202,322,991
Stage - 3	302,710,086	53,768,015	248,942,071	204,945,266	32,781,024	172,164,242
	<b>870,241,843</b>	<b>71,428,991</b>	<b>798,812,852</b>	<b>1,474,037,050</b>	<b>67,414,250</b>	<b>1,406,622,800</b>

#### 18.2 Allowance for Impairment Losses

##### (a) Allowance for Impairment with Stage-wise

	Collective			Individual		Total LKR
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Stage 3 LKR		
Balance as at 1 April 2022	26,236,418	8,022,622	31,179,117	1,976,093	67,414,250	
Charges/(Reversals) for the Year	(18,581,605)	1,983,542	13,567,425	7,045,380	4,014,742	
Amount Written-off	-	-	-	-	-	
<b>Balance as at 31 March 2023</b>	<b>7,654,812</b>	<b>10,006,164</b>	<b>44,746,543</b>	<b>9,021,472</b>	<b>71,428,991</b>	

> Notes to the Financial Statements

**(b) Movement in Allowance for Impairment**

	2023 LKR	2022 LKR
As at 1 April	67,414,250	33,787,303
Charges/(Reversals) for the Year	4,014,742	33,626,947
Amounts Written-off	-	-
As at 31 March	71,428,991	67,414,250
Individual Impairment	9,021,472	1,976,093
Collective Impairment	62,407,519	65,438,157
<b>Total</b>	<b>71,428,991</b>	<b>67,414,250</b>

**(c) Movements in Individual and Collective Impairment Allowance for Loans and Advances during the Year.**

	2023 LKR	2022 LKR
<b>Individual Impairment</b>		
As at 1 April	1,976,093	2,784,127
Charges/(Reversals) for the Year	7,045,380	(808,034)
Amounts Written-off	-	-
As at 31 March	9,021,473	1,976,093
<b>Collective Impairment</b>		
As at 1 April	65,438,157	31,003,176
Charges/(Reversals) for the Year	(3,030,638)	34,434,982
Amounts Written-off	-	-
As at 31 March	62,407,519	65,438,157
<b>Total</b>	<b>71,428,992</b>	<b>67,414,250</b>

## > Notes to the Financial Statements

### 18.3 Credit Exposure and ECL Stage-wise Movement

An analysis of changes in the gross carrying amount and the corresponding ECLs of Loan Receivables is as follows:

#### Gross Exposure Reconciliation

As at 31 March Particulars	2023			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>Gross Carrying Amount Balance as at 1 April 2022</b>	<b>1,058,746,170</b>	<b>210,345,614</b>	<b>204,945,266</b>	<b>1,474,037,050</b>
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	69,073,810	(42,431,345)	(26,642,465)	-
- Transfers to Stage 2	(149,180,252)	173,255,751	(24,075,499)	-
- Transfers to Stage 3	(223,213,603)	(51,214,980)	274,428,583	-
- Loans that have been Derecognised during the Period	(345,967,767)	(67,080,485)	(93,967,075)	(507,015,327)
New Loans Originated during the Year	160,782,531	43,234,528	9,497,349	213,514,408
Write-offs	-	-	18,275,514	18,275,514
Remeasurement of Net Exposure	(205,257,173)	(63,561,042)	(59,751,587)	(328,569,802)
<b>Gross Carrying Amount Balance as at 31 March 2023</b>	<b>364,983,716</b>	<b>202,548,041</b>	<b>302,710,086</b>	<b>870,241,843</b>
As at 31 March Particulars	2022			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>Gross Carrying Amount Balance as at 1 April 2021</b>	<b>677,092,059</b>	<b>90,966,944</b>	<b>134,812,997</b>	<b>902,872,000</b>
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	33,034,591	(25,198,501)	(7,836,090)	-
- Transfers to Stage 2	(100,661,057)	108,575,821	(7,914,763)	(0)
- Transfers to Stage 3	(91,052,572)	(12,024,436)	103,077,009	-
- Loans that have been Derecognised during the Period	(244,417,692)	(40,444,057)	(59,279,287)	(344,141,036)
New Loans Originated during the Year	924,787,075	146,885,359	82,951,605	1,154,624,039
Write-offs	-	-	-	-
Remeasurement of Net Exposure	(140,036,232)	(58,415,516)	(40,866,205)	(239,317,953)
<b>Gross Carrying Amount Balance as at 31 March 2022</b>	<b>1,058,746,171</b>	<b>210,345,614</b>	<b>204,945,266</b>	<b>1,474,037,051</b>



## > Notes to the Financial Statements

### Reconciliation of ECL Balance

As at 31 March Particulars	2023			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>ECL Allowance Balance as at 1 April 2022</b>	26,610,604	8,022,622	32,781,024	67,414,250
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	5,879,806	(1,618,340)	(4,261,466)	-
- Transfers to Stage 2	(3,729,225)	7,580,105	(3,850,879)	-
- Transfers to Stage 3	(5,579,920)	(1,953,349)	7,533,269	-
- Loans that have been Derecognised during the Period	(8,418,161)	(2,558,463)	(15,030,047)	(26,006,670)
New Loans Originated during the Year	851,985	2,135,848	1,686,940	4,674,772
Write-offs	-	-	2,923,171	2,923,171
Net Remeasurement of Loss Allowance	(7,960,276)	(1,602,259)	31,986,004	22,423,469
<b>ECL Allowance Balance as at 31 March 2023</b>	<b>7,654,812</b>	<b>10,006,164</b>	<b>53,768,015</b>	<b>71,428,991</b>
As at 31 March Particulars	2022			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
<b>ECL allowance balance as at 1 April 2021</b>	9,398,230	2,851,289	21,537,784	33,787,303
Changes Due to Loans Recognised in the Opening Balance that have:				
- Transfers to Stage 1	2,041,725	(789,828)	(1,251,897)	-
- Transfers to Stage 2	(1,415,116)	2,679,582	(1,264,466)	-
- Transfers to Stage 3	(1,280,037)	(376,897)	1,656,934	-
- Loans that have been Derecognised during the Period	(3,315,597)	(1,267,688)	(9,470,485)	(14,053,770)
New Loans Originated during the Year	22,887,554	5,602,236	13,268,121	41,757,910
Write-offs	-	-	-	-
Net Remeasurement of Loss Allowance	(1,706,155)	(676,072)	8,305,033	5,922,807
<b>ECL Allowance Balance as at 31 March 2022</b>	<b>26,610,603</b>	<b>8,022,622</b>	<b>32,781,023</b>	<b>67,414,250</b>

## > Notes to the Financial Statements

### 18.4 Sensitivity Analysis of Accumulated Impairment for Loan Receivable as at 31 March

Changed Criteria	Changed Factor	2023	2022
		LKR	LKR
		Sensitivity Effect on Impairment Allowance Increase	Sensitivity Effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase by 1%	2,642,881	3,566,501
Probability of Default (PD)	Increase by 1%	843,450	2,355,847
Economic Factor Adjustment (EFA)	Increase by 5%	532,662	1,126,246

### 18.5 Receivable on Loan Stock

	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Receivables	755,524,603	262,350,927	1,407,628	1,019,283,159
Less: Unearned Income	80,421,803	47,364,235	113,391	127,899,429
	<b>675,102,801</b>	<b>214,986,693</b>	<b>1,294,237</b>	<b>1,147,182,588</b>
Less: Rentals Received in Advance				(21,141,887)
<b>Net Receivable Before Charging Allowance for Impairment Losses</b>				<b>1,126,040,701</b>

## > 19. Other Financial Assets

Year ended 31 March	2023 LKR	2022 LKR
Refundable Deposit	15,181,797	12,782,277
Sundry Debtors	7,120,075	2,109,837
Other Receivable	2,039,019	1,481,319
	<b>24,340,891</b>	<b>16,373,433</b>

## > 20. Other Non-financial Assets

Year ended 31 March	2023 LKR	2022 LKR
Advances and Prepayment	58,781,143	177,169,452
	<b>58,781,143</b>	<b>177,169,452</b>

## > 21. Financial Investment Measured at Fair Value Through Other Comprehensive Income

	2023 LKR	Number of Shares	2022 LKR	Number of Shares
<b>Equities - Unquoted</b>				
Credit Information Bureau of Sri Lanka	457,700	100	457,700	100
	<b>457,700</b>	<b>100</b>	<b>457,700</b>	<b>100</b>

All unquoted equities shares are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and Company intend to hold these for long term.

## > Notes to the Financial Statements

### > 22. Property, Plant and Equipment

#### 22.1 Gross Carrying Amounts

At cost	Balance as at 31 March 2022 LKR	Additions LKR	Disposals LKR	Balance as at 31 March 2023 LKR
<b>Freehold Assets</b>				
Furniture and Fittings	128,658,786	76,683,023	-	205,341,810
Office Equipment	72,738,813	46,580,196	-	119,319,009
Computer Equipment	30,708,776	11,808,192	-	42,516,968
Motor Vehicles	43,157,000	6,232,445	-	49,389,445
	<b>275,263,376</b>	<b>141,303,856</b>	<b>-</b>	<b>416,567,232</b>
<b>Assets on Leases</b>				
Right-of-Use Assets	282,911,211	114,775,283	(38,248,546)	359,437,947
<b>Total Value of Depreciable Assets</b>	<b>558,174,587</b>	<b>256,079,139</b>	<b>(38,248,546)</b>	<b>776,005,179</b>

#### 22.2 Depreciation

At cost	Balance as at 31 March 2022 LKR	Charge for the Year LKR	Disposals LKR	Balance as at 31 March 2023 LKR
<b>Freehold Assets</b>				
Furniture and Fittings	61,101,420	27,355,752	-	88,457,171
Office Equipment	35,136,175	15,904,378	-	51,040,552
Computer Equipment	18,157,921	4,945,454	-	23,103,375
Motor Vehicles	16,216,294	1,647,170	-	17,863,464
	<b>130,611,810</b>	<b>49,852,754</b>	<b>-</b>	<b>180,464,564</b>
<b>Assets on Leases</b>				
Motor Vehicles	-	-	-	-
Right-of-Use Assets	81,063,287	44,119,869	-	125,183,156
<b>Total Depreciation</b>	<b>211,675,097</b>	<b>93,972,623</b>	<b>-</b>	<b>305,647,720</b>

#### 22.3 Net Book Values

Year ended 31 March	2023 LKR	2022 LKR
<b>At Cost</b>		
Furniture and Fittings	116,884,638	67,557,366
Office Equipment	68,278,456	37,602,638
Computer Equipment	19,413,594	12,550,855
Motor Vehicles	31,525,981	26,940,706
	<b>236,102,668</b>	<b>144,651,565</b>
<b>Assets on Leases</b>		
Motor Vehicles	-	-
Right-of-Use Assets	234,254,791	201,847,924
<b>Total Carrying Amount of Property, Plant and Equipment</b>	<b>470,357,459</b>	<b>346,499,489</b>

## > Notes to the Financial Statements

### 22.4 Fully Depreciated Property, Plant and Equipment

The initial cost of fully-depreciated property, plant and equipment as at 31 March 2023, which are still in use as at the reporting date is as follows:

Year ended 31 March	2023 LKR	2022 LKR
Furniture and Fittings	35,607,005	10,864,526
Office Equipment	19,829,301	10,203,353
Computer Equipment	12,885,109	9,782,645
Motor Vehicles	3,257,000	3,257,000
Computer Software	39,350,000	-
	<b>110,928,414</b>	<b>34,107,524</b>

### > 23. Intangible Assets

Year ended 31 March	2023 LKR	2022 LKR
<b>Computer System Software</b>		
<b>Cost:</b>		
Opening Balance	66,490,036	53,959,768
Addition	2,184,070	12,530,268
Disposal	-	-
Closing Balance	<b>68,674,106</b>	<b>66,490,036</b>
<b>Less: Amortisation</b>		
Opening Balance	47,293,330	41,001,227
Amortisation Charge for the Period	3,333,640	6,292,103
Closing Balance	<b>50,626,970</b>	<b>47,293,330</b>
<b>Net Book Value as at 31 March</b>	<b>18,047,136</b>	<b>19,196,706</b>

### > 24. Interest Bearing Borrowings

Year ended 31 March	2023 LKR	2022 LKR
Bank Overdraft	71,476,867	318,622,301
Bank Borrowings	1,437,647,334	1,639,108,936
Securitisation Borrowings	480,833,580	914,654,787
	<b>1,989,957,781</b>	<b>2,872,386,024</b>

## > Notes to the Financial Statements

### 24.1 Bank Borrowings

Year ended 31 March	2023 LKR	2022 LKR
Gross Liability	1,423,450,494	1,759,134,644
Less: Finance Charge Allocated to Future Period	(164,303,160)	(120,025,708)
<b>Net Liability</b>	<b>1,259,147,334</b>	<b>1,639,108,936</b>
<b>Repayable Within One Year</b>		
Gross Liability	1,187,267,248	1,322,408,092
Less: Finance Charge Allocated to Future Period	(124,937,579)	(76,259,161)
<b>Net Liability</b>	<b>1,062,329,669</b>	<b>1,246,148,931</b>
<b>Repayable After One Year (1 to 5 Years)</b>		
Gross Liability	236,183,245	436,726,552
Less: Finance Charge Allocated to Future Period	(39,365,580)	(43,766,547)
<b>Net Liability</b>	<b>196,817,665</b>	<b>392,960,005</b>
<b>Total Net Liability</b>	<b>1,259,147,334</b>	<b>1,639,108,936</b>

### 24.2 Securitisation Borrowings

Year ended 31 March	2023 LKR	2022 LKR
Gross Liability	778,883,800	1,048,984,158
Less: Finance Charge Allocated to Future Period	(119,550,220)	(134,329,371)
<b>Net Liability</b>	<b>659,333,580</b>	<b>914,654,787</b>
<b>Repayable Within One Year</b>		
Gross Liability	649,640,587	560,764,932
Less: Finance Charge Allocated to Future Period	(90,307,007)	(60,061,697)
<b>Net Liability</b>	<b>559,333,580</b>	<b>500,703,235</b>
<b>Repayable After One Year (1 to 5 Years)</b>		
Gross Liability	129,243,213	488,219,225
Less: Finance Charge Allocated to Future Period	(29,243,213)	(74,267,673)
<b>Net Liability</b>	<b>100,000,000</b>	<b>413,951,552</b>
<b>Total Net Liability</b>	<b>659,333,580</b>	<b>914,654,787</b>

## > Notes to the Financial Statements

### 24.2.1 Institution-wise Loan Facilities

Year ended 31 March	As at 31 March 2023 LKR	As at 31 March 2022 LKR	Security
<b>Short-term</b>			
HSBC	762,945,205	-	Mortgage over Lease and Loan Receivables
Hatton National Bank PLC	75,423,781	454,478,596	Mortgage over Gold Loan Receivables
Seylan Bank PLC	-	200,405,479	Mortgage over Lease Receivables
Commercial Bank of Ceylon PLC	-	200,356,164	Lien over Corporate Fixed Deposits
	<b>838,368,986</b>	<b>855,240,239</b>	
<b>Long-term</b>			
Bank of Ceylon	260,204,847	538,725,463	Mortgage over Lease Receivables
Seylan Bank PLC	160,573,500	244,110,073	Mortgage over Lease Receivables
Hatton National Bank PLC	-	1,033,162	Mortgage over Loan Receivables
M Power Capital Limited	198,205,286	238,381,587	Mortgage over Gold Loan Receivables
National Development Bank PLC	89,430,409	163,408,323	Mortgage over Lease Receivables
Agora Securities (Private) Limited	371,697,886	512,864,876	Mortgage over Lease Receivables
	<b>1,080,111,928</b>	<b>1,698,523,484</b>	
	<b>1,918,480,914</b>	<b>2,553,763,723</b>	

### > 25. Due to Customers

Year ended 31 March	2023 LKR	2022 LKR
Fixed Deposits Accepted from Public	3,487,076,917	2,195,018,842
	<b>3,487,076,917</b>	<b>2,195,018,842</b>

### > 26. Other Financial Liabilities

Year ended 31 March	Note	2023 LKR	2022 LKR
Trade Payable		2,924,680	189,659,666
Accrued Expense		45,622,351	54,488,607
Obligation to Make the Lease Payment	26.1	251,265,783	205,263,559
Sundry Creditors		79,467,937	100,895,441
		<b>379,280,751</b>	<b>550,307,273</b>

## > Notes to the Financial Statements

### 26.1 Obligation to Make the Lease Payment

Year ended 31 March	2023 LKR	2022 LKR
As at 1 April	205,263,558	84,559,422
Additions and Improvements during the Year	109,009,988	150,227,218
Disposals during the Year	(36,795,307)	(1,191,771)
Accretion of Interest during the Year	33,835,137	18,518,570
Payments to Lease Creditors	(60,047,593)	(46,849,881)
As at 31 March	251,265,783	205,263,558

### > 27. Other Non-Financial Liabilities

Year ended 31 March	2023 LKR	2022 LKR
WHT Payable	3,140,234	-
Stamp Duty Payable	561,350	9,559,575
VAT Payable	276,844	-
Dividend Payable	961,829	961,829
Other Liabilities	32,453,647	34,445,533
	37,393,904	44,966,937

### > 28. Retirement Benefit Liability

Year ended 31 March	2022 LKR	2021 LKR
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#### 28.1 Defined Benefit Liability

Defined Benefit Liability	30,896,045	26,338,562
	30,896,045	26,338,562

#### 28.2 Changes in the Defined Benefit Obligation are as follows:

Opening Liability	26,338,562	23,049,390
Net Benefit Expense	7,319,858	3,350,422
Benefit Paid	(2,762,375)	(61,250)
Closing Liability	30,896,045	26,338,562

#### 28.3 Net Benefit Expense

Interest Cost	3,979,756	1,659,556
Current Service Cost	5,471,057	5,191,889
Gain on Plan Amendment	-	(1,417,183)
Actuarial Gain on Obligations	(2,130,956)	(2,083,840)
	7,319,857	3,350,422

## > Notes to the Financial Statements

### 28.4 The Principal Financial Assumptions used are as follows:

Messrs Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2023. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Year ended 31 March	2023	2022
Discount Rate* (%)	19.60	15.11
Future Salary Increment Rate (%)	15.00	12.00
Retirement Age	60 Years	60 Years
The Weighted Average Duration of the Defined Benefit Obligation	6 Years	7 Years
Mortality - GA 1983 Mortality Table Issued by The Institute of Actuaries London		

The retirement age was amended from 55 years to 60 years due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 of 2021.

*\*Discount rate used for the actuarial valuation changed during the year due to changes in market interest rates. Future salary increment rate too was revised to fall in line with the increase in market interest rates.*

The Company generally uses the 10-year treasury bond rate as discount rate. The Treasury Bond rates increased significantly during the year and was around 30% during the latter part of 2022. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued guidance (via FAQs on use of discount rate under uncertain economic conditions) to consider an adjusted Treasury Bond rate as the discount rate for the purpose of actuarial valuations, on the basis that the current treasury bond rates do not reflect only the time value of money. Accordingly, an adjusted discount rate was derived by removing a credit spread from the current treasury bond rate, as per the guidance issued by CA Sri Lanka.

### 28.5 Sensitivity Analysis

+/- 1% change on discount rate and salary increase - present value of defined benefit obligation as at 31 March 2023.

	Present Value of Defined Benefit Obligation (PVDBO)		
	31 March 2023	31 March 2023	31 March 2023
Discount Rate (%)	18.60	19.60	20.60
Basic Salary Scale (%)	15.0	15.0	15.0
Census at	31 March 23	31 March 23	31 March 23
Total PVDBO	32,363,756	30,896,045	29,625,022

	Present Value of Defined Benefit Obligation (PVDBO)		
	31 March 2023	31 March 2023	31 March 2023
Discount Rate (%)	19.60	19.60	19.60
Basic Salary Scale (%)	14.0	15.0	16.0
Census at	31 March 2023	31 March 2023	31 March 2023
Total PVDBO	29,580,915	30,896,045	32,394,685



## > Notes to the Financial Statements

### Sensitivity Analysis

+/- 1% change on discount rate and salary increase - present value of defined benefit obligation as at 31 March 2022.

	Present Value of Defined Benefit Obligation (PVDBO)		
	31 March 2022	31 March 2022	31 March 2022
Discount Rate (%)	14.11	15.11	16.11
Basic Salary Scale (%)	12.0	12.0	12.0
Census at	31 March 22	31 March 22	31 March 22
<b>Total PVDBO</b>	<b>27,897,819</b>	<b>26,338,562</b>	<b>24,991,754</b>

	Present Value of Defined Benefit Obligation (PVDBO)		
	31 March 2022	31 March 2022	31 March 2022
Discount Rate (%)	15.11	15.11	15.11
Basic Salary Scale (%)	11.0	12.0	13.0
Census at	31 March 2022	31 March 2022	31 March 2022
<b>Total PVDBO</b>	<b>24,966,371</b>	<b>26,338,562</b>	<b>27,904,205</b>

### > 29. Deferred Tax Assets/Liability

	Accelerated Depreciation for Tax Purposes							Total
	Property, Plant and Equipment	Intangible Assets	Right-of-Use Assets	Lease Rentals	Impairment of Loans and Receivables	Defined Benefit Plan Obligation	Others	
<b>Balance as at 1 April 2022</b>	11,183,186	1,791,923	(12,217,434)	5,015,292	(23,885,966)	(6,321,255)	750,388	(23,683,867)
<b>Profit or Loss (Note 11.1 )</b>								
Due to Rate Change	2,795,796	447,981	(3,054,359)	1,253,823	(5,971,491)	(1,580,314)	(750,388)	(6,858,952)
Due to Change in Temporary Differences	4,096,261	(422,727)	10,168,495	(6,015,453)	(3,564,947)	(2,006,531)	-	2,255,098
<b>Other Comprehensive Income</b>								
Due to Rate Change	-	-	-	-	-	(8,780)	-	(8,779)
Due to Change in Temporary Differences	-	-	-	-	-	648,066	-	648,066
<b>Balance as at 31 March 2023</b>	<b>18,075,244</b>	<b>1,817,178</b>	<b>(5,103,297)</b>	<b>253,661</b>	<b>(33,422,405)</b>	<b>(9,268,814)</b>	<b>-</b>	<b>(27,648,433)</b>

### > 30. Stated Capital

	Number of Shares	LKR
<b>Issued and Fully Paid-Ordinary Shares</b>		
<b>Balance as of 1 April 2021</b>	145,639,098	1,908,247,125
Issued During the Period	-	-
<b>Balance as of 31 March 2022</b>	<b>145,639,098</b>	<b>1,908,247,125</b>
<b>Balance as of 1 April 2022</b>	145,639,098	1,908,247,125
Issued During the Period	-	-
<b>Balance as of 31 March 2023</b>	<b>145,639,098</b>	<b>1,908,247,125</b>

## > Notes to the Financial Statements

### > 31. Reserves

Year ended 31 March	2023 LKR	2022 LKR
<b>Statutory Reserve Fund</b>		
Opening Balance as at 1 April	43,758,990	31,718,715
Addition during the Year	4,419,474	12,040,276
<b>Closing Balance as at 31 March</b>	<b>48,178,464</b>	<b>43,758,990</b>

The Company's reserve fund is maintained in accordance with Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

### > 32. Cash and Cash Equivalents for the Purpose of Cash Flow Statement

Year ended 31 March	Note	2023 LKR	2022 LKR
<b>Components of Cash and Cash Equivalents</b>			
<b>Favourable Cash and Cash Equivalents Balance</b>			
Cash and Bank Balance	13	165,583,696	135,648,058
Investment in Government Securities	14	157,808,254	248,709,944
		<b>323,391,950</b>	<b>384,358,002</b>
<b>Unfavourable Cash and Cash Equivalents Balance</b>			
Bank Overdraft	24	71,476,867	318,622,301
		<b>71,476,867</b>	<b>318,622,301</b>
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement		<b>251,915,083</b>	<b>65,735,701</b>

### > 33. Analysis of Financial Assets and Liabilities by Measurement Basis

As at 31 March 2023	Financial Assets at Fair Value Income Statement LKR	Financial Assets at Fair Value Other Comprehensive Income LKR	Financial Assets and Liabilities at Amortised Cost LKR	Total LKR
<b>Financial Assets</b>				
Cash and Bank Balances	-	-	165,583,696	165,583,696
Investment in Government Securities	-	-	458,137,517	458,137,517
Placements with Other Banks and Financial Institutions	-	-	445,268,915	445,268,915
Lease Rentals Receivable and Stock Out on Hire	-	-	2,374,025,383	2,374,025,383
Loans and Advances	-	-	798,812,852	798,812,852
Gold Advances	-	-	3,950,688,495	3,950,688,495
Financial Investments-Measured at Fair Value Through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	24,340,891	24,340,891
<b>Total Financial Assets</b>	<b>-</b>	<b>457,700</b>	<b>8,216,857,749</b>	<b>8,217,315,449</b>

## > Notes to the Financial Statements

As at 31 March 2023	Financial Assets at Fair Value Income Statement LKR	Financial Assets at Fair Value Other Comprehensive Income LKR	Financial Assets and Liabilities at Amortised Cost LKR	Total LKR
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	-	-	1,989,957,781	1,989,957,781
Due to the Customers	-	-	3,487,076,917	3,487,076,917
Other Financial Liabilities	-	-	379,280,751	379,280,751
<b>Total Financial Liabilities</b>	-	-	<b>5,856,315,450</b>	<b>5,856,315,450</b>
As at 31 March 2022	Financial Assets at Fair Value Income Statement LKR	Financial Assets at Fair Value Other Comprehensive Income LKR	Financial Assets and Liabilities at Amortised Cost LKR	Total LKR
<b>Financial Assets</b>				
Cash and Bank Balances	-	-	135,648,058	135,648,058
Investment in Government Securities	-	-	248,709,944	248,709,944
Placements with Other Banks and Financial Institutions	-	-	287,743,917	287,743,917
Lease Rentals Receivable and Stock Out on Hire	-	-	3,564,076,376	3,564,076,376
Loans and Advances	-	-	1,406,622,800	1,406,622,800
Gold Advances	-	-	2,258,859,086	2,258,859,086
Financial Investments-Measured at Fair Value Through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	16,373,433	16,373,433
<b>Total Financial Assets</b>	-	<b>457,700</b>	<b>7,918,033,615</b>	<b>7,918,491,315</b>
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	-	-	2,872,386,024	2,872,386,024
Due to the Customers	-	-	2,195,018,842	2,195,018,842
Other Financial Liabilities	-	-	550,307,273	550,307,273
<b>Total Financial Liabilities</b>	-	-	<b>5,617,712,139</b>	<b>5,617,712,139</b>

## > 34. Fair Value of Financial Instruments

### 34.1 Determination of Fair Value and Fair Value Hierarchy

The Company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1 : Quoted prices in active markets for identical assets and liabilities.

Level 2 : Other technique 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.

## > Notes to the Financial Statements

### Financial Investments - Measured at Fair Value Through Other Comprehensive Income

Equity instruments at fair value through OCI/Available-for-sale financial assets primarily consist of unquoted equity securities. Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

#### 34.2 Fair Value of the Financial Instrument Carried at Amortised Cost

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and liabilities.

As at 31 March 2023	Level	Carrying Amount LKR	Fair Value LKR
<b>Financial Assets</b>			
Lease Rentals Receivable and Stock Out on Hire	Level 02	2,374,025,383	2,095,629,218
Loans and Advances	Level 02	798,812,852	763,441,751
<b>Financial Liabilities</b>			
Interest Bearing Borrowings	Level 02	1,918,480,914	1,959,936,050
<b>As at 31 March 2022</b>			
As at 31 March 2022	Level	Carrying Amount LKR	Fair Value LKR
<b>Financial Assets</b>			
Lease Rentals Receivable and Stock Out on Hire	Level 02	3,564,076,376	3,673,798,526
Loans and Advances	Level 02	1,406,622,800	1,458,244,117
<b>Financial Liabilities</b>			
Interest Bearing Borrowings	Level 02	2,553,763,722	2,364,364,916

For the following list of financial instrument whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently.

#### Assets

Cash and Bank Balances  
Investment in Government Securities  
Placements with Banks and Other Financial Institutions  
Gold Advances  
Other Financial Assets

#### Financial Liabilities

Bank Overdraft  
Due to the Customers  
Other Financial Liabilities

## > Notes to the Financial Statements

### > 35. Current and Non-Current Analysis of Assets and Liabilities

Table below shows an analysis of assets and liabilities analysed 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 Bank Balances	165,583,696	-	165,583,696
Investment in Government Securities	458,137,517	-	458,137,517
Placements with Banks and Other Financial Institutions	445,268,915	-	445,268,915
Gold Advances	3,950,688,495	-	3,950,688,495
Lease Rentals Receivable and Stock Out on Hire Purchase and Loans and Advances	1,481,552,723	1,691,285,512	3,172,838,234
Other Financial Assets	15,612,072	8,728,819	24,340,892
Other Non-Financial Assets	44,748,960	14,032,183	58,781,143
Financial Investments-Measured at Fair Value Through OCI	-	457,700	457,700
Property, Plant and Equipment	-	470,357,459	470,357,459
Intangible Assets	-	18,047,136	18,047,136
Deferred Tax Assets		27,648,433	27,648,433
<b>Total Assets</b>	<b>6,561,592,378</b>	<b>2,230,557,243</b>	<b>8,792,149,620</b>
<b>Liabilities</b>			
Interest Bearing Borrowings	1,693,140,116	296,817,665	1,989,957,781
Due to the Customers	3,257,263,796	229,813,120	3,487,076,917
Other Financial Liabilities	147,745,201	231,535,550	379,280,751
Other Non-Financial Liabilities	37,393,905	-	37,393,905
Current Tax Liabilities	32,921,837	-	32,921,837
Retirement Benefit Liability	-	30,896,045	30,896,045
<b>Total Liabilities</b>	<b>5,168,464,855</b>	<b>789,062,380</b>	<b>5,957,527,235</b>
<b>Net Assets</b>	<b>1,393,127,522</b>	<b>1,441,494,863</b>	<b>2,834,622,385</b>

## > Notes to the Financial Statements

As at 31 March 2022	Within 12-months LKR	After 12-months LKR	Total LKR
<b>Assets</b>			
Cash and Bank Balances	135,648,058	-	135,648,058
Investment in Government Securities	248,709,944	-	248,709,944
Placements with Banks and Other Financial Institutions	287,743,917	-	287,743,917
Gold Advances	2,258,859,086	-	2,258,859,086
Lease Rentals Receivable and Stock Out on Hire Purchase and Loans and Advances	1,835,899,362	3,134,799,815	4,970,699,177
Other Financial Assets	7,600,516	8,772,917	16,373,434
Other Non-Financial Assets	100,797,616	76,371,835	177,169,451
Financial Investments-Measured at Fair Value Through OCI	-	457,700	457,700
Inventories	328,056	-	328,056
Property, Plant and Equipment	-	346,499,489	346,499,489
Intangible Assets	-	19,196,706	19,196,706
Deferred Tax Assets	-	23,683,867	23,683,867
<b>Total Assets</b>	<b>4,875,586,555</b>	<b>3,609,782,329</b>	<b>8,485,368,884</b>
<b>Liabilities</b>			
Interest Bearing Borrowings	1,129,251,916	577,106,187	1,706,358,103
Due to the Customers	463,800,283	465,839,175	929,639,458
Other Financial Liabilities	172,982,759	63,460,859	236,443,618
Other Non-Financial Liabilities	26,294,479	-	26,294,479
Current Tax Liabilities	87,363,461	-	87,363,461
Retirement Benefit Liability	-	23,049,390	23,049,390
Deferred Tax Liabilities	-	5,252,716	5,252,716
<b>Total Liabilities</b>	<b>1,879,692,898</b>	<b>1,134,708,327</b>	<b>3,014,401,224</b>
<b>Net Assets</b>	<b>2,995,893,658</b>	<b>2,475,074,002</b>	<b>5,470,967,659</b>

## > Notes to the Financial Statements

### > 36. Commitment and Contingencies

There were no significant capital commitment and contingencies as of the reporting date.

#### 36.1 Litigation Against Company

The Company does not have contingent liabilities in respect of legal claims arising in the ordinary course of business.

#### 36.2 Assets Pledged

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	
Lease Rentals Receivable and Stock Out on Hire*	Bank loans and overdrafts	2,289,046,071	2,344,953,053	Lease rentals receivable
Loan Receivable*	Bank loans and overdrafts	423,411,966	413,898,346	Loan receivable
Gold Advances*	Bank loans and overdrafts	2,462,704,804	-	Loan receivable
		<b>5,175,162,841</b>	<b>2,758,851,399</b>	

\* The receivables and cash flows that have been included in securitisation transactions are only available for payment of the debt and other obligations issued or arising in the securitisation transactions. However, the Company hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of the securitisation transactions.

### > 37. Event Occurring After the Reporting Date

Subsequent to the reporting date, no circumstances have arisen which would require adjustment or disclosure in Financial Statement.

### > 38. Related Party Transactions

The Company carries out transactions in the ordinary course of business with the parties who are defined as "Related Parties" in LKAS 24 - "Related Party Disclosures".

#### Terms and Conditions

All such transactions entered into with the related parties are on an arms' length basis and are comparable with what is applied to the transactions with unrelated customers with similar credit standing.

## > Notes to the Financial Statements

Details of related party transactions which the Company had during the year are as follows:

### 38.1 Transactions with Key Managerial Personnel (KMPs)

The Company has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the Company as “Key Management Personnel” in accordance with LKAS 24 - “Related Party Disclosures”. Accordingly, Board of Directors, Chief Executive Officer, Members of Corporate Management Team have been identified as “Key Management Personnel”.

Other related parties include CFMs of the KMPs who are family members who may be expected to influence or be influenced by that KMP in their dealings with the entity. They may include KMP's Spouse, children, domestic partner and dependents of KMP, KMP's spouse/domestic partner.

#### 38.1.1 Compensation to KMP

Year ended 31 March	2023 LKR	2022 LKR
Short-Term Employment Benefits	36,992,968	31,325,000
Post Employment Benefits	-	-
	<b>36,992,968</b>	<b>31,325,000</b>

In addition to the above, the Company has also paid non-cash benefits such as vehicles and fuel to Key Management Personnel in line with the approved employment benefits of the Company.

#### 38.1.2 Transaction with KMP and Their Close Family Members

Aggregate value of transactions with KMP and their CFM are disclosed below. These transactions are carried out at arm's length prices.

Year ended 31 March	2023 LKR	2022 LKR
Fixed Deposits Accepted During the Year	-	-
Fixed Deposits Held at the End of the Year	-	-
Interest Paid During the Year	-	-



> Notes to the Financial Statements

**38.2 Transaction, Arrangements and Agreements Involving with Entities which are Controlled, and/or Jointly Controlled by the KMP's and Their CFMs or Shareholders**

	Nature of Relationship	Amount of the Transactions had During the Year LKR	Outstanding Receivable/ (Payable) Balance as at 31 March 2023 LKR	Outstanding Receivable/ (Payable) Balance as at 31 March 2022 LKR
<b>IDEAL Motors (Pvt) Ltd.</b>	Affiliate Company			
Finance Lease Equipment Purchase		3,695,000	-	(14,766,500)
Other Purchases and Services		27,999,086	-	-
Vehicle Repair Services		261,461	-	-
<b>IDEAL Automobile (Pvt) Ltd.</b>	Affiliate Company			
Finance Lease Equipment Purchase		-	-	-
Fixed Deposits		(75,038,657)	(186,263,657)	(111,225,000)
Interest Expenses - Fixed Deposits		41,818,954	(1,617,603)	(337,736)
Other Purchases and Services		450,974	-	-
<b>IDEAL First Choice (Pvt) Ltd.</b>	Affiliate Company			
Vehicle Repair Services		448,184	-	-
<b>Prompt Express Private Limited</b>	Affiliate Company			
Gross Advances		32,772,150	54,423,171	20,687,955
Courier Service Charges		2,530,715	(632,268)	-
<b>IDEAL Drive Private Limited</b>	Affiliate Company			
Vehicle Hire Expense		5,366,188	-	(427,081)
<b>Arcasia Investment and Trading (Pvt) Ltd.</b>	Affiliate Company			
Interest Expenses - Fixed Deposits		3,176,381	-	-
<b>E M G Logistics (Pvt) Ltd.</b>	Parent Company			
Fixed Deposits		(48,567,399)	(48,567,399)	-
Interest Expenses - Fixed Deposits		2,802,866	493,685	-
<b>IDEAL Premier (Pvt) Ltd.</b>	Affiliate Company			
Vehicle Repair Services		4,102,390	-	-
<b>Mahindra &amp; Mahindra Financial Services Limited</b>	Ultimate Parent Company			
Trade Mark Fee		55,201	-	-

## > Notes to the Financial Statements

### > 39. 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.

#### 39.1 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 maximise shareholders' value.

#### Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly, finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 12.5% and a minimum core capital adequacy ratio (Tier I) of 8.5%. The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements. The Company's Tier I and Tier II capital adequacy ratios as at the end of the financial year stood at 44.86% and 46.83% respectively.

### > 40. Risk Management

#### 40.1 Introduction

Risk is inherent in the Company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

#### Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by an Independent Non-Executive Director and is comprised of Executive and Non-Executive Directors and officers performing executive functions. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

#### Risk Management and Reporting

Monitoring and controlling risks is primarily performed based on policies, limits and thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

## > Notes to the Financial Statements

### 40.2 Credit Risk

Credit risk is the risk arise due to the uncertainty in counterparty's ability to meet its obligations. The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. The Company considers a financial instrument defaulted for impairment calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

#### 40.2.1 Credit Quality of Financial Assets

The following table sets out information about credit quality of leases and loans measured at amortised cost primarily based on days past due information. The amount represents gross carrying amount.

Particulars	31 March 2023 LKR	31 March 2022 LKR
<b>Gross Carrying Value of Lease Rentals Receivable and Stock out on Hire</b>		
Neither Past due nor Impaired	665,189,258	1,604,788,522
<b>Past Due but not Impaired</b>		
30 Days Past Due	455,494,155	758,351,467
31-90 Days Past Due	833,587,566	841,524,574
Impaired (more than 90 days)	599,224,738	532,551,469
<b>Total Gross Carrying Value as at Reporting Date</b>	<b>2,553,495,717</b>	<b>3,737,216,031</b>
<b>Gross Carrying Value of Loans and Advances</b>		
Neither Past Due nor Impaired	251,983,980	776,688,746
<b>Past Due but not Impaired</b>		
30 Days Past Due	112,999,736	282,057,424
31-90 Days Past Due	202,548,041	210,345,614
Impaired (more than 90 days)	302,710,086	204,945,266
<b>Total Gross Carrying Value as at Reporting Date</b>	<b>870,241,843</b>	<b>1,474,037,050</b>

## > Notes to the Financial Statements

### 40.2.2 Analysis of Risk Concentration

#### 41.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Sector-wise Break Down as at 31 March 2023	Cash and Bank Balances LKR	Investment in Government Securities at Amortised Cost LKR	Placement With Bank and Other Financial Institutions LKR
Agriculture	-	-	-
Manufacturing	-	-	-
Construction	-	-	-
Financial Services	165,583,696	458,137,517	445,268,915
Trading	-	-	-
Hotels	-	-	-
Services	-	-	-
Transport	-	-	-
Consumer	-	-	-
<b>Total</b>	<b>165,583,696</b>	<b>458,137,517</b>	<b>445,268,915</b>

Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows:

Province	Lease Rental Receivable and Stock Out on Hire Purchase LKR	Loans and Advances LKR	Gold Advances LKR
Central	98,174,826	23,155,694	294,590,457
North Central	169,735,615	83,082,655	161,463,347
North Western	406,994,974	87,364,576	221,681,067
Northern	202,505,319	17,499,768	931,005,484
Sabaragamuwa	271,024,314	7,300,983	116,274,144
Southern	295,852,812	97,755,262	420,024,749
Uva	522,394,624	19,999,123	814,841,509
Western	586,813,233	534,083,783	1,011,445,491
<b>Total</b>	<b>2,553,495,717</b>	<b>870,241,843</b>	<b>3,971,326,248</b>

Sector-wise Break Down as at 31 March 2022	Cash and Bank Balances LKR	Investment in Government Securities at Amortised Cost LKR	Placement With Bank and Other Financial Institutions LKR
Agriculture	-	-	-
Manufacturing	-	-	-
Construction	-	-	-
Financial Services	135,648,058	248,709,944	287,743,917
Trading	-	-	-
Hotels	-	-	-
Services	-	-	-
Transport	-	-	-
Consumer	-	-	-
<b>Total</b>	<b>135,648,058</b>	<b>248,709,944</b>	<b>287,743,917</b>

## > Notes to the Financial Statements

Lease Rental Receivable, Stock Out on Hire Purchase and Loans and Advances LKR	Financial Investments- Measured at Fair Value Through OCI LKR	Gold Advances LKR	Other Financial Assets LKR	Total Financial Assets LKR
233,519,242	-	-	-	233,519,242
45,794,715	-	-	-	45,794,715
145,530,881	-	-	-	145,530,881
8,041,880	-	-	-	1,077,032,008
178,840,812	-	-	-	178,840,812
15,596,463	-	-	-	15,596,463
-	457,700	-	-	457,700
2,559,614,724	-	-	-	2,559,614,724
236,798,844	-	3,971,326,248	24,340,891	4,232,465,983
3,423,737,560	457,700	3,971,326,248	24,340,891	8,488,852,527

Lease Rental Receivable, Stock Out on Hire Purchase and Loans and Advances LKR	Financial Investments- Measured at Fair Value Through OCI LKR	Gold Advances LKR	Other Financial Assets LKR	Total Financial Assets LKR
374,773,366	-	-	-	374,773,366
83,366,341	-	-	-	83,366,341
239,845,781	-	-	-	239,845,781
13,504,482	-	-	-	685,606,401
281,244,993	-	-	-	281,244,993
20,427,252	-	-	-	20,427,252
-	457,700	-	-	457,700
3,825,533,006	-	-	-	3,825,533,006
372,557,861	-	2,267,524,563	61,826,573	2,701,908,997
5,211,253,081	457,700	2,267,524,563	61,826,573	8,213,163,836

## > Notes to the Financial Statements

Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows:

	Lease Rental Receivable and Stock Out on Hire Purchase LKR	Loans and Advances LKR	Gold Advances LKR
<b>Province</b>			
Central	142,023,383	68,402,719	88,215,503
North Central	260,581,169	251,303,105	124,727,871
North Western	657,409,056	164,778,271	113,549,533
Northern	313,434,426	63,238,463	694,922,920
Sabaragamuwa	413,334,476	28,165,384	109,100,507
Southern	429,204,324	178,923,123	208,994,501
Uva	732,720,804	46,067,156	592,641,790
Western	788,508,393	673,158,830	335,371,938
<b>Total</b>	<b>3,737,216,031</b>	<b>1,474,037,050</b>	<b>2,267,524,563</b>

### 40.3 Liquidity Risk and Funding Management

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitment and to accommodate additional funding needs of the growing business volumes.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control the liquidity risk.

#### 40.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises 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 3 Months LKR	3 to 12 Months LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
<b>Financial Assets</b>						
Cash and Bank Balances	165,583,696	-	-	-	-	165,583,696
Placements with Banks and Other Financial Institutions	-	24,620,114	468,991,912	-	-	493,612,026
Investment in Government Securities	-	165,000,000	328,000,034	-	-	493,000,034
Gold Advances	-	3,900,684,135	70,172,673	469,440	-	3,971,326,248
Lease Rentals Receivable and Stock Out on Hire Purchase	220,523,520	314,350,533	916,179,827	1,790,003,965	-	3,241,057,845
Loans and Advances	153,490,720	294,255,388	217,437,621	214,986,693	1,294,237	881,464,658
Financial Investments-Measured at Fair Value Through OCI	-	-	-	-	457,700	457,700
Other Financial Assets	-	13,921,689	1,690,383	4,162,603	4,566,216	24,340,891
<b>Total Financial Assets</b>	<b>539,597,936</b>	<b>4,712,831,859</b>	<b>2,002,472,450</b>	<b>2,009,622,701</b>	<b>6,318,153</b>	<b>9,270,843,098</b>

## > Notes to the Financial Statements

As at 31 March 2023	On Demand LKR	Less than 3 Months LKR	3 to 12 Months LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	-	1,294,497,129	536,038,778	365,426,459	-	2,195,962,366
Due to the Customers	-	1,786,360,256	1,783,245,376	340,034,622	-	3,909,640,254
Other Financial Liabilities	-	128,014,969	-	-	-	128,014,969
Obligation to Make the Lease Payment	-	14,040,411	39,410,018	195,662,605	173,790,305	422,903,339
<b>Total Financial Liabilities</b>	-	<b>3,222,912,765</b>	<b>2,358,694,172</b>	<b>901,123,685</b>	<b>173,790,305</b>	<b>6,656,520,928</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>539,597,936</b>	<b>1,489,919,094</b>	<b>(356,221,722)</b>	<b>1,108,499,016</b>	<b>(167,472,153)</b>	<b>2,614,322,170</b>
<b>As at 31 March 2022</b>	<b>On Demand LKR</b>	<b>Less than 3 Months LKR</b>	<b>3 to 12 Months LKR</b>	<b>1 to 5 Years LKR</b>	<b>Over 5 Years LKR</b>	<b>Total LKR</b>
<b>Financial Assets</b>						
Cash and Bank Balances	135,648,058	-	-	-	-	135,648,058
Placements with Banks and Other Financial Institutions	-	115,985,212	174,849,288	-	-	290,834,500
Investment in Government Securities	-	248,995,612	-	-	-	248,995,612
Gold Advances	-	2,249,478,291	18,046,272	-	-	2,267,524,563
Lease Rentals Receivable and Stock Out on Hire Purchase	173,481,593	407,898,999	1,166,500,915	3,242,599,110	8,140,762	4,998,621,379
Loans and Advances	96,797,447	197,843,806	775,440,861	676,356,455	10,391,646	1,756,830,215
Financial Investments-Measured at Fair Value Through OCI	-	-	-	-	457,700	457,700
Other Financial Assets	-	7,151,157	449,360	5,516,684	3,256,233	16,373,434
<b>Total Financial Assets</b>	<b>405,927,098</b>	<b>3,227,353,077</b>	<b>2,135,286,696</b>	<b>3,924,472,249</b>	<b>22,246,341</b>	<b>9,715,285,462</b>
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	-	1,073,047,987	813,873,863	921,196,951	-	2,808,118,801
Due to the Customers	-	213,303,147	1,851,556,469	202,432,209	-	2,267,291,825
Other Financial Liabilities	-	348,455,540	-	-	-	348,455,540
Obligation to Make the Lease Payment	-	10,902,107	35,473,098	134,613,359	126,684,092	307,672,656
<b>Total Financial Liabilities</b>	-	<b>1,645,708,781</b>	<b>2,700,903,430</b>	<b>1,258,242,519</b>	<b>126,684,092</b>	<b>5,731,538,822</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>405,927,098</b>	<b>1,627,097,435</b>	<b>(565,616,734)</b>	<b>2,666,229,730</b>	<b>(104,437,751)</b>	<b>4,029,199,778</b>

## > Notes to the Financial Statements

### 40.4 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; 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; 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. Company's exposure to interest rate risk is primarily associated with factors such as;

### Interest Rate Risk Exposure on Financial Assets and Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

As at 31 March 2023	Interest Bearing						Non-interest Bearing LKR
	Total as at 31 March 2023 LKR	Less than 3 Months LKR	3 to 12 Months LKR	1 to 5 Years LKR	Over 5 Years LKR		
<b>Financial Assets</b>							
Cash and Bank Balances	165,583,696	-	-	-	-	-	165,583,696
Investment in Government Securities and Placements with Banks	903,406,432	160,572,123	742,834,309	-	-	-	-
Gold Advances	3,971,326,248	3,900,684,135	70,642,113	-	-	-	-
Lease Rentals Receivable and Stock Out on Hire Purchase	2,553,495,717	412,141,696	666,349,439	1,475,004,582	-	-	-
Loans and Advances	870,241,842	436,523,292	217,437,621	216,280,929	-	-	-
Financial Investments-Measured at Fair Value Through OCI	457,700	-	-	-	-	-	457,700
<b>Other Financial Assets</b>	<b>24,340,891</b>	<b>4,897,876</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,443,015</b>
<b>Total Financial Assets</b>	<b>8,488,852,527</b>	<b>4,914,819,123</b>	<b>1,697,263,482</b>	<b>1,691,285,512</b>	<b>-</b>	<b>-</b>	<b>185,484,411</b>



## > Notes to the Financial Statements

As at 31 March 2023	Interest Bearing						Non-interest Bearing LKR
	Total as at 31 March 2023 LKR	Less than 3 Months LKR	3 to 12 Months LKR	1 to 5 Years LKR	Over 5 Years LKR		
<b>Financial Liabilities</b>							
Interest Bearing Borrowings	1,989,958,106	1,264,844,608	428,295,833	296,817,665	-	-	
Due to the Customers	3,487,076,918	1,746,722,802	1,510,540,995	229,813,120	-	-	
Other Financial Liabilities	379,280,752	132,054,510	15,690,692	94,799,993	136,735,557	-	
<b>Total Financial Liabilities</b>	<b>5,856,315,776</b>	<b>3,143,621,920</b>	<b>1,954,527,520</b>	<b>621,430,778</b>	<b>136,735,557</b>	<b>-</b>	
<b>Interest Sensitivity Gap</b>	<b>2,632,536,751</b>	<b>1,771,197,202</b>	<b>(257,264,039)</b>	<b>1,069,854,733</b>	<b>(136,735,557)</b>	<b>185,484,411</b>	

As at 31 March 2022	Interest Bearing						Non-interest Bearing LKR
	Total as at 31 March 2022 LKR	Less than 3 Months LKR	3 to 12 Months LKR	1 to 5 Years LKR	Over 5 Years LKR		
<b>Financial Assets</b>							
Cash and Bank Balances	135,648,058	-	-	-	-	135,648,058	
Investment in Government Securities and Placements with Banks	536,453,861	364,205,567	172,248,294	-	-	-	
Gold Advances	2,267,524,563	2,249,478,291	18,046,272	-	-	-	
Lease Rentals Receivable and Stock Out on Hire Purchase	3,706,916,921	394,929,688	762,660,888	2,541,649,141	7,677,204	-	
Loans and Advances	1,454,570,704	212,694,587	656,402,647	576,140,905	9,332,565	-	
Financial Investments-Measured at Fair Value Through OCI	457,700	-	-	-	-	457,700	
Other Financial Assets	16,373,434	122,316	-	-	-	16,251,118	
<b>Total Financial Assets</b>	<b>8,117,945,239</b>	<b>3,221,430,449</b>	<b>1,609,358,101</b>	<b>3,117,790,046</b>	<b>17,009,769</b>	<b>152,356,876</b>	
<b>Financial Liabilities</b>							
Interest Bearing Borrowings	2,872,386,024	1,341,585,356	727,637,936	803,162,732	-	-	
Due to the Customers	2,195,018,842	212,376,276	1,794,212,420	188,430,146	-	-	
Other Financial Liabilities	550,307,273	5,466,733	20,271,778	76,414,325	103,110,723	345,043,714	
<b>Total Financial Liabilities</b>	<b>5,617,712,140</b>	<b>1,559,428,366</b>	<b>2,542,122,135</b>	<b>1,068,007,203</b>	<b>103,110,723</b>	<b>345,043,714</b>	
<b>Interest Sensitivity Gap</b>	<b>2,500,233,099</b>	<b>1,662,002,082</b>	<b>(932,764,034)</b>	<b>2,049,782,844</b>	<b>(86,100,954)</b>	<b>(192,686,839)</b>	

## > Notes to the Financial Statements

### > 41. Operating Segments

Entity-wide disclosures: analysis of gross income on product basis

As at 31 March 2023	Finance Lease LKR	Gold Loan LKR	Loans and Advances LKR	Other LKR	Total LKR
Interest Income	641,168,494	807,982,594	239,486,405	116,662,455	1,805,299,948
Commission Income	-	-	-	13,067,675	13,067,675
Other Income	-	-	-	105,911,732	105,911,732
	<b>641,168,494</b>	<b>807,982,594</b>	<b>239,486,405</b>	<b>235,641,862</b>	<b>1,924,279,355</b>

As at 31 March 2022	Finance Lease LKR	Hire Purchase LKR	Loans and Advances LKR	Other LKR	Total LKR
Interest Income	644,897,703	344,470,014	220,135,915	32,564,290	1,242,067,922
Commission Income	-	-	-	12,097,982	12,097,982
Other Income	-	-	-	67,370,908	67,370,908
	<b>644,897,703</b>	<b>344,470,014</b>	<b>220,135,915</b>	<b>112,033,180</b>	<b>1,321,536,812</b>

### > 42. Changes in Liabilities Arising from Financing Activities

Sri Lanka Accounting Standards LKAS 7 (Statement of Cash Flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2023 are disclosed below:

	Securitisation Borrowing LKR	Bank Borrowing LKR
Balance as at 1 April 2022	914,654,787	1,639,108,936
Net Cash Flows from Financing Activities	(440,794,600)	(273,139,521)
<b>Non-cash Changes</b>		
Foreign Exchange Movements	-	-
Amortisation of Loan Origination Costs	(8,936,227)	-
Accrual for Interest Expense	15,909,621	71,677,918
<b>Balance as at 31 March 2023</b>	<b>480,833,580</b>	<b>1,437,647,334</b>



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## > A Decade at a Glance

	2023 LKR	2022 LKR	2021 LKR	2020 LKR
<b>Operating Results</b>				
Revenue	1,924,279,355	1,321,536,812	1,015,293,382	927,784,733
Interest Income	1,805,299,948	1,242,067,922	973,813,610	886,069,373
Interest Expenses	921,725,959	328,347,452	256,037,926	371,873,790
Net Interest Income	883,573,989	913,720,470	717,775,684	514,195,583
Fees and Commission Income	13,067,675	12,097,982	10,904,398	8,940,422
Other Operating Income	105,911,732	67,370,908	30,575,374	32,774,938
Impairment Charges for Loans and Other Losses	70,983,116	88,336,470	88,586,557	32,076,446
Operating Expenses	683,577,093	504,059,205	310,454,118	289,418,308
Value Added Tax on Financial Services	88,673,219	90,504,774	71,777,093	70,381,010
Social Security Contribution Levy	6,227,766	-	-	-
Profit Before Taxation	153,092,202	310,288,911	288,437,688	164,035,179
Income Tax Expenses	66,194,388	71,067,116	104,682,413	58,684,095
Profit After Taxation	86,897,814	239,221,795	183,755,275	105,351,084
<b>Liabilities and Equity</b>				
Interest Bearing Borrowings	1,989,957,781	2,872,386,024	1,706,358,102	1,877,769,625
Due to the Customers	3,487,076,917	2,195,018,842	929,639,458	671,917,133
Other Liabilities	447,570,701	621,612,772	285,787,486	212,996,719
Current Tax Liabilities	32,921,837	50,118,346	87,363,461	38,024,293
Deferred Tax Liabilities	-	-	5,252,716	44,690,234
<b>Total Equity</b>	<b>2,834,622,384</b>	<b>2,746,232,901</b>	<b>2,505,427,388</b>	<b>2,320,989,977</b>
<b>Total Liabilities and Equity</b>	<b>8,792,149,620</b>	<b>8,485,368,885</b>	<b>5,519,828,611</b>	<b>5,166,387,981</b>
<b>Assets</b>				
Cash and Bank Balances	165,583,696	135,648,058	71,609,393	44,196,582
Investment in Government Securities and Fixed Deposits	903,406,432	536,453,861	713,411,391	939,422,380
Gold Advances	3,950,688,495	2,258,859,086	1,183,764,064	672,715,396
Lease Rentals Receivable and Stock Out on Hire	2,374,025,383	3,535,934,193	2,414,429,648	2,309,893,463
Loans and Advances	798,812,852	1,389,311,844	865,820,622	959,057,649
Other Assets	83,579,734	263,465,647	69,078,142	56,632,752
Property, Plant and Equipment	470,357,459	346,499,489	188,756,810	166,334,908
Deferred Tax Assets	18,047,136	-	-	-
Intangible Assets	27,648,433	19,196,706	12,958,541	18,134,851
<b>Total Assets</b>	<b>8,792,149,620</b>	<b>8,485,368,885</b>	<b>5,519,828,611</b>	<b>5,166,387,981</b>
<b>Ratios</b>				
Growth in Income (%)	46	30	9	19
Growth in Net Interest Income (%)	(3)	27	40	25
Growth in Profit After Tax (%)	(64)	30	74	4
Growth in Total Assets (%)	4	54	7	25
Earnings Per Share (LKR)	0.60	1.64	1.26	1.11

	2019 LKR	2018 LKR	2017 LKR	2016 LKR	2015 LKR	2014 LKR
	777,461,473	630,995,212	390,805,849	222,316,313	175,497,559	131,257,107
	704,307,306	572,537,068	342,965,230	202,564,337	167,630,354	126,993,449
	292,974,160	228,114,523	133,806,481	45,259,962	28,817,761	14,297,277
	411,333,146	344,422,545	209,158,749	157,304,375	138,812,593	112,696,172
	9,298,176	8,099,316	4,524,547	3,625,563	2,214,672	1,530,022
	63,855,991	50,358,828	43,316,072	16,126,413	5,652,533	2,733,636
	24,551,990	18,602,824	11,895,328	2,400,000	2,100,000	2,469,331
	240,552,579	205,596,345	156,751,722	124,230,807	104,213,657	89,185,814
	56,961,345	32,387,274	16,986,682	6,256,568	3,086,059	2,220,475
	-	-	-	-	-	-
	162,421,399	146,294,246	71,365,635	44,168,975	37,280,082	23,084,210
	61,299,253	43,477,954	13,571,601	6,042,993	8,086,145	5,102,165
	101,122,146	102,816,292	57,794,034	38,125,982	29,193,936	17,982,045
	2,190,707,788	1,529,388,772	1,183,196,053	484,704,388	158,347,533	22,331,079
	584,784,876	367,110,412	301,121,019	380,790,865	170,192,825	205,445,700
	156,385,265	170,298,642	148,305,647	103,309,353	47,484,743	33,140,301
	19,629,876	9,730,702	-	-	-	-
	62,911,102	45,328,996	19,027,700	13,643,567	10,773,769	4,537,090
	<b>1,116,744,254</b>	<b>1,043,829,755</b>	<b>738,228,906</b>	<b>683,437,136</b>	<b>648,159,573</b>	<b>619,236,968</b>
	<b>4,131,163,161</b>	<b>3,165,687,280</b>	<b>2,389,879,325</b>	<b>1,665,885,309</b>	<b>1,034,958,443</b>	<b>884,691,138</b>
	42,822,230	51,593,413	37,998,795	22,025,138	3,207,505	22,191,781
	67,032,677	66,501,437	41,834,974	37,954,426	176,086,225	100,540,673
	456,564,892	177,748,346	16,119,775	6,825,383	-	-
	2,282,389,816	2,040,010,374	1,743,026,107	1,276,304,949	708,725,937	574,375,990
	1,003,352,881	496,510,205	299,830,820	101,079,702	28,448,192	32,177,140
	143,549,516	214,224,013	155,215,900	158,272,547	52,440,484	76,176,251
	112,358,368	94,701,119	70,399,883	34,275,833	35,671,537	46,087,945
	-	-	-	-	-	-
	23,092,781	24,398,373	25,453,071	29,147,331	30,378,562	33,141,358
	<b>4,131,163,161</b>	<b>3,165,687,280</b>	<b>2,389,879,325</b>	<b>1,665,885,309</b>	<b>1,034,958,443</b>	<b>884,691,138</b>
	23	61	76	27	34	125
	19	65	33	13	23	96
	-2	78	52	31	62	1,076
	30	32	43	61	17	28
	1.12	1.29	0.72	0.48	0.36	0.22

## > Information of Ordinary Shares

### > Distribution of Shareholding

Shares	Number of Shareholders	Shareholders %	Number of Shares	Shares %
Up to 5,000,000	1	25	2,935,851	2.02
5,000,001 - 10,000,000	1	25	7,633,211	5.24
Above 10,000,000	2	50	135,070,036	92.74
	<b>4</b>	<b>100</b>	<b>145,639,098</b>	<b>100</b>

### > Distribution of Shareholding

Type of Investor	31 March 2023			
	Number of Shareholders	Shareholders %	Number of Shares	Shares %
Local Individuals	1	25	7,633,211	5.24
Local Institutions	2	50	53,237,757	58.2
Foreign Institutions	1	25	84,768,130	36.56
<b>Total</b>	<b>4</b>	<b>100</b>	<b>145,639,098</b>	<b>100</b>

## > Glossary of Financial Terms

### > Earning Assets

Income earning assets held by the Company. Typically include interest bearing balances, investment securities and loans.

### > Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

### > Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to Maturity.

### > Net Interest Margin

Ratio of net interest income to earning assets.

### > Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

### > Non-Performing Loan (NPL) Ratio

The net non-performing loans as a percentage of the total loan portfolio.

### > Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills.

### > Provision for Bad Debts

Amounts set aside against possible losses on financial leases, hire purchases, advances and other credit facilities according to the Finance Companies Direction 3 of 2006.

### > 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.

### > Net Assets Value Per Ordinary Share

Shareholders' funds excluding preference shares divided by the number of ordinary shares in issue.

### > Risk-Weighted Assets

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

### > Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### > Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### > Return on Average Equity (ROE)

Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### > Revenue Reserve

Reserves set aside for future distribution and investment.

### > Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

### > Net Interest Income

The difference between income earned from interest earning assets and cost incurred on interest bearing liabilities.

### > Non-Performing Loans

Loan advances and hire purchase/lease finance of which interest or capital is in arrears six months or more.

### > Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

### > Return on Average Assets (ROA)

Profit after tax divided by the average assets.

### > Substance Over Form

The consideration that the accounting treatment and the presenting in Financial Statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

## > Glossary of Financial Terms

### > 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 Added

Value of wealth created by providing financial and other related services less the cost of providing such services.

### > Debt to Equity Ratio

Long-term borrowings of the Company including Debentures divided by shareholders funds.

### > Interest Cover

Earnings before interest and taxes divided by interest cost.

### > Liquid Assets Ratio

Liquid Assets divided by public Deposits.

### > Capital Adequacy Ratios

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying international best practices on maintenance of capital for financial institutions, to suit the local requirements.

### > Interest in Suspense

Interest suspended on non-performing contracts without recognising to the Income.

### > Earnings Per Share

Net profit after tax divided by the number of ordinary shares in issue.

### > Deferred Tax

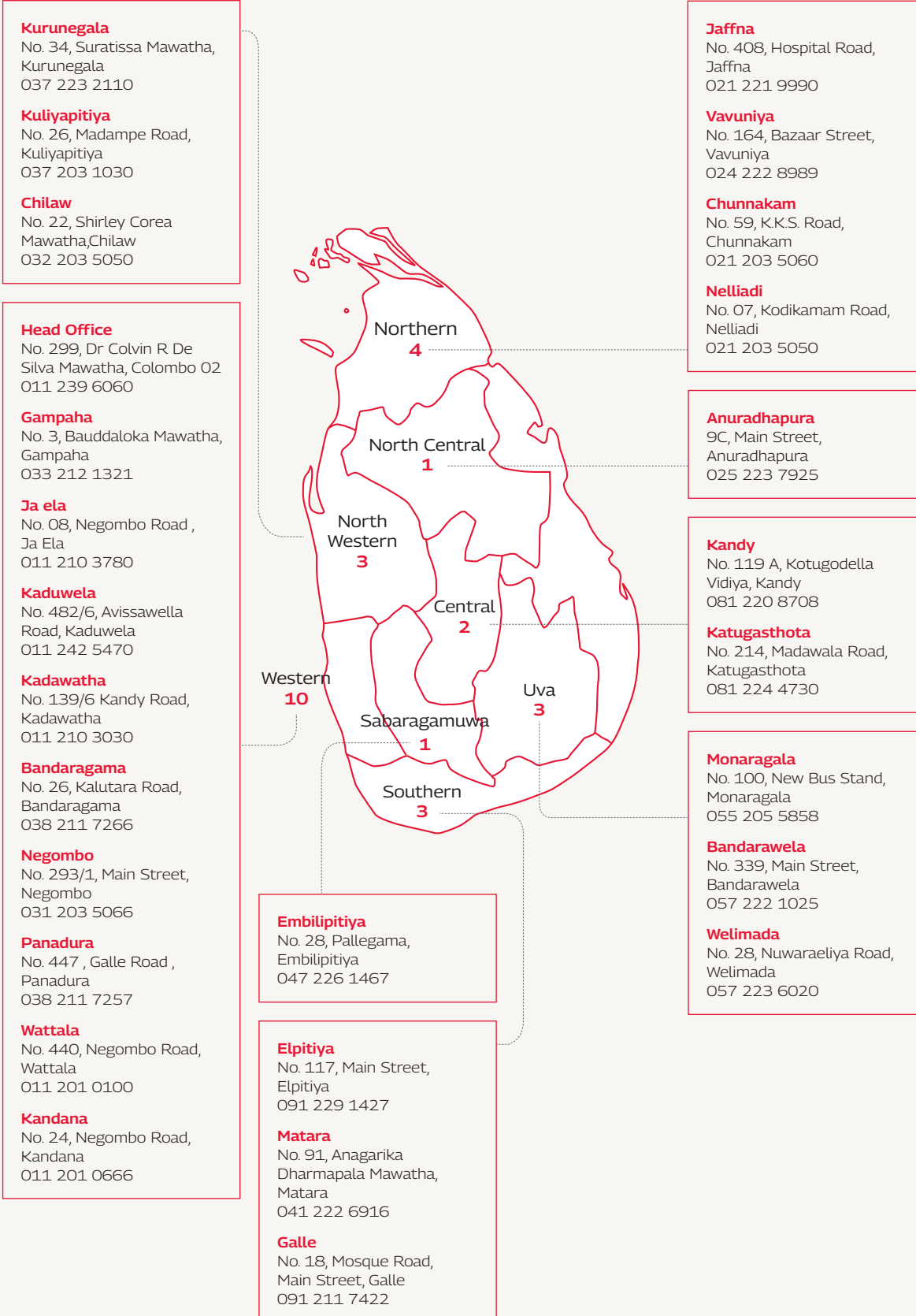
Sum set aside in the financial statements for taxation that may become payable/receivable in a financial year other than the current financial year.

### > 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.



## > Branch Network



## > Notice of Meeting

### MAHINDRA IDEAL FINANCE LIMITED - PB 4963

Notice is hereby given that the Eleventh Annual General Meeting of Mahindra Ideal Finance Limited will be held at the Board Room of Ideal Motors (Pvt) Limited, No. 299, Dr Colvin R De Silva Mawatha, Colombo 2 on Friday, 21 July 2023 at 4.00pm and the business to be brought before the meeting will be:

#### Agenda

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31 March 2023 with the Report of the Auditors thereon.
2. To reelect Mrs C L Jayawardena, Director who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
3. To reelect Mr N J Welgama, Director who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
4. To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.

By Order of the Board of Directors  
of Mahindra Ideal Finance Limited.



#### S S P Corporate Services (Private) Limited

Secretaries  
Colombo

22 June 2023

The member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him/her. Such proxy need not be a member of the Company.

A Form of Proxy is enclosed.

#### Note:

The completed Form of Proxy should be deposited at the Registered Office of the Company, at No. 299, Dr Colvin R De Silva Mawatha, Colombo 2, not later than 48 hours before the time appointed for the holding of the meeting.



> Notes

A series of horizontal dotted lines for writing notes.

## > Form of Proxy

### MAHINDRA IDEAL FINANCE LIMITED - PB 4963

I ..... (NIC No. ....)  
of ..... being a member of the above Company,  
hereby appoint:

Mr Nalin Jeyaraj Welgama	of Colombo or failing him
Mr Pinnaduwege Aravinda De Silva	of Colombo or failing him
Ms Chrishanthi Lucilla Jayawardena	of Colombo or failing her
Mr Rajnish Agarwal	of India or failing him
Mr Don Tibertius Sujeeva Handapangoda Mudalige	of Colombo or failing him
Mr Vivek Anant Karve	of India or failing him
Mr Mufaddal Abbas Choonia	of India

Mr/Mrs/Miss ..... (NIC No. ....)  
of .....  
as my proxy to represent me and vote on my behalf at the Annual General Meeting of the Company to be held on 21 July 2023 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31 March 2023 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To reelect Mrs C L Jayawardena, Director who retires by rotation in terms Article 24 (6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To reelect Mr N J Welgama, Director who retires by rotation in terms Article 24 (6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorise Directors to determine the remuneration of the Auditors Messrs Ernst & young Chartered Accountants who are deemed to have been reappointed as Auditors.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... Two Thousand and Twenty Three.

.....  
Signature

#### Note:

1. Please delete the inappropriate words
2. Instructions for completion of form of proxy are noted on the reverse
3. A proxy need not be a member of the Company

## > Form of Proxy

### INSTRUCTIONS FOR COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, and your instructions as to voting, by signing in the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given or if there is any doubt as to how the Proxy should vote by reason of the manner in which the instructions are carried out, the proxy in his/her discretion may vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 299, Dr Colvin R De Silva Mawatha, Colombo 02, not less than 48 hours before the time appointed for holding the meeting.
4. If the Form of Proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the Company.

#### **Note:**

If the shareholder is a Company or body corporate, Section 138 of the Companies Act No. 07 of 2007 applies to corporate shareholders of Ideal Finance Limited. Section 138 provides for representation of Companies at meetings of other Companies. A Corporation, whether a Company within the meaning of this Act or not, may, where it is a member of another Corporation, being a Company within the meaning of this Act, by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to exercise the same power on behalf of the Corporation which it represents as that Corporation could exercise if it were an individual shareholder of that other Company.

## > Corporate Information

<b>Name of the Company</b>	: Mahindra Ideal Finance Limited
<b>Date of Incorporation</b>	: 24 January 2012
<b>Head Office</b>	: No. 299, Dr Colvin R de Silva Mawatha, (Union Place) Colombo 02 Telephone : +94 11 239 6060 Fax : +94 11 239 6757 Email : info@mahindraifl.lk Website : www.mahindraifl.lk
<b>Legal Form</b>	: Limited Liability Company incorporated in Sri Lanka under the Companies Act No. 07 of 2007. A Finance Company registered under the Finance Companies Act No. 42 of 2011. A registered Finance Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.
<b>Secretaries</b>	: SSP Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 03
<b>Bankers</b>	: Bank of Ceylon Seylan Bank PLC Commercial Bank of Ceylon PLC Pan Asia Banking Corporation PLC Cargills Bank Limited Hatton National Bank PLC National Development Bank PLC HSBC
<b>Company Registration</b>	: PB 4963
<b>Auditors</b>	: Ernst & Young Chartered Accountants 201, De Saram Place, Colombo 10.
<b>Directors</b>	: Mr Nalin Welgama (Chairman) Mr Aravinda De Silva (Non-Executive Director) Ms Chrisanthi Jayawardena (Independent Non-Executive Director) Mr Sujeewa Mudalige (Senior Independent Non-Executive Director) Mr Rajnish Agarwal (Non-Executive Director) Mr Vivek Karve (Non-Executive Director) Mr Mufaddal A Choonia (Non-Executive Director)
<b>Shareholding</b>	: Mahindra & Mahindra Financial Services Limited - 58.20% Ideal Motors (Pvt) Ltd. - 34.54% Mr Viraj Malawana - 5.24% Veritas Holdings (Pvt) Ltd. - 2.02%



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# **mahindra** **IDEAL FINANCE**

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