

# NURTURING **POTENTIAL**

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# NURTURING **POTENTIAL**

PMF Finance is the trusted path-maker in the journey of growth. We are geared to support our customers by nurturing their potential. Our wide spectrum of financial solutions is an impetus for the SME sector to thrive and grow. We believe in the innate potential of all Sri Lankans and are committed to provide the financial support and the guidance to create a vibrant SME sector while enabling entrepreneurship to flourish. We believe that nurturing the potential and ingenuity of our people will enable us to propel our nation to achieve greater strides of prosperity.





It is with pleasure that we present the annual report of PMF Finance PLC for the financial year which ended on 31st March 2023. We have endeavoured to provide a holistic, balanced and concise overview of how we created value during the year under review.

**Scope of the Report**

The report covers the performance and operations of PMF Finance PLC, duly identified as the “Company” during the period 01st April 2022 till 31st March 2023 (which is consistent with the usual annual reporting cycle for financial reporting) with details of its position as of that date. The key financial aspects and non-financial aspects are discussed in the context of the Company. We aim to provide an informative, balanced and accurate review of our performance by communicating relevant material information concisely but comprehensively. There are no significant changes from previous reporting periods in the scope and aspect boundaries nor are there any re-statements as compared

to the Annual Report issued in previous reporting years.

**Materiality**

In determining the content to be included in this Report we have adopted the principle of materiality enabling the organisation to define and report on issues that are of utmost significance to the stakeholders, both internal and external. Our focus on materiality is vital as we seek to create value and improve our sustainability framework.

**Reporting frameworks**

We have drawn on the concepts and principles mentioned in the following guides in preparation for this report and we confirm that it has been prepared in line with the guidance set out in these directives.

**Independent assurance**

The financial statements together with the related notes have been audited by our external auditors Messers

Financial Statements and Disclosures	Risk and Governance Reporting	Integrated Report
<ul style="list-style-type: none"> <li>Companies Act No. 07 of 2007</li> <li>Sri Lanka Accounting Standards issued by the ICA Sri Lanka</li> <li>International Financial Reporting Standards (IFRS)</li> </ul>	<ul style="list-style-type: none"> <li>Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka</li> <li>SEC Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Integrated Reporting Framework</li> <li>Global Reporting Initiative (GRI) Standards 2021</li> </ul>



KPMG, Chartered Accountants and the Independent Auditors' Report is available on pages 142 to 145.

### Forward looking statements

The report contains, where applicable, forward-looking statements which reflect the company's plans and beliefs at the time of preparing the report. These statements involve an element of variability, as they relate to events and depend on circumstances that may or may not occur in the future.

### Reporting Responsibility

This Report comprises details regarding our operational approach, the administration of our enterprise, our commitment to corporate sustainability, and the diverse requirements of our stakeholders.

The Board of PMF Finance holds the ultimate responsibility for ensuring the credibility and reliability of this Integrated Report. In alignment with this responsibility, the Board affirms that it has collectively examined the outcomes of the reporting process and carefully assessed the content of the Integrated Report. The Board recognises their duty to uphold the integrity of the Integrated Report and expresses their belief that the Integrated Report of PMF Finance for the fiscal year ending on 31st March 2023 is presented in accordance with the

### REPORTING IMPROVEMENTS



This Report has been organised in a manner that effectively conveys our endeavours to generate value for all stakeholders in the short, medium and long-term.

Additionally, it details our risk mitigation efforts, optimal governance methodologies and an evaluation of our performance, also covering forthcoming opportunities, within the broader economic, social and environmental landscape for this period.

<IR> Framework 2021. Accordingly, the Board grants its approval for the Report's publication and release.

### Compliance

We operate in accordance with all applicable laws, rules, regulations, directions and standards while abiding by guidelines for voluntary disclosures, both in letter and in spirit.

Signed on behalf of the Board of Directors on 29th August 2023

**Chandula Abeywickrema**  
Chairman



### Enquiries

We recognise the fact that reporting is an evolving principle and a growing journey needing improvement. We welcome your comments and enquiries on this Report and we invite you to direct them to:

#### Executive Secretary

PMF Finance PLC  
No. 361, 361/1, R A De Mel Mawatha,  
Colombo 03  
Phone: +94 11 766 6333  
Email: pmfagm@pmf.lk

### Navigation

The most recent report of the Company for the year ended 31st March 2023 is available on our website: <https://pmf.lk/en/>



# About Us

PMF Finance PLC is a public limited liability company incorporated in Sri Lanka on the 26th of January 1983 and was listed on the Colombo Stock Exchange in July of 1994. It is registered under the Finance Leasing Act No. 56 of 2000 and under the Finance Business Act No. 42 of 2011. Formerly known as People’s Merchant Finance PLC the company rebranded itself as PMF Finance PLC in October 2022.

The company has successfully risen to meet the challenges of Sri Lanka’s banking, finance and leasing industries in its journey of four decades. It ventured out on a new transformational journey in 2019 to renew, revitalise, and reposition the business paradigm in order to fulfil the uncharted potential of the company. The development of the cohesive five-year strategic plan, the capital infusion by the majority shareholder, Sterling Capital Investments (Pvt) Ltd. (SCIL) and the appointment of a Board of Directors with significant banking and finance industry expertise and a dynamic management team to lead key business functions have been fundamental constituents in shaping the next chapter of our journey.

We seek to be a trusted partner by delivering high-quality, innovative and expert financial solutions through a committed team aligned to our corporate values. At PMF Finance, we believe in providing sustainable solutions that help you live life as you have envisioned it; reassuring your future with a service that’s fully dedicated to you. Our ultimate goal is to expand our footprint, to enrich the lives of more people, more often and in more places, by providing financial services whenever and wherever they are needed.

## OUR VISION

“Service Excellence in Financial Services Whenever Wherever”

## OUR MISSION

“Enrich the lives of more people in more places through inspired people”

## OUR VALUES

<b>Integrity</b>	We will always adhere to highest ethical standards in all our actions.
<b>Relationships</b>	We seek to establish mutually beneficial, relationships with all our stakeholders based on trust and the desire to innovate win-win solutions.
<b>Respect</b>	We value our people, encourage their development, partner their success and reward their performance.
<b>Community</b>	We embed ourselves in Sri Lankan communities and consider as our responsibility, to recognise and respect all good practices of local communities.
<b>Pursue Excellence</b>	We will cultivate excellence by challenging ourselves with courage and confidence. We will strive to deliver to our customers an outstanding experience through an unmatched service.

### COMPANY REGISTRATION NO.

PQ 200

### CREDIT RATING

B+ (Stable) by Lanka Rating Agency

### STOCK EXCHANGE LISTING PROFILE

The Ordinary shares of the Company were listed with Colombo Stock Exchange in July 1994.

# Our Socio-Economic Contributions

2023 marked the 40th anniversary of PMF Finance and over the last four decades our business has played a key role in shaping the local economy and the community we serve. We contribute to the economic success of the community by employing local people, paying taxes to the governments, paying suppliers for goods and services, supporting entrepreneurs and carrying out community investment programmes.

## Value generated

**LKR 2,008 Mn**

Revenue

**LKR 87 Mn**

Other Income

## Economic Value distributed

**LKR 816 Mn**

Operating Cost

**LKR 365 Mn**

Employee Wages and Benefits

**LKR 32 Mn**

Payments to providers of Funds

**LKR 38 Mn**

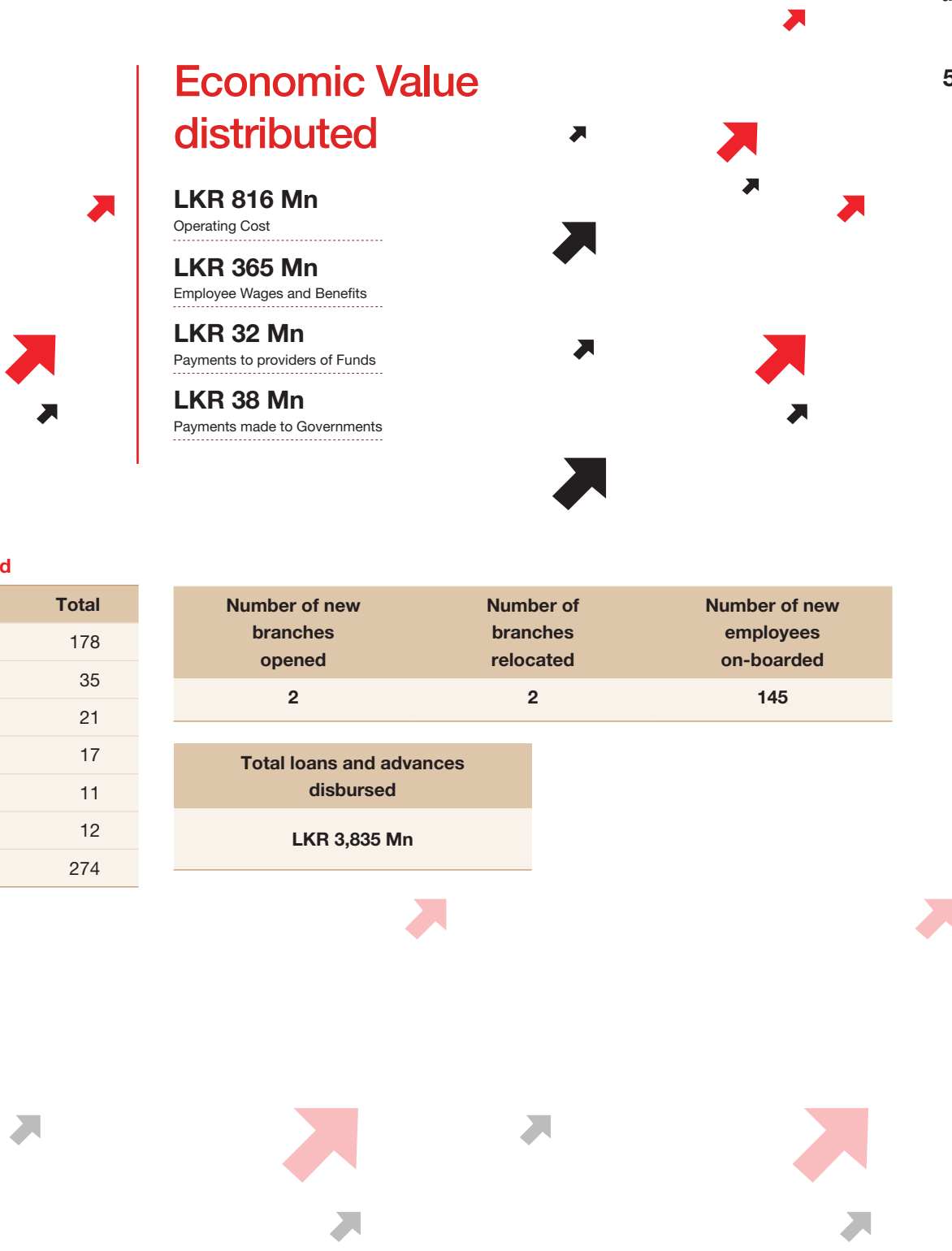
Payments made to Governments

## Employment generated

Region	Total
Western	178
Central	35
Southern	21
North-western	17
Eastern	11
North-central	12
<b>Total</b>	<b>274</b>

Number of new branches opened	Number of branches relocated	Number of new employees on-boarded
2	2	145

Total loans and advances disbursed
<b>LKR 3,835 Mn</b>





# 40

## Years PMF Journey

### About PMF

PMF Finance possesses a legacy of four decades. Our journey over the years is marked with significant milestones, which has enabled the Company to reach a position of stability and strength.

Strengthened by our firm roots, our path ahead is firmly entrenched in creating a transformative impact with innovative products and services which will help fuel the entrepreneurial aspirations of all Sri Lankans. Moving away from traditional lending, the Company hopes to create new benchmarks in impact financing thereby creating transformative opportunities for people and communities at large.

**2022**

Re-launch of PMF Finance PLC with a new brand identity and positioning in November 2022.

**2010**

Following the rights issue in January 2010, People's Leasing Company (Pvt) Ltd., became a major shareholder alongside People's Bank, Lanka Orix Leasing Company PLC, Environmental Resources Investment PLC and South Bridge Capital Investments (Pvt) Ltd.

**1993**

- \* In June 1993, People's Merchant Bank underwent a major capital restructuring through a private placement to a consortium of corporate investors including the Development Finance Corporation of Ceylon (currently DFCC Bank), HNB and Acceptor Business Capital (SL) Ltd. – Hong Kong (currently Southbridge Capital Investment (SL) Ltd.) Australia.
- \* People's Merchant Bank was listed on the Colombo Stock Exchange in 1994.

**1983**

- \* People's Merchant Bank (now known as PMF Finance PLC) was incorporated as a Limited Liability Company on 26 January 1983 under the Companies Act No. 17 of 1982.
- \* A joint venture between People's Bank (75.00%) and Guinness Mahon & Company Ltd., of UK (25.00%).
- \* Subsequently, Guinness Mahon & Company Ltd., sold their equity in People's Merchant Bank to People's Bank, as they curtailed their activities in Asia.



**2021**

Following the rights issue in March 2021, Sterling Capital Investments (Pvt) Ltd. increased their shareholding to 78.55% of PMF.

**2019**

- \* Sterling Capital Investments (Pvt) Ltd. acquired a 19.98% shareholding of PMF and became the third largest shareholder in April 2019.
- \* Subsequently, Sterling Capital Investments (Pvt) Ltd. became the major shareholder of PMF representing 68.20% of the shares of the Company

**2018**

The ordinary shares of the Company were transferred to the Diri Savi Board of the Colombo Stock Exchange in July 2018.

**2013**

- \* People's Leasing & Finance PLC assumed duties as the Managing Agent of People's Merchant Finance PLC in July 2015 consequent to the Direction issued by the Monetary Board.

- \* People's Bank and People's Leasing & Finance PLC jointly acquired 9.57% stake of PMF in July 2015.

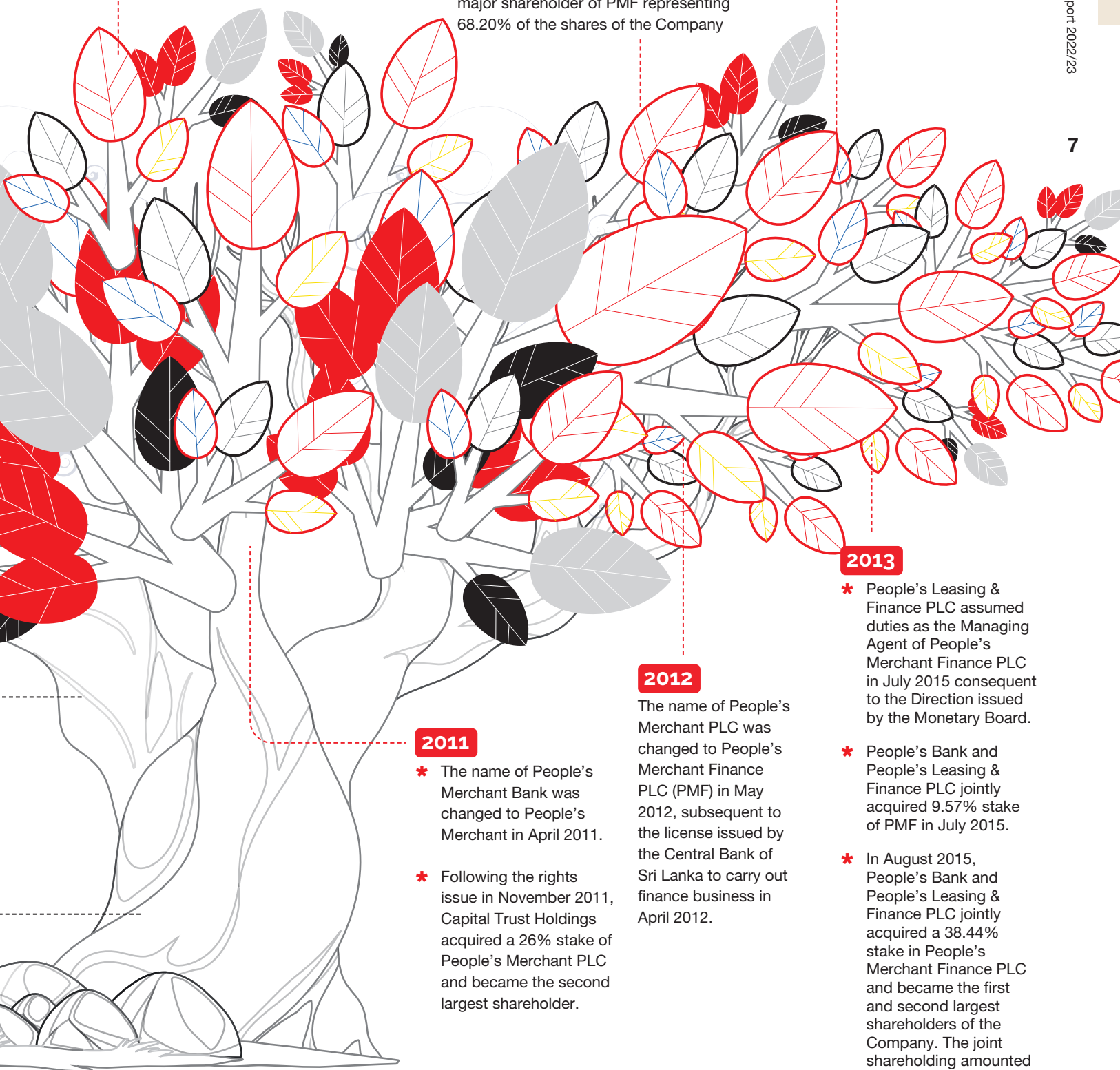
- \* In August 2015, People's Bank and People's Leasing & Finance PLC jointly acquired a 38.44% stake in People's Merchant Finance PLC and became the first and second largest shareholders of the Company. The joint shareholding amounted to 87.21%

**2012**

The name of People's Merchant PLC was changed to People's Merchant Finance PLC (PMF) in May 2012, subsequent to the license issued by the Central Bank of Sri Lanka to carry out finance business in April 2012.

**2011**

- \* The name of People's Merchant Bank was changed to People's Merchant in April 2011.
- \* Following the rights issue in November 2011, Capital Trust Holdings acquired a 26% stake of People's Merchant PLC and became the second largest shareholder.



# Financial Highlights

For the year ended 31st March		2023	2022	Change %	2021
<b>FINANCIAL PERFORMANCE (GROUP)</b>					
Group Income	LKR Mn	2,095.45	969.47	116.14	629.49
Operating (loss)/profit	LKR Mn	(154.79)	201.25	(176.91)	100.55
Net Interest Income	LKR Mn	727.52	494.20	47.21	233.39
(Loss)/profit before tax	LKR Mn	(188.07)	140.00	(234.33)	67.33
Income Tax reversal/(expense)	LKR Mn	29.81	51.63	(42.26)	0.40
(Loss)/profit for the year	LKR Mn	(158.26)	191.63	(182.59)	67.72
<b>FINANCIAL POSITION (GROUP)</b>					
Property, plant and equipment	LKR Mn	169.50	82.03	106.63	24.88
Other non-current assets	LKR Mn	5,702.17	4,106.48	38.86	1,604.01
Current assets	LKR Mn	5,549.89	4,091.21	35.65	3,078.55
Total assets	LKR Mn	11,421.46	8,279.69	37.95	4,707.36
Total equity	LKR Mn	2,676.62	2,833.69	-5.54	2,131.20
Non-current liabilities	LKR Mn	1,655.51	471.87	250.84	337.89
Interest bearing loans & borrowings	LKR Mn	757.28	1,842.77	-58.91	-
Other current liabilities	LKR Mn	6,332.06	3,131.37	102.21	2,238.27
Total liabilities	LKR Mn	8,744.85	5,446.00	60.57	2,576.16
<b>SHARE INFORMATION (COMPANY)</b>					
Highest value recorded during the year	LKR	6.00	10.20	(41.18)%	10.70
Lowest value recorded during the year	LKR	3.30	5.10	(35.29)%	6.90
Market value per share at 31st March 2023 - (31st March 2022)	LKR	5.20	5.40	(3.70)%	7.20
Market capitalisation as at 31st March 2023 -(31st March 2022)	LKR Mn	2,107.57	2,188.63	(3.70)%	2,353.36
<b>PROFITABILITY RATIOS (GROUP)</b>					
Net Interest Margin (NIM)	%	8.52	9.07	(6.06)	6.52
Operating profit margin	%	(7.39)	20.76	(135.58)	15.96
Net profit margin	%	(7.55)	19.77	(138.21)	10.76
Return on total assets	%	(1.61)	2.95	(154.43)	1.59
<b>LIQUIDITY RATIOS (GROUP)</b>					
Current ratio	Times	0.88	1.31	(0.33)	1.38
<b>EQUITY RATIOS (GROUP)</b>					
Net asset value per share	LKR	6.60	6.99	(5.52)	6.52
Earnings/(loss) per share	LKR	(0.39)	0.55	(170.98)	0.32
Dividend per share	LKR	N/A	N/A	N/A	N/A
Price earnings ratio	Times	(13.32)	9.82	(2.36)	22.5
Return on equity	%	(5.91)	6.76	(187.42)	3.18
<b>DEBT RATIOS (GROUP)</b>					
Gearing ratio (Long term borrowings)	%	322.36	184.42	74.80	111.99
Interest cover	Times	0.88	1.67	(176.91)	1.42



# Operational Highlights

<p><b>38%</b> Increase in the total asset base</p>	<p>Over <b>LKR 2,190 Mn</b> Portfolio of leasing for three wheelers</p>	<p>Over <b>LKR 7,600 Mn</b> Deposit base</p>
<p>Introduced leasing facilities for two wheelers</p>	<p>Established a Mortgage Loan Unit to support the Entrepreneur Development Financing</p>	<p><b>364%</b> Increase in lending customer base</p>
<p>Relocated two branches for customer convenience</p>	<p>Opened a new branch in Matale and upgraded the Wellawatta Gold Loan centre as a fully-fledged branch</p>	<p><b>728</b> Man-hours of training provided</p>
<p><b>100%</b> Increase in the Business introducer base</p>	<p><b>12</b> Staff promotions</p>	<p><b>146</b> New recruits</p>

## CHAIRMAN'S MESSAGE



“Our purpose is to offer differentiated yet useful and much needed financial solutions to existing and potential customers which could create sustainable economic pathways leading to a more circular economy.”

Dear shareholders,

In the third year of our five-year strategic plan, powered by the vision “Service Excellence in Financial Services Whenever Wherever”, I am pleased to share that we journeyed on with a positive and undeterred spirit despite the external challenges; from economic instability, inflationary pressures, rising interest rates, shortage of essential goods to high energy prices. I am proud of how our team steered through this difficult terrain and would like to commence my message, expressing my sincere thanks to all stakeholders, customers, partners and suppliers for their continued commitment and great collaboration. It is with great honour that I present to you the Annual Report and Financial Statements of PMF Finance PLC for the financial year ended 31st March 2023.

### **Committed towards growth**

Sri Lanka has suffered many a setback time and time again. During 2022, we once again witnessed the nation grapple with successive crises ranging from economic and social

to political instability. During the period January to April 2022 the Sri Lankan Rupee depreciated against the dollar from around LKR 200 to LKR 340, when it was evident that the artificial peg of the Sri Lankan Rupee could not be sustained. Foreign currency became scarce, resulting in shortage of essential food items, medicine and fuel. In April 2022, for the first time in our history, Sri Lanka formally defaulted on its debt obligations. The drastic increase in interest rates, direct and indirect taxes, and the prices of cooking gas, fuel and electricity led to a surge in inflation which peaked at 73.7% in September 2022.

In March 2023 Sri Lanka obtained approval for an Extended Funded Facility from the International Monetary Fund (IMF) for USD 2.9 billion to be disbursed over a four-year period. While this marked a significant turning point in the country's long road back to economic recovery, it will be imperative to strictly abide by the IMF conditions to re-route the country towards stability and growth, while harnessing transparency and accountability.

The economic crisis in Sri Lanka had a profound impact on the financial services sector which stepped into 2022 with the hopes of continuing along the previous year's rather promising growth momentum. While the sector recorded a growth in total assets, it experienced a decline in profitability amidst the deterioration in asset quality. Against this backdrop, PMF Finance also experienced subdued growth during the year, as we adopted a cautious approach towards lending in an effort to prioritise the quality of assets.

While accepting the fact that we had no control over external shocks, we sharpened our focus on what we could

do within our resource boundaries and focused on what is possible, what is practical and what is feasible. As a medium sized finance company operating with 13 branches and around 200 staff members our efforts were directed towards mobilising our resources towards the right path of growth and stability. In response to the cascading impacts of the volatile economic conditions we swiftly adjusted our strategies and resources to minimise the disruption and support our customers to the best of our ability.

In line with our rebranding as 'PMF Finance' we remained even more determined to lead the way in innovative and transformative financial solutions to benefit the people and the nation's prosperity in the long term. Our purpose is to offer differentiated yet useful and much needed financial solutions to existing and potential customers which could create sustainable economic pathways leading to a more circular economy. We have taken the initial steps to move towards strengthening our position in the SME sector as we look to drive social and economic development. While the typical financial services such as leasing, pawning and loans will be a part of our agenda, SME support will be our key focus going forward.

PMF continued to successfully leverage digital innovation to deliver a sustainable business model and the steady investments we have made in driving digital transformation initiatives over the years has created value not only for our customers, but for all stakeholders. During the year, we made considerable progress on the implementation of our core banking system through which we intend to deliver a more responsive and agile service.

### Acting as a force for good

We are cognisant of the role we play in transforming the NBFIs sector towards a more sustainable and circular model. Ultimately, our top priority is stakeholders: those who make up our team and those who we interact with, such as our customers and suppliers and those who are part of the communities where we do business. Across all our relationships and especially within our own teams, we promote the values of diversity and inclusion across all levels and refreshed our employee value proposition in line with our new branding.

We have stepped up time and time again to support our customers and communities based on the principles of sustainability and social responsibility that we strongly adhere to. For us, this encompasses strengthening business resilience and facilitating the socio-economic development of the communities we operate in to drive sustainable economic growth. This is all the more essential now, as the importance of entrepreneurship has magnified in today's economic climate. In line with our core focus of entrepreneurship and social responsibility, we have been assisting social enterprises that are able to make a positive impact on the wider society. We enhance their business resiliency needs by providing the financial capability skills and knowledge empowerment needed to thrive in a post-pandemic environment.

Our Navodaya entrepreneurship development programme is specifically designed to support the agenda of entrepreneurs who may be denied access to financial services through the banking system but yet have the potential to really create a positive impact on the society or environment. Entrepreneurs introduce a crucial



# CHAIRMAN'S MESSAGE

element of dynamism, into an economic system and thus, we use our energy, resources and capabilities to identify such businesses or individuals and ensure that the facilities we disburse are based on the underlying principle of sustainability. In line with our vision, we seek to provide a very inclusive service without marginalising any segments of society. We work towards understanding the requirements of people through deep and meaningful engagement so that we facilitate equal transformation and enrichment across all our key stakeholder groups without compromising one for another.

An intransigence to settle, a passion for things well done and untiringly striving to do things better are the characteristics that define us. By always working in solidarity and blending humility with ambition, we are forging a company that never loses its essence despite evolving constantly and moves forward at a progressive pace as there are no shortcuts to enduring success. Our ambition is to be agile and accessible, relevant and affordable, as we act as agents of change and aspire to lead our industry's transformation. We want to have a positive impact in everything we do, to steer the country towards economic development while enriching the lives of as many people as we can.

## Embedding good governance

At PMF, we remain committed towards embedding robust governance practices that are rigorous and conscientious, paired with an approach that is dynamic and able to cater to an ever-evolving operating landscape. Beyond the efforts to equip our employees with adequate knowledge to safeguard the company, we have made significant progress in making the eco-system safer with more

robust internal controls. We enhanced our customer onboarding and screening capabilities with the establishment of a dedicated loan review committee and streamlined our processes to serve customers better. Further improvements will be made to our processes in FY2023/24 with the implementation of the new core banking system that will integrate all our functions to provide a more seamless and transparent experience.

The Board proactively supported the executive leadership team in executing a holistic strategic plan which aimed to protect the business and its stakeholders from the immediate impacts of the crisis, while also looking beyond the current landscape to the future we aim to create. Key areas of Board focus during the year included monitoring the emerging economic and policy developments and assessing the impact on Company performance, financial position, strengthening risk management and supporting our employees during these trying times. PMF also remained committed in supporting the regulators responsible for overseeing the financial stability of the nation.

Board diversity and skill composition was further enhanced during the year with the appointment of Ms. Krystle Wijesuriya as an independent, non-executive director in September 2022 and Dr. Nirmal De Silva as an independent, non-executive director in November 2022. Their experience across diverse industries as well as their insights and capabilities will be invaluable in steering the Company forward in these volatile times. Non-executive director Mr. Ranjith Kodituwakku and independent non-executive director Mr. Channa Manoharan resigned from the Board with effect from 28th July 2022 and 22nd August 2022 respectively.

On the Governance front, we maintain sound governance, risk management practices and a code of ethics which reinforce a compliance culture at PMF Finance and accordingly, I wish to affirm that we remained in full conformance to the regulatory directions issued by the Central Bank of Sri Lanka and provisions of the Code of Conduct adopted by the company.

## The road ahead

We remain broadly optimistic about the economy's turnaround in 2023 and appreciate the efforts of the government in pushing through much needed reforms. Efforts taken to restructure the country's debt will provide an opportunity for the country to re-group and regain a certain level of stability. The crisis we faced in 2022 has seemingly brought in more checks and balances to the system, greater social awareness, better financial control and greater accountability, all of which point towards a more promising era ahead.

We enter 2023 with confidence in the outlook for our business and the ability to continue its successful evolution. We are determined to support our customers through these unprecedented times and will continue to provide the necessary assistance to enable them to weather the turbulence, in tandem with ensuring that our products and services continue to meet their expectations. In looking ahead, we are confident that our prudent strategies will help us to proactively manage the uncertainties and fulfil the financial needs of small and medium-sized enterprises while contributing to the financial and economic stability of our nation.

## Appreciations

We have navigated through uncharted territory and continued to create value for our country and society through the united efforts of our team, wherein each person fulfilled their obligations with sincerity and integrity. My fellow Board members have been dedicated towards the careful and strategic guidance of the Company during this unpredictable period and I extend my appreciation to them. It is important to highlight the exceptional dedication and contributions of Mr. Channa Manoharan and Mr. Ranjith Kodituwakku. After serving on the Board for more than two years, they played a crucial role in supporting the successful transformation of PMF. As they step down from their positions, I extend my heartfelt best wishes for their continued success in all their future endeavours. The Management has ensured the successful implementation of our strategies and our staff rallied around to ensure ground-level deployment. I thank all of you for your hard work and commitment.

I would like to express my appreciation to the Governor, Director and the team at the Central Bank of Sri Lanka for their support. My gratitude also goes out to our majority investor, Sterling Capital Investments (Pvt) Ltd. for placing their faith in PMF at a time of unprecedented difficulty. Finally, I extend my gratitude to our customers, business partners and all other stakeholders for their continued support and confidence. I remain confident that the company will continue on its path of long-term success and look forward to working with all of you in the new financial year, to make sure we give our best to our nation.



**Chandula Abeywickrema**  
Chairman

29th August 2023  
Colombo

## CHIEF EXECUTIVE OFFICER'S REVIEW



“The Group’s total assets increased by 38% to LKR 11.4 Bn in 2022/23, supported mainly by growth in loans and receivables and investments during the year. Our deposit base experienced a significant growth of 137% to reach LKR 7.6 Bn as at the year end, reflecting concerted deposit mobilisation efforts.”

The year 2022 was fraught with multiple challenges and an uncertain economic outlook. However, PMF Finance stood strong in the face of adversity, demonstrating resilience and agility across the organisation. As a purpose driven company, we tapped into all our resources and capabilities to produce actionable impact for our stakeholders and navigate the crisis with minimal disruption. The road ahead is seemingly clearer now and we are committed towards achieving equitable growth that makes a positive difference to our people and our planet.

### **Demonstrating resolve amidst challenges**

The year began with renewed hope that the pandemic was gradually abating on the back of aggressive vaccine rollouts across the world and Sri Lanka too showed clear signs of a revival in economic activity. It is however regrettable to note that the anticipated economic rebound did not fully materialise as the country plunged into the worst economic crisis post-independence, pushing households, businesses and the government into considerable hardship. As the



crisis deepened, business activity was undermined by disruptions to supply chains, import restrictions, scarcity in foreign exchange and challenges in opening letters of credit. The finance sector too experienced the stinging impacts of economic pressures within a landscape of sovereign default, depreciating rupee, skyrocketing inflation and the spectre of rising non-performing loans.

As a long-standing financial institution, we fervently stood by our customers, employees and community providing them with whatever possible relief to ease their burdens and help them navigate the challenges of the year. At PMF Finance, we believe that our responsibilities go beyond providing financial services and our ambition is to contribute to a resilient, transparent and smooth functioning financial system coupled with entrepreneurship and poverty alleviation. While our focus remained on supporting entrepreneurial activities, under the strained economic conditions that prevailed for most part of the year these segments that we were targeting were the most impacted. Thus, in an environment of high market interest rates we were left with no choice but to strategically tone down the growth of this portfolio. While we did not lose sight of our overarching ambition of supporting entrepreneurship, we adapted our strategy to the changing market conditions to maintain stability in a high-risk environment. Furthermore, with the drastic increase in market interest rates we had to be more prudent in terms of managing our assets and liabilities to avoid any mismatches that could aggravate losses. Thus, we concentrated more on short term products which gave us the liberty to re-price based on market conditions.

Despite the challenging circumstances, with the commitment and perseverance of our team, PMF strived to deliver an uninterrupted service to the customers

and communities we serve. We remained responsive to the rapidly changing needs of our clients and the spread of economic growth across various regions of the country. We added one further branch to our network, bringing our total branch count to 12. In line with our 40th anniversary we also launched a special deposit product which attracted a substantial number of customers to our portfolio. We are cognizant of the popularity of the digital platforms for seeking information and conducting transactions and progressed steadily with our planned implementation of the core banking system which will enable a host of services including digital onboarding. We also made significant progress in our plan to launch an interactive mobile app to cater to our digitally savvy customers.

### Performance review

Our overall performance for the financial year 2022/23 reflects the challenging backdrop against which we operated. Despite having commenced the year with the ambition to magnify the performance achieved during the previous year, we ended the year recording a loss of LKR 158 Mn owing to the stressed market conditions that prevailed during the year. Lending in a hyperinflationary environment elevates the level of risk exposure and thus, we took the conscious decision to prioritise credit quality over portfolio growth. Interest costs which stood at a single digit at the beginning of the year shot up significantly to double digits, increasing our exposure to asset liability mismatches thereby adding further pressure to the bottom line.

Conscious efforts to curtail lending, resulted in PMF's overall lending portfolio growth slowing to 24.59%. Gold loans recorded the highest growth rate of 81% followed by leases and loans which grew by 33% and 32% respectively, while hire purchase, vehicle loans and margin trading recorded a contraction during

the year. Net interest income grew at a commendable 47% reflecting the impact of overall lending portfolio growth under high market interest rate regime. Net fee and commission income increased by 54% leading to an increase of 22% in the total operating income which stood at LKR 815 Mn as at year end.

Despite improving our collection efficiency, our NPA ratio stood at 10.28% as at end March 2023 marking an increase from the prior year's NPA of 6.10%. This was mainly a result of the change in classification and measurement of credit facilities as per the Finance Business Act Direction No. 01 of 2020 which required LFCs to adopt 120 past due dates for classification of NPLs with effect from 1st April 2022, compared to the earlier requirement of 180 days. Furthermore, the ambiguous market conditions led to an inevitable industry-wide weakening of credit quality, compelling us to increase our loan loss provisions. This in turn led to a 7% reduction in the net operating income compared to the previous year.

The Group's total assets increased by 38% to LKR 11.4 Bn in 2022/23, supported mainly by growth in loans and receivables and investments during the year. Our deposit base experienced a significant growth of 137% to reach LKR 7.6 Bn as at the year end, reflecting concerted deposit mobilisation efforts. Shareholders' equity remained well above the required statutory minimum threshold while capitalisation levels remained relatively healthy with Tier 1 and Total Capital Adequacy ratios clocking in at 26.76% and 26.76% respectively by 31st March 2023.

### Facilitating inclusive growth

Caring for our people and the communities we work with is deeply ingrained in our core values. We focus on developing our team's capabilities, which may in turn enable positive impact and serve our customers better. We

# CHIEF EXECUTIVE OFFICER'S REVIEW

remain committed to fuel each and every employee's passion, hone their inherent talents and empower a diverse and inclusive workplace. In 2022/23, we continued to advance diversity and inclusion across our business. By enabling supportive gender diversity policies, women at PMF Finance represented 28.5% of our total workforce as at the end of the year.

We are proud of the role we play in promoting inclusive growth. Our fundamental approach is based on building people's financial resilience which we believe will ultimately translate to greater financial security in the long-term. We continued to address the topic of sustainability via the solutions we provide to our customers and as of March 2023, our Navodaya Entrepreneurship Development Loan Scheme had granted over 59 new loans amounting to LKR 26.06 Mn in support of a variety of sectors from agriculture, manufacturing and renewable energy to food processing.

Workshops on financial literacy that promote financial inclusion were also part of our sustainability agenda and we conducted these with the core aim of sharing financial knowledge, along the lines of budgeting, savings management, debt management and investing for the future. Our timely efforts to restructure the Development Finance Unit and establish the relevant processes served us well during the year as we leveraged our sharply honed capabilities and distinctive insights to support the critical needs of our customers.

We also continued to be involved with the Finance House Association (FHA) and contributed in various ways towards the benefit and sustainability of the overall industry.

During 2022/23, we continued to align our actions with the UN SDGs. PMF was a proud partner in the "Global Week of

Action (Act4SDGs)" mobilised by the United Nations SDG Action Campaign through which we contributed 273 actions in total with the help of all our staff members as well as their family members.

## Looking ahead

The economy is expected to contract but pick up pace in the second half of 2023 with improved dollar liquidity supported by confidence through the IMF assistance, an uptick in tourism and easing of supply side factors, both globally and locally. The effect of increased taxation is expected to weigh on growth and consumer sentiments and this needs careful monitoring as it comes during a period of high inflation which contribute to elevate credit risk and market risk factors across the industry. Against this backdrop PMF Finance will maintain its prudent approach to optimise returns while balancing asset quality and liquidity in the year ahead.

Despite the challenging environment around us, we are single mindedly focused on delivering an exceptional experience to our customers. Whilst uncertainties persist in macro-economic landscape, we see plenty of opportunities that are compelling. Strengthened by our rebranding and positioning ourselves as 'your trusted path-maker', we seek to establish deeper connections with our customers. This brand promise permeates all our activities, connecting our strategy with opportunities to drive growth and deliver our societal ambitions.

We have received the approval from the CBSL to open five further branches in 2023/24, the first of which was opened in Narahenpita in August 2023. We hope to expand our footprint across all regions of the country over the medium term. We have also lined up three new products for the next financial year through which we hope to drive greater financial inclusion. We remain confident in our five-year

strategic plan and believe that we have the right foundations in place to create sustainable value for our stakeholders.

## Appreciations

I wish to thank, the former CEO, Mr. Nalin Wijekoon for his valuable contribution the management team and all employees for their support and commitment to travelling this journey together in the worst economic crisis post-impedence, towards repositioning and improving our performance in this competitive financial services industry. Your contribution to every positive move we have made, has been vital to our success. It is greatly appreciated.

The Chairman and the Board of Directors have provided an unstinting guidance and support though their collective wisdom, in moving PMF Finance forward during this challenging year. Their support, to me and my team has been invaluable.

I am deeply appreciative of all our customers who placed their trust in PMF Finance. I also wish to acknowledge the support extended by our regulator, the Central Bank of Sri Lanka for guiding the entire financial services sector through a difficult year.

My sincere appreciation also goes out to our business partners and our main shareholder Sterling Capital Investments (private) Ltd, for their continued support and confidence placed in PMF Finance and look forward to redefining financial services through meaningful and sustainable change in the years to come.



**Terrance Kumara**  
Chief Executive Officer

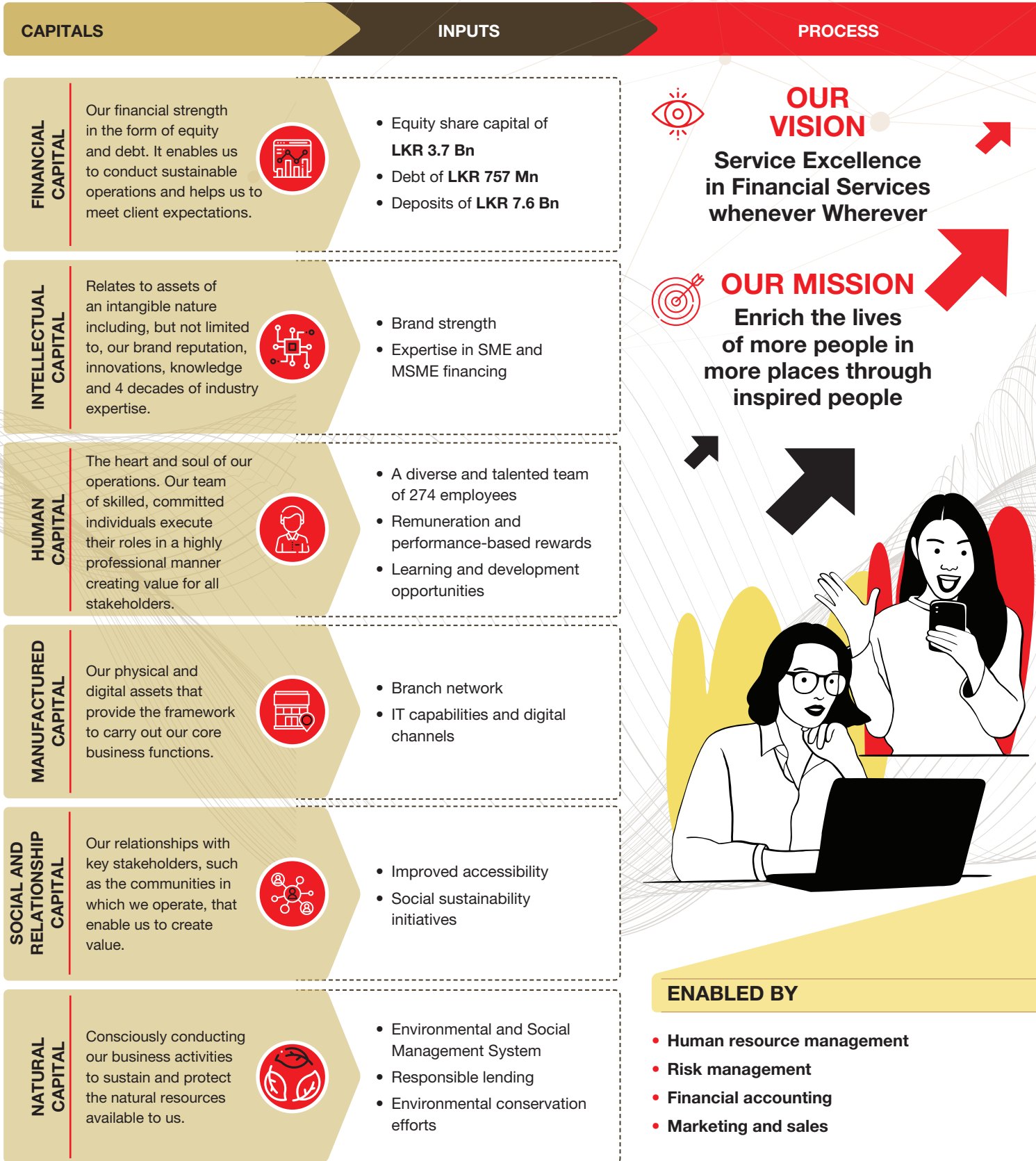
29th August 2023



# UNLOCKING VALUE

Moving beyond traditional finance, PMF Finance focusses on specific requirements of entrepreneurs by always recognising that they seek guidance and a supportive eco-system. With this philosophy at the core, PMF Finance hopes to position itself as a catalyst for growth in the entrepreneurial landscape.

# Value Creation at PMF



## OUR VISION

Service Excellence in Financial Services whenever Wherever



## OUR MISSION

Enrich the lives of more people in more places through inspired people



## ENABLED BY

- Human resource management
- Risk management
- Financial accounting
- Marketing and sales



PROCESS

OUTPUTS AND OUTCOMES



PRIMARY ACTIVITIES

Entrepreneur finance

Term Loans

Finance leases

Gold loans

Margin trading

Other lending

Deposit-taking



- Product management
- Relationship management
- Other ancillary services
- Technology development

FINANCIAL CAPITAL

PAT: LKR -158 Mn  
ROE: -5.91%  
EPS: -0.39%

INTELLECTUAL CAPITAL

Credit rating:  
**B+ stable**  
by Lanka Rating Agency

HUMAN CAPITAL

Benefits paid:  
**LKR 365 Mn**  
Training hours: **728**  
Staff promotions: **12**

MANUFACTURED CAPITAL

Touchpoints:  
**13 Branches**  
**Corporate Website**  
**Social Media**

SOCIAL AND RELATIONSHIP CAPITAL

Customer base **19,381**  
Investment in social sustainability:  
**LKR 72 Mn**

NATURAL CAPITAL

Green lending portfolio: **11.42%**  
Carbon footprint:  
**LKR 18 Mn**



Shareholders

Sustainable growth  
NAV per share  
Gross dividends



Customers

Operational efficiency  
Customer satisfaction  
Financial security  
Debt moratorium and other concessions for individuals and organisations adversely affected by Covid-19



Employees

Diverse and inclusive organisational culture  
Safe working environment  
Career progression  
Empowerment  
Equal opportunity  
Structured and targeted training



Regulators

Taxes paid LKR 38 Mn  
Compliance with regulatory requirements



Business partners and suppliers

Long term relationships  
Transparency



Funding and network partners

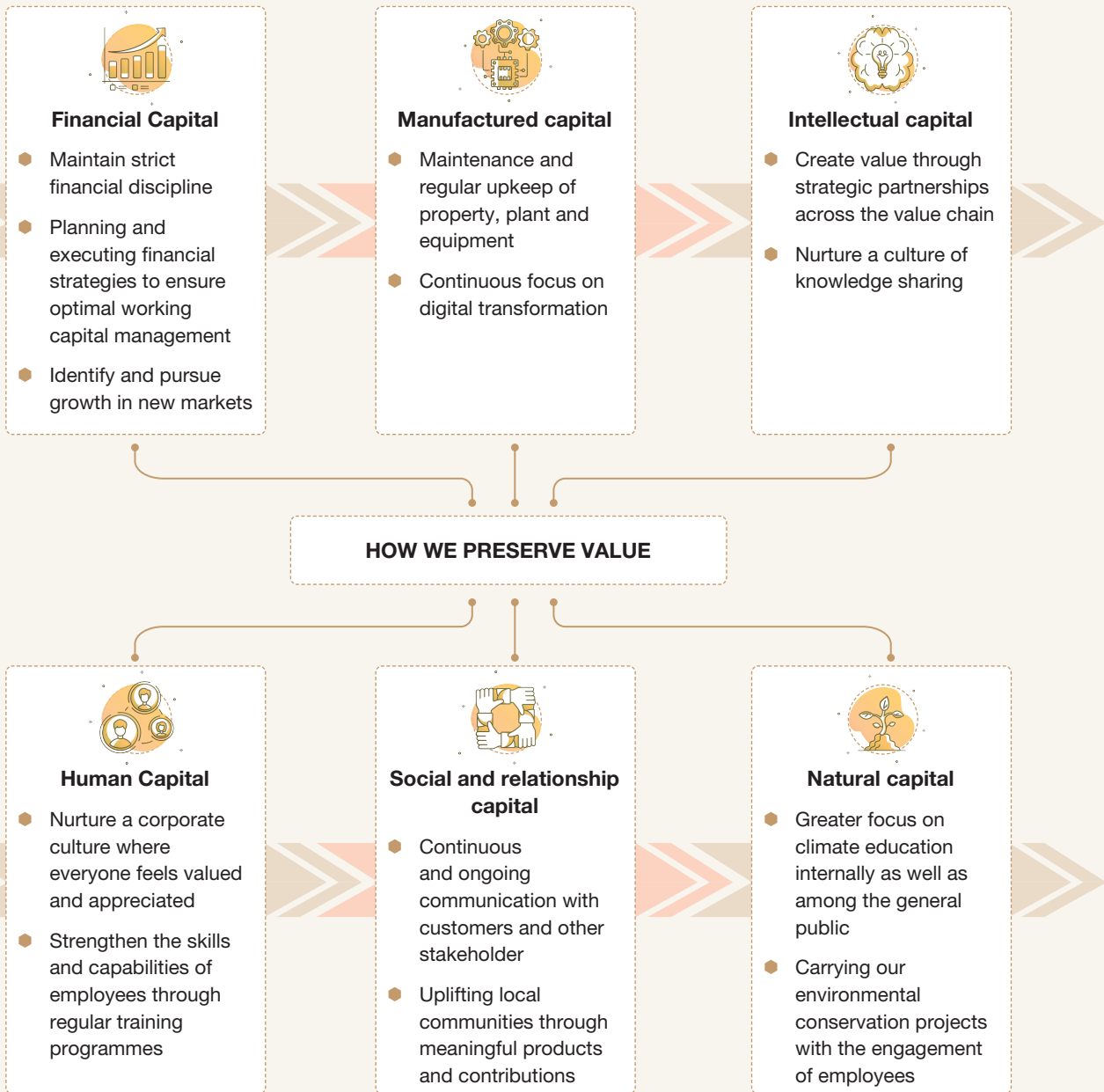
Long term relationships



Communities and environment

Building sustainable livelihoods  
Greater community reach and inclusive financing  
Contribution to SDGs  
Resource stewardship  
Mitigating global warming

PMF relies on its resources and relationships to create and preserve value through its business activities. The transformation of the six capital resources enables **delivering value to our shareholders, empowering our employees, enriching the lives of customers and creating sustainable value to the community and environment** which are elaborated within this annual report. We embrace a people-centric and stakeholder-inclusive approach to creating value and in a year fraught with uncertainty, we have focused on deeper engagement and collaboration to create mutual sustainability and value protection. We constantly seek to actively manage our business activities and assess the impacts to ensure we enhance the positive and minimise the negative outcomes of our business model, thereby preserving value for all our stakeholders.



# Stakeholder Engagement

We have mutually beneficial relationships with all our stakeholders and are cognizant of the connection between their success and ours through our mutual desire to create value. To determine the stakeholders to engage with, we assess the extent of impacts or the degree to which our decisions can affect them. The insights we gain by productive listening and engagement with our key stakeholders help us to create ideal business practices and align our strategic direction to improve overall outcomes for customers, society and the environment.

PMF Finance adopts a proactive approach to identify and address impacts across our operations and the use of our products or services. This proactive approach plays a vital role in our sustainability strategy by allowing us to gain insights into both potential and actual impacts through the valuable concerns and feedback provided by stakeholders. This aids us to minimise any potential negative consequences while maximising positive outcomes. We tailor our engagement efforts to accommodate the specific needs and preferences of each stakeholder.

## Our process for engaging with stakeholders

- Identify key stakeholders groups
- Develop engagement plans tailored to each stakeholder segment
- Monitor feedback and analyse trends, stakeholder needs and potential areas for improvement
- Document findings and review key outcomes of reviews with the management
- Determine and implement corrective action
- Communicate the actions taken to stakeholders using determined channels of communication

## OUR KEY STAKEHOLDER GROUPS



Employees



Customers



Business partners



Regulators



Investors

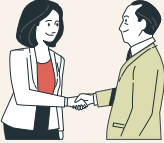





Community and Environment

The summarised results of our stakeholder engagement process is provided in the ensuing section.



# Stakeholder Engagement

Stakeholders	Employees	Customers	Business partners
<p><b>How did we engage?</b></p> 	<p><b>Regularly</b></p> <ul style="list-style-type: none"> <li>• Intranet, emails and memos</li> <li>• Branch visits</li> <li>• Virtual meetings</li> </ul> <p><b>Weekly</b></p> <ul style="list-style-type: none"> <li>• EC Meeting</li> </ul> <p><b>Ongoing</b></p> <ul style="list-style-type: none"> <li>• Welfare Activities</li> </ul> <p><b>Annually</b></p> <ul style="list-style-type: none"> <li>• Performance Appraisals</li> </ul> <p><b>As and when required</b></p> <ul style="list-style-type: none"> <li>• Special Management Meetings</li> </ul>	<p><b>Constantly</b></p> <ul style="list-style-type: none"> <li>• Call Centre</li> <li>• Social Media</li> <li>• Corporate Website</li> </ul> <p><b>Regularly</b></p> <ul style="list-style-type: none"> <li>• Customer Visits</li> <li>• Branch Network</li> </ul>	<p><b>As and when required</b></p> <ul style="list-style-type: none"> <li>• Supplier registrations</li> <li>• Tender notices</li> <li>• Supplier screening</li> <li>• Individual meetings</li> </ul>
<p><b>Why they matter to us</b></p> 	<p>Satisfied employees are key to the success of our organisation. Their hardwork, dedication and expertise are the winning factors in our operations.</p>	<p>The growth and sustainability of our business entirely depends on our customers.</p>	<p>Providers of high quality equipment and timely support services which enable us to provide our customers with the best service.</p>
<p><b>Concerns Raised through engagement activities</b></p> 	<ul style="list-style-type: none"> <li>• Structural changes in the organisation</li> <li>• Health and safety at work</li> <li>• Opportunities to develop skills</li> <li>• Work-life balance</li> <li>• Employee grievances and suggestions</li> <li>• Equal opportunities at the workplace</li> <li>• Issues related to operations, business performance and internal procedures</li> <li>• Company related news</li> <li>• Path of career progression and rewards</li> </ul>	<ul style="list-style-type: none"> <li>• Moratoria on Debt</li> <li>• Convenience of service</li> <li>• Interest rates</li> <li>• Customer service and experience</li> <li>• Operational efficiency</li> <li>• Risk-focused organisational culture</li> <li>• Financial inclusion</li> <li>• Quick resolution of complaints</li> </ul>	<ul style="list-style-type: none"> <li>• Fairness in transactions</li> <li>• Transparency in the bidding processes</li> <li>• Timely settlements</li> <li>• Competitive advantage</li> <li>• Accountability</li> <li>• Sustainability and functionality of the supply chain</li> </ul>
<p><b>Our response</b></p> 	<ul style="list-style-type: none"> <li>• Ensuring job security</li> <li>• Through the implementation of a work from home culture</li> <li>• Conducting training programmes online</li> <li>• Providing staff welfare facilities</li> <li>• Competitive compensation packages</li> <li>• Implementing an employee grievance handling and redressal procedure</li> <li>• Discussion of key issues at Executive Committee (EC) meetings</li> <li>• Open door policy</li> <li>• Opportunities for special meetings with senior management</li> <li>• Annual performance appraisals</li> <li>• Activities of the PMF Staff Welfare Society</li> </ul>	<ul style="list-style-type: none"> <li>• Ease of transactions through the online platforms</li> <li>• Assistance to obtain the debt moratorium</li> <li>• A high level of engagement through various social media platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Yearly registration of suppliers</li> <li>• Sustaining structured and clear procurement procedures</li> <li>• Cultivating positive, mutually advantageous associations with suppliers and service providers</li> <li>• Engaging in consistent direct correspondence with key suppliers</li> <li>• Ensuring on-time payments and settlements</li> <li>• Sourcing from nearby suppliers</li> </ul>



**Regulators****Ongoing**

- Regular directives and circulars
- Press releases

**Daily**

- Inspection of new rules and regulations

**Quarterly**

- Compliance forums, and discussions

Regulators control the business operating environment to a great extent and strengthen the corporate governance of companies and facilitate a sound and efficient financial services system.

- Compliance with directions
- Provision of a relief programme for customers
- Good governance practices
- Business model founded on and driven by ethics
- Transparency in business dealings

- Strictly adhering to regulatory directives
- Incorporation of sustainable methodologies and implicit regulatory compliance to support a secure and steady financial services eco-system
- Furnishing prompt and comprehensive regulatory updates and disclosures

**Investors****Ongoing**

- Corporate website

**Quarterly**

- Interim financial statements

**Annually**

- Annual reports and fora
- Annual General Meeting

**As and when needed**

- Announcements to the CSE
- Media releases

Investors support the growth and sustainability of the business by providing financial capital and other investments.

- Return on investment
- The goodwill of the Company
- Financial strength and resilience
- Risk management
- Sustainability in management performance
- Sustainable profitability
- The integrity of the Board and Management

- Fostering a culture of profitability, fortifying core capital and upholding transparency
- Ensuring maximum return on investment
- Enhancing risk evaluation and control measures
- Adhering to the Company's Code of Conduct
- Management of public affairs
- Striking a balance between short-term profitability and enduring, sustainable growth

**Community and the Environment****Ongoing**

- Media publications
- Internet, brochures, leaflets and advertisements

**Annually**

- Employee volunteering activities

The support of the community and their positive goodwill about our business is an important matter to us. We are also highly concerned with the continued wellbeing of our natural surroundings

- The health and well-being of the society
- Social investment
- Development of the Community
- Employment opportunities
- Conservation practices
- Efficiency when utilising resources
- Energy conservation
- Protection of the Environment
- Reducing our carbon footprint

- Elevating the quality of life of the community
- Backing community health and wellbeing
- Fostering entrepreneurship
- Empowering women economically
- Implementing environmentally conscious initiatives

# Materiality Assessment

We conduct a Materiality Assessment to identify and prioritise the integral collection of variables that have a bearing on the operational environment of the company and our stakeholders, and to assess the magnitude of the impact they have on the business. The Material Topics identified through this process help us to develop our business strategy and direct our resources to deliver on our goals.

## Talent attraction and retention



### Why is it Material?

The attraction of the right talent in our organisation is highly material as we are heavily dependent on the capabilities and performance of our employees to retain and attract customers and provide high value service.



### Topic Boundary

#### Internal

Employees who value and strive towards the success of our business and align our operations with our goals in a sustainable manner



#### External

By achieving the status of being a preferred employer through goodwill and reputation we can attract the best talent from the community.

### Implementation of topic

Refer, 'Empowering our employees' on page 47 to 52

## Innovation and digitisation



### Why is it Material?

As we experienced during the adverse operating environment in the past few years, we have come to understand that only through constant innovation and implementation of digital avenues of business can we hope to survive.



### Topic Boundary

#### Internal

When we adopt new technology to reduce time and resources spent to perform operational tasks, we can increase the efficiency and capacity of our staff



#### External

Utilising the latest technology to ensure that we can offer seamless and convenient service to our customers. Adoption of digital products over traditional products will effectively reduce our carbon footprint as well.

## Entrepreneurship Development



### Why is it Material?

We are creating a culture that values and rewards innovation. This involves promoting risk-taking, experimentation, and creative thinking among employees at all levels. It encourages them to generate new ideas and solutions to address challenges.



### Topic Boundary

#### Internal

We are able to harness the innovative spirit and problem-solving abilities typically associated with startups while capitalising on the resources and infrastructure available to larger organisations



#### External

By fostering a culture of intrapreneurship, large companies can stay competitive, adapt to changing market trends and continue to deliver value to their customers.



### Implementation of topic

Refer, 'Creating sustainable value for the community and environment' on page 56 to 58.

## Reputation and brand value



### Why is it Material?

As we have taken steps to present a more modern face to the public subsequent to our rebranding, we have taken into account that our reputation and brand are of vital importance to the continued success of our business.



### Topic Boundary

#### Internal

As we constantly uphold the values cited in our company profile, the internal environment of our organisation is geared towards promoting and building our reputation and brand value at all times.

#### External

The strength of these factors are vital for our survival in this competitive market. With a portfolio of products which are similar to the product offerings of several other financial institutions, only our brand and reputation can give us a significant competitive advantage.

### Implementation of topic

Refer, 'Strength of our brand' on page 55.

## Responsible lending



### Why is it Material?

The growth of our business is dependent on our ability to provide a responsible, transparent and satisfactory service to our customers. As such, we have identified this as a topic which is of high relevance to us.



### Topic Boundary

#### Internal

Educating staff to maintain integrity and transparency in all dealings.

#### External

Maintaining transparent and fair business dealings with all our external stakeholders at all times.

### Implementation of topic

Refer, 'Enriching the lives of customers' on page 53 to 55.

## Market presence



### Why is it Material?

This topic is material to us as we have a long-term plan to establish branches across the country in every district.

### Topic Boundary

#### Internal

Plans to facilitate several new branches will improve our coverage and we will be able to provide services to a wider range of customers.



#### External



Easier access to our services and the improvement of infrastructure in the rural communities where we propose to commence business. We will also be able to offer employment opportunities to the communities in which we will operate











### Implementation of topic

Refer, 'Enriching the lives of customers' on page 53 to 55.

# Strategic Priorities

We strive to deliver superior returns to our stakeholders by growing through progressive, sustainable and responsible means. Our people, products and processes are the core value drivers of our organisation, and we seek to optimise our resources by implementing an inclusive corporate strategy. Through our holistic strategy we take strides to strengthen our business and adapt to this changing landscape while playing a key role in shaping a sustainable society. PMF’s strategy road map incorporates ten high-level intentions, set out with the aim of revitalising, repositioning and re-inventing the Company to stay competitive in an evolving operating environment.

 <p><b>Vision</b></p> <p>Service Excellence in Financial services Whenever Wherever</p>	 <p><b>Brand promise</b></p> <p>Your Trusted Path-Maker</p>
--	--

				
Finance environmentally friendly products and businesses that are sustainable and not harmful to the environment.	Collaborate with organisations who share similar goals to facilitate innovative technological development and utilisation in a sustainable manner.	Identify sectors where PMF can market its core products profitably in an environment of financial inclusivity.	Maintain a diversified business model that will effectively contribute to the economic needs of the country.	Create a new threshold for PMF to comply with the ultimate targets of the Master Plan introduced by the Central Bank of Sri Lanka (CBSL) for the NBF sector, within stipulated deadlines.
				
Proactively contribute toward achievement of the development goals of the Government.	Improve internal systems, processes, and resources for efficient delivery of financial services to more people, in more places.	Enhance the Company’s human resource productivity while simultaneously increasing retention through state-of-the-art training techniques, fair treatment, fair compensation and effective recognition.	Adhere to compliance required by authorities and regulators.	Expand market reach through a virtual agent network in the medium-term.



## STRATEGIC PILLARS

Growth

Profitability

## GOALS

Develop a diversified portfolio with a five-year Compound Annual Growth Rate (CAGR) between 40% to 50% in the portfolio of businesses by FY 2025/26.

Maintain an asset base above LKR 20 Bn by FY 2025/26.

Support financial value creation by achieving a profit after tax of over LKR 1,000 Mn by FY 2025/26.

Maintain a capital conservation buffer of 1% in addition to the minimum capital adequacy requirement (CAR) by FY 2025/26.

## GROWTH

Why it matters: Growth is crucial to the long-term survival of the business. It helps to acquire assets, attract new talent and fund investments. It also drives business performance and profits.

Related material topics:

	2021/22 (LKR Mn)	2022/23 (LKR Mn)	Growth %
Deposit Growth	3,229	7,656	137%
<b>Portfolio Growth</b>			
Leasing	3,146	4,190	33%
Gold Loan	1,163	2,099	80%
<b>Total Assets</b>	<b>8,280</b>	<b>11,421</b>	<b>38%</b>

## PROFITABILITY

Why it matters: A positive and growing bottomline reflects the company's commitment towards performance, revenues, net income and expense management. This enables us to invest in new talent, product development, expand operations and generate returns to all stakeholders.

Related material topics:

	2021/22 (LKR Mn)	2022/23 (LKR Mn)	Growth %
Interest Income	794	2,008	153%
Fee based income	19.2	29.5	54%

# Operating Landscape

## Global Economy

The global economy faced multiple converging challenges in the first half of 2022, affected by the increasing levels of inflation, hike in interest rates to combat inflation and tightening liquidity conditions and geo-political tensions brought about by the Russia's invasion of Ukraine which slowed the pace of growth in the global economy. The world still continues on a slow path to recovery from the after effects of the Covid-19 pandemic. In the most recent forecast by the IMF, global growth is predicted to reach its lowest point at 2.8% in 2023 before experiencing a gradual increase to 3.0% in 2024. Global inflation will decrease, however, at a slower pace than previously anticipated, from 8.7% in 2022 to 7.0% in 2023.

The continuation of the impacts to the economies of the South Asia Region is being witnessed through the shocks emanating from Russia's invasion of Ukraine, including higher food and energy prices, alongside tightening global financial conditions. The aftermath effects of these developments resulted in South Asian regional countries witnessing contractions in trade, hospitality, construction activity and industrial output, coupled with severe pressure on individual level disposable incomes and thereby negative effects in the economic status directing to elevated levels of poverty in countries such as Afghanistan, Pakistan and Sri Lanka.

While the easing of rigid monetary policies in developed countries has allowed them to enjoy reduced interest rates, the struggle is not yet at an end for developing countries across the globe. Several central banks are expected to further raise their interest rates before they can reach a point that recovery is possible. The widespread tightening of monetary policies by most central banks should start moving inflation back toward targeted figures.

As a whole, many countries are experiencing relief in the form of lowered food and energy costs and reduced disruptions in supply chains. There is still a long way to go to reach pre-pandemic levels, but the general outlook is positive in terms of improvements to the current situation.

## Sri Lankan Economy

Sri Lanka faced its worst economic crisis post-independence, in May 2022, defaulting on its foreign debt obligations for the first time in its history. Sri Lanka's economy shrank by 7.8% last year, while all key sectors contracted. Manufacturing and construction sectors suffered the most amid shortages of inputs and supply chain disruptions.

In response, the Government and the Central Bank implemented drastic but necessary policy measures in 2022 to restore macro-economic balance. These measures included tightening monetary policy through interest rate adjustments, temporary suspension of selected foreign debt and consolidating public debt with support from the IMF. Foreign exchange outflows were contained, essential imports prioritised, and exchange rate stability restored. Measures were also taken to ensure stability in the financial system and initiate reforms and negotiations with the IMF for an EFF arrangement were initiated.

The progress Sri Lanka makes in restructuring its debt, consolidating its finances and implementing structural changes that would promote growth will determine the country's overall economic forecast. The Sri Lankan government is currently re-negotiating its total debt through talks with a number of group creditors, including China, India, Japan and the United States. It is taking action to lower inflation, boost foreign investment and foreign exchange reserves, expand domestic production and exports and lessen reliance on

imports. As more foreign cash becomes available to Sri Lanka, financial and banking constraints have loosened, notably in terms of access to Letters of Credit.

It is crucial that these pro-growth measures aimed at restoring macro-economic stability, debt sustainability, safeguarding financial system stability, strengthening governance and unlocking the growth potentials of the economy, while also alleviating the adverse impact of the economic crisis on the poor and vulnerable segments of the population are executed as planned to ensure sustainable economic recovery and stability in the medium to long term. We have been fortunate to witness an increase in the rate of GDP growth from -7.8% in 2022 to roughly -2% in the first quarter of 2023.

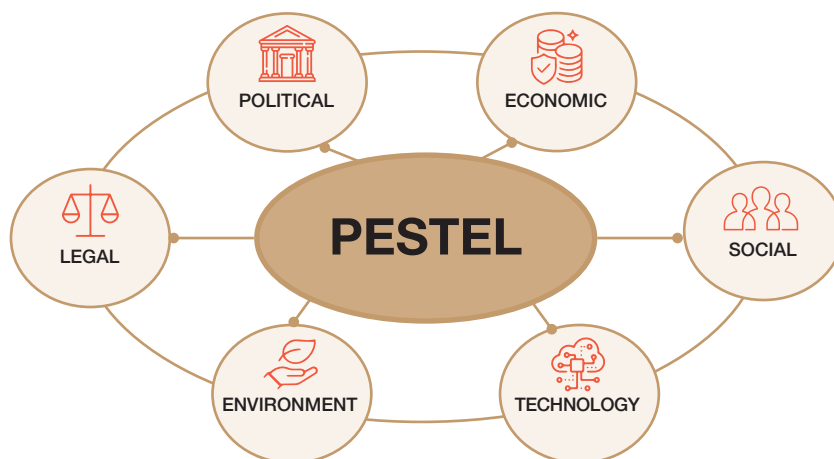
While the multiple projections show that the Sri Lankan economy may continue to decline in 2023 by 1% to 4%, these developments are expected to help it to make a gradual recovery, supported by the expected improvements in domestic supply conditions, underpinned by the timely implementation of corrective policy measures. Further the anticipated improvements in foreign exchange flows and the resultant enhancement in business and investor sentiments are further expected to reinforce the recovery in the period ahead.

## Impact on PMF

In the midst of this uncertainty, we have managed to have steady outputs from our business activities. Below is an analysis of the strengths, weaknesses opportunities and threats of our internal and external environment and a detailed PESTLE analysis to determine the effects that the external environment imposed on our operations.

## Internal Environment

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• 40 years of expertise in the Financial Services Sector with proven track record of excellence.</li> <li>• Vastly experienced and qualified top leadership with in-depth industry expertise.</li> <li>• Strong brand image backed by the goodwill of Sterling Group.</li> <li>• Sustained financial stability (profitability, capital adequacy, and low NPLs within the sector).</li> <li>• Over 200 strong island-wide network of Sterling motor vehicle dealers.</li> <li>• Rebranding to PMF finance PLC giving a fresh look to the company.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• High attrition among front office and marketing staff.</li> <li>• Non-availability of fully-fledged digitised system platform across the entire Company.</li> <li>• Low island-wide coverage.</li> <li>• Absence of investment grade credit rating.</li> <li>• Untouched potential markets are available.</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Leasing being the main financing option for movable assets is positively affected by import restrictions that have increased demand for registered vehicles.</li> <li>• Space for promotion of financial inclusion amongst lower and middle-income brackets prevailing in the country's development plan.</li> <li>• Emerging opportunities in the             <ul style="list-style-type: none"> <li>- Micro, Small and Medium Enterprises (MSME) sector</li> <li>- Renewable energy sector</li> <li>- Construction and real estate sector (Mortgage loan)</li> </ul> </li> <li>• Untapped gold loan customer base not reached by banks.</li> <li>• Huge demand for working capital financing from the informal sector.</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Stiff competition from banks / NBFIs in the vehicle financing market due to import restrictions on vehicles and other non-essential products</li> <li>• Number of competitors - The operation of 33 banks and 43 NBFIs within Sri Lanka.</li> <li>• Low-cost funding and refinance schemes available to other financial institutions (especially banks) and increasing trend of benchmark rates of PMF borrowings.</li> <li>• Switching cost - The switching cost for a customer is very low due to a many numbers of service providers available in the finance sector.</li> <li>• Policy uncertainty disrupting overall vehicle financing demand.</li> <li>• Unstable political and economic environment.</li> <li>• Imposition of huge tax rates by the government.</li> </ul>

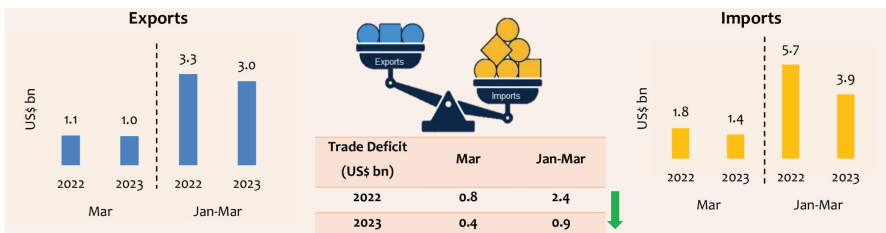


# Operating Landscape

PESTEL Factor	External Environment effect	Impact and response
<p><b>P</b></p> <p>Political influence on business</p> 	<ul style="list-style-type: none"> <li>• High volatility in the political situation of the country which led to intense societal upheaval and rising cost of living and interrupted business processes.</li> <li>• The high demand from NBFIs for leasing facilities was diminished due to the restriction on vehicle imports remaining in force.</li> <li>• Changes in taxation policies for both businesses and individuals severely impacted the purchasing power and disposable incomes of the society resulting in diminished standards of living and impacted business growth and profitability.</li> <li>• Interest rates and other indicators of growth continue to be in negative figures as the government continues to struggle with the demands of the IMF and complying with the measures taken to restructure debt.</li> </ul>	<p><b>Impact to the Company</b></p> <p>Impact on the continuity of business operations during this period.</p> <p>Key risk exposures:</p> <ul style="list-style-type: none"> <li>• Operational risk</li> <li>• Strategic risk</li> </ul> <p><b>Our response</b></p> <p>The restriction on vehicle imports remains in force and continues to adversely impact the company's core leasing business, which has resulted in the Company pursuing alternative lending opportunities such as Entrepreneur Loans and Gold Loans.</p>
<p><b>E</b></p> <p>Turbulence in the economic environment and resulting uncertainty</p> 	<ul style="list-style-type: none"> <li>• 2022 showed the GDP of Sri Lanka at -7.8%. This severely impacts the growth and profitability of the NBFi sector.</li> <li>• Multiple restrictions imposed by the changes in the monetary policy since April 2022 caused inflation rates to rise and directly affected the financial sector profitability. Some marginal improvements were experienced towards the end of the financial year.</li> <li>• Sri Lanka encountered its most severe economic crisis in history. The inability to meet foreign debt service obligations was caused by the recurring foreign exchange shortages and the devaluation of the Sri Lankan rupee. This resulted in a downgrade of the country's credit rating and an increase in its risk premium.</li> <li>• The inflation rate reached an unprecedented level of 73.7% (Year-on-Year NCPI), leading to hyperinflationary economic conditions. This significantly worsened the purchasing power and living standards of communities, while also increasing the credit/default risk within the finance sector.</li> </ul>	<p><b>Impact to the Company</b></p> <ul style="list-style-type: none"> <li>• Restricted credit expansion due to weak credit appetite from the market.</li> <li>• Adverse impact on the NII with the frequent and ad-hoc increase in policy interest rates.</li> </ul> <p><b>Our response</b></p> <ul style="list-style-type: none"> <li>• Timely change in the rates as approved by the ALCO and regular stress testing on the asset portfolios to assess the impact of shocks including the interest rate shocks.</li> <li>• With product concentration affecting credit risk, the company strove to maintain greater diversity among its product range, industry sector and asset category.</li> <li>• Robust credit evaluation and recovery strategies.</li> </ul>



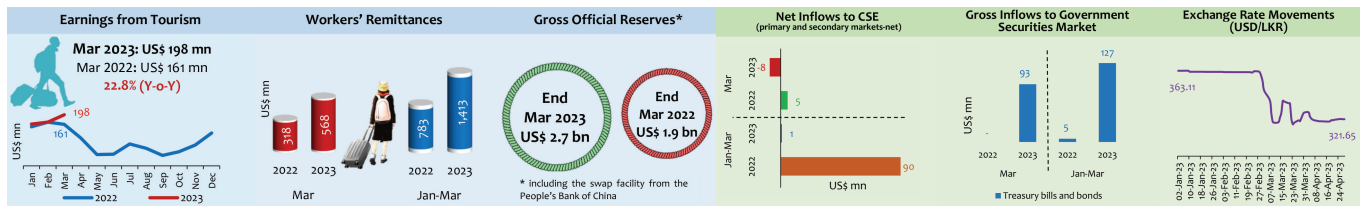
PESTEL Factor	External Environment effect	Impact and response
<p><b>S</b></p> <p><b>Sustainable social development</b></p> 	<ul style="list-style-type: none"> <li>Ongoing social unrest, fuelled by widespread public dissatisfaction due to political concerns, has disrupted the ongoing economic revival efforts.</li> <li>The rising demand for skilled migration has resulted in a shortage of qualified professionals in the job market, making it challenging to attract and retain top talent.</li> <li>Consumers are showing preference towards products and services that are based in sustainability and eco-friendliness.</li> <li>The increasing adoption of social media and digital transactions has opened up new opportunities and prospects.</li> <li>Many people are disinterested in saving and purchasing vehicles due to the economic situation which has caused shortages of goods, rising costs for consumers and hyperinflation.</li> </ul>	<p><b>Impact to the Company</b></p> <p>Improved outcomes from product development and service delivery processes based on customer insights.</p> <p><b>Our response</b></p> <p>Social media serves as an excellent platform to drive customer intimacy and the company has effectively used its social media platforms to engage with customers, address their concerns and identify emerging needs.</p> <p>A transparent client complaint handling procedure is in place providing speedy solutions that protect clients' interests at all times.</p> <p>We also reach remote and vulnerable markets, becoming a net lender to the rural economy and promoting financial inclusion by way of providing entrepreneurial loans for vibrant rural economic navigators.</p>
<p><b>T</b></p> <p><b>Competition and technological change</b></p> 	<ul style="list-style-type: none"> <li>Growing global technology trends continue to influence the perceptions and adaptation of financial services.</li> <li>The industry has embraced digital and online technologies to facilitate contactless transactions in the light of the changed environment subsequent to the pandemic.</li> <li>There is a growing focus on leveraging the uses of Artificial Intelligence (AI), Robotic Process Automation (RPA), Internet of Things (IoT), Cloud Computing, and Big Data to be ahead of the competition to provide enhanced customer convenience and productivity.</li> <li>Increased use of digitisation has brought about a growing concern for cyber security threats and the protection of customer data.</li> </ul>	<p><b>Impact to the Company</b></p> <p>Technological advances tend to lower traditional barriers to entry and make it easier for services to be unbundled, creating opportunities for competition on individual services.</p> <p><b>Our response</b></p> <ul style="list-style-type: none"> <li>PMF's IT Steering Committee developed a road map in meeting the requirements set out under the Finance Business Act Direction No. 1 of 2022 on Technology Risk Management and Resilience Framework.</li> <li>Continuous employee education to mitigate cyber related risks; especially cybersecurity risk in the context of accelerated digital migration.</li> </ul>



Economy snapshot (Source: CBSL)

# Operating Landscape

PESTEL Factor	External Environment effect	Impact and response
<p><b>E</b></p> <p>Climate change and environmental impact</p> 	<ul style="list-style-type: none"> <li>The demand for sustainable financing and green lending such as Solar Power, Electric and Hybrid Vehicle financing has increased considerably with growing customer awareness and importance placed on ethical practices towards environmental conservation.</li> <li>The increased urgency to convert to sustainable practices with the growing climate concerns.</li> <li>Greener environment practices by the company ensure customer goodwill.</li> <li>Opportunity to establish local and global partnerships and alliances to develop and implement strategies to protect eco-systems and Environmental, Social and Governance (ESG).</li> </ul>	<p><b>Impact to the Company</b></p> <p>Increased environmental consciousness in communities has opened avenues for more sustainable, environmentally friendly products, services and businesses. Furthermore, this has also created increased pressure for transparency and to disclose the environmental impacts of a company's operations.</p> <p><b>Our response</b></p> <ul style="list-style-type: none"> <li>Continuously assessing suitability and strategic alignment of products and sectoral exposure with changing environmental factors and other impacted areas with varying risk profiles.</li> <li>Emphasised the requirement of cost effective initiatives with zero or minimal paper use to support the minimisation of the Company's carbon footprint, as part of initiatives to preserve natural eco-systems.</li> </ul>
<p><b>L</b></p> <p>Regulatory/ Legal change, risk management and governance</p> 	<ul style="list-style-type: none"> <li>The implementation of enhanced regulatory requirements pertaining to Corporate Governance, Regulatory Capital, Technology Risk Management, and Resilience necessitates structural changes and broader compliance obligations.</li> <li>Regulatory bodies have been issuing a high number of new directives aimed at enhancing governance and ensuring stability within the sector.</li> <li>The introduction of unprecedented tax reforms has significantly heightened the regulatory compliance requirements.</li> <li>Stricter regulatory measures have been implemented to oversee Non-Banking Financial Institutions, aiming to prevent corporate failures and irregularities.</li> </ul>	<p><b>Impact to the Company</b></p> <p>Increasing regulation has become a major part of the evolutionary process of the NBFIs sector. Global best practices are also now increasingly underscoring the stability and good standing of the NBFIs sector. Changes in the regulations alter our business model, workflows and necessitate alterations to various business elements.</p> <p><b>Our response</b></p> <p>The company has strengthened internal control systems recruiting a dedicated person and perform independent validations regarding the efficacy of these systems.</p>



Economy snapshot (Source: CBSL)

# Risks and Opportunities

Our Integrated Risk Management Framework (IRMF) provides the governance structure and approach to identify, assess, and manage risks across the company, coupled with a transparent risk appetite in line with our strategy. Through this, we have enhanced risk awareness, risk communication, risk based proactive decision-making processes while mitigating the potential risk events beforehand. We strongly believe that all these measures assisted us to have a strong compliance culture, safeguard interest of all stakeholders while navigating to have long-term sustainability in order to be in the industry unblemished for a foreseeable future.

We always strive for zero or minimal residual risk by ensuring to have an effective governance and risk management framework under highly volatile, evolving external environment. PMF's risk universe and risk management focus broadened to a level allowing to include emerging risks such as cybersecurity, data security, data

confidentiality and fraud by strengthening the Risk Management framework and having controls in the aforesaid risk appetite statement reviewed periodically to reflect the futuristic approach.

In terms of tec-initiatives and investments as per the strategic plan, the company has made the strategic move towards a new core application from a new service provider with the intention of providing a greater value and a return in terms of efficiency and reliability without exposing to any severe risk. Further while achieving our strategic objectives, it was pivotal to maintain stringent adherence to evolving regulatory requirements and the status of this is reflected in our corporate governance report of the Annual report.

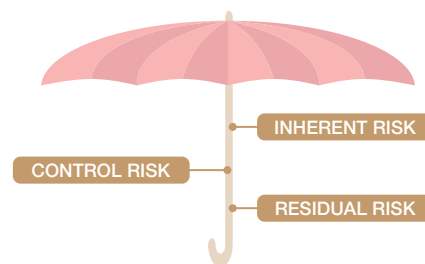
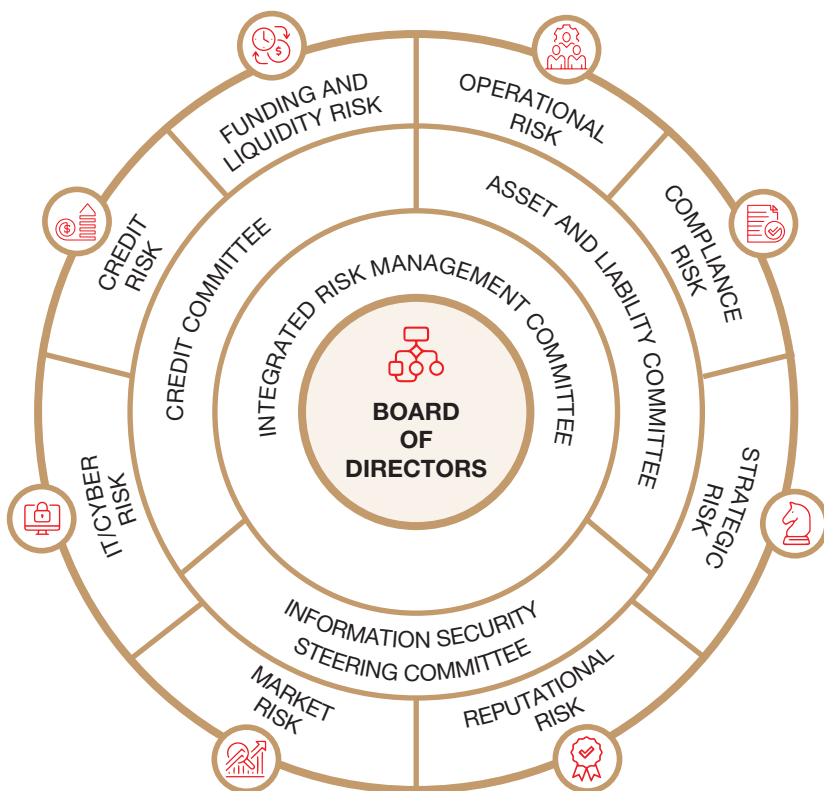
### The evolvement of the major risks

The turbulence of the external environment created with macro-economic factors in addition have continuous ban or restriction on importation of automobiles and its related accessories, was significant exposing the Company predominantly

towards elevated level of Business risk. The periodical review of the Risk Management Policy Framework and Appetite Statements assisted to have better controls and well assessed limits and parameters to have informed level of controls reflected and measured in assessing the exposure on the main risk types of the company including emerging risks within which providing early warning signals was immensely important have a aforesaid resilient and sustainable growth.

### Integrated Risk Management Framework (IRMF) and governance culture

PMF maintains an integral risk-based culture that fosters long term value for customers and stakeholders. This involves open communication and accountability at all levels, promoting a proactive approach to risk management, encouraging continuous improvement, aligning risk objectives with business goals and ensuring transparency in decision-making processes. This strong risk culture is applicable across all staff levels Mechanisms are in place to update the risk register while recording new risk events coupled with risk responses along with time bound action plans from the risk owners creating higher levels of assurance and visibility about potential risks and providing clarity on risk identification and mitigation. Further



# Risks and Opportunities

an incident reporting framework was incorporated in to the Integrated Risk Management Framework to capture the negative impact on the company performance in the form of direct costs to record risk events in addition to recording all risk events in the risk register in which indirect costs or their combination that the company may be impacted and arisen mainly through operational risk.

The overall responsibility for the establishment and oversight of the risk management framework lies with the Board of Directors of the Company. The Board Sub-Committee, the Integrated Risk Management Committee (IRMC) is responsible for developing and monitoring the Company's risk management policies which are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the activities of the Company. The Company, through its training and management standards and procedures, aims to

develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities in growing business and managing risk.

The main focused risk types of the Company are credit risk, liquidity risk, market risk, capital risk and operational risk (IT risk, strategic risk, reputational risk & compliance risk).

## Credit Risk

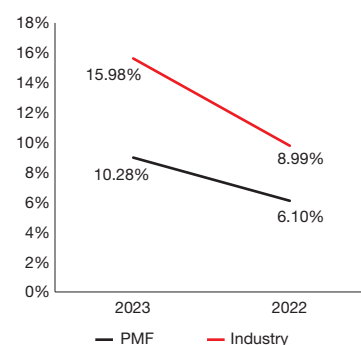
Disruption in economic activities increase default rates and increased, inflation affects repayment capability of borrowers specially individuals and corporates who are exposed to risk elevated industries. Interest rates, regulatory changes and collateral values also influence credit risk.

Credit risk is the possible financial loss to the Company due to the failure to meet its contractual obligations, and arises principally from the Company's loans and receivables to customers and other banks and investments in debt securities.

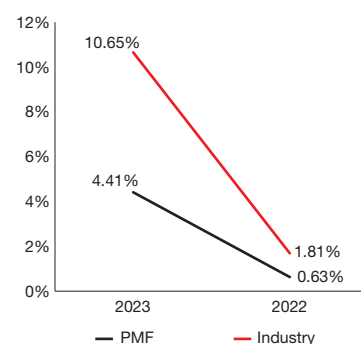
The Risk Department monitors the credit disbursements to clients and progress of collections on periodical basis and

reports the above exposure levels on a periodical basis to the BIRMC comparing with the industry standards.

## Gross NPL Ratios

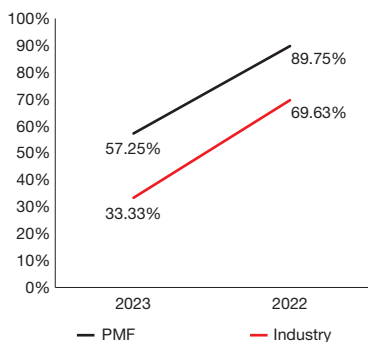


## Net NPL ratios

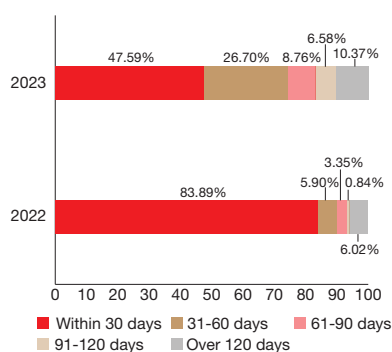


Risk Appetite Criteria	Appetite (PMF)	Regulatory Limits	Status	
			As at 31st March 2023	As at 31st March 2022
<b>Credit Risk</b>				
<b>Loans and Advances</b>				
Non-performing loans ratio – Gross	15.98%	N/A	10.28%	6.10%
Non-performing loans ratio – Net	10.65%	N/A	4.41%	0.63%
Maximum exposure to single borrower				
– Secured - Individual		15% of capital funds	12.46%	10.87%
Maximum exposure to single borrower				
– Secured - Group		20% of capital funds	12.46%	14.56%
Maximum exposure to single borrower				
– Unsecured – Individual		1% of capital funds	Nil	Nil
Maximum exposure to unsecured financing in aggregate		5% of capital funds	Nil	Nil
Non-Performing Loan provision coverage ratio (Minimum of)	33.33%	N/A	57.25%	89.75%
Sector Concentration Highest Exposure to sector (Lease/ Loan)	25% of portfolio	N/A	23.43% (Wholesale and retail trade)	18.98% (Industry and manufacturing)

### Provision cover ratios

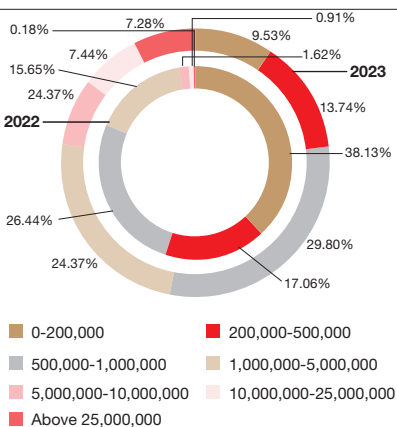


### Health of the portfolio (Lease/Loans)

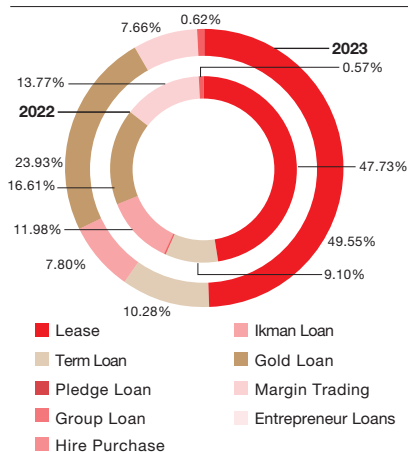


### Assessing Concentration risk

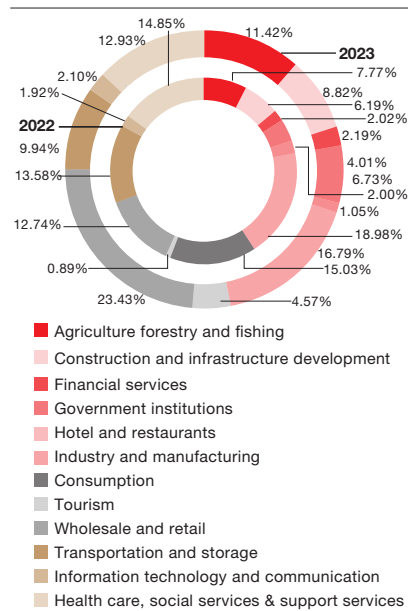
#### Concentration exposure



### Product exposure



### Industry exposure (Lease/Loans)



### Liquidity Risk

The Company kept a healthy amount of liquidity throughout the year in order to meet the unforeseen funding requirements that may arise through

significant withdrawals of client deposits. However, withdrawals were not high as envisaged, evidencing the trust placed on the PMF's unblemished stability. The liquidity buffer maintained by the Company was notable even under a vulnerable economic situation. The Risk Management Department prepared a comprehensive cash flow analysis to assess the impact on cash flows under stressed conditions based on several plausible scenarios. The key observations made on the scenario analyses are presented to the BIRMC.

As per the Risk Appetite of the Company and the Direction No. 4 of 2013 of the Central Bank of Sri Lanka and its subsequent amendments, it is required to maintain a minimum holding of liquid assets as per the table of regulatory limits under the liquidity risk. Accordingly, the required amount and available amount of liquid assets were as follows:

Status as at 31st March		
Liquidity Risk	2023 LKR '000	2022 LKR '000
Required minimum amount of liquid assets	770,687	330,052
Total liquid assets	1,825,677	1,071,829
Excess liquidity	1,054,990	741,777

PMF maintained a total Liquid Assets to total Deposit Liabilities ratio of 23.85% for the FY ended 31st March 2023 compared to 33.20% reported for the FY 2021/22.

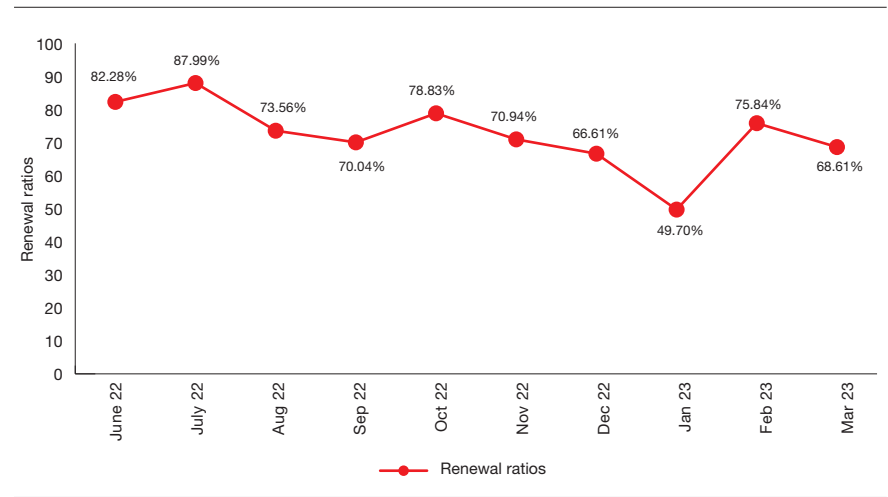
The Company was able to maintain a monthly average deposit renewal ratio of over 68.61% as at 31st March 2023.

Risk Appetite Criteria	Regulatory Limits	
Liquidity Risk	FY 2022/23	FY 2021/22
Liquid assets ratio	- Fixed Deposits - 10%	- Fixed Deposits - 10%
	- Savings Deposits - 15%	- Savings Deposits - 15%
	- Unsecured Borrowings - 10%	- Unsecured Borrowings - 10%



# Risks and Opportunities

	31-Mar-23	Scenario I	Scenario II	Scenario III
Deposit base, March/2023	7,656			
Possible shock levels on the deposit base (outflow)		5.00%	10.00%	15.00%
		381	763	1,144
Current liquidity (as per CBSL reporting)	1,826			
Liquidity position with the impact of the scenarios		1,444	1,063	682
Required Minimum Amount of Liquid Assets (CBSL requirement)	770	732	694	656
Excess liquidity	1,055	712	369	26
Unit Trust Investment	404			
Actual Liquidity (including the unit trust investments)	2,230			
Actual Liquidity position with the impact of the scenarios		1,849	1,467	1,086
<b>Actual Excess liquidity</b>		<b>1,116</b>	<b>773</b>	<b>430</b>
<b>Regulatory liquidity (As per the Finance Companies (Liquid assets) Direction no. 4 of 2013</b>				
- 10% of the total outstanding value of the time deposits (including the accrued interest) and face value of the non-transferable certificates of deposits				
- 15% of the total outstanding value of the savings deposits (including the accrued interest).				
- 10% of the total outstanding borrowings and any other payables determined by the Director-NBFI.				



### Market Risk

Market risk stems from the possible losses due to market related variables like interest rates, exchange rates, equity prices and commodity prices, out of which interest rate risk and commodity prices risk are significant to the PMF. More on the market risk of the PMF has been addressed under the caption “Summary of Key Risks and mitigation

strategies with a forward looking approach”.

### - Interest Rate Risk

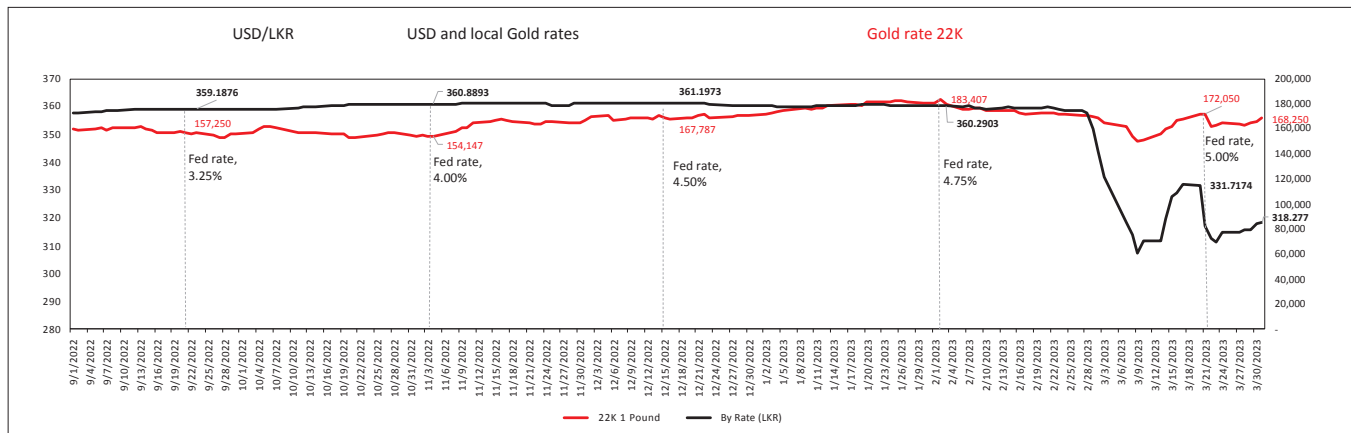
The ceiling rates on deposits pegged with the moving averages of the weighted average auction treasury bill rates moved to higher interest rates regimes during the FY 2022/23. These changes impacted the NII during the

financial year. ALCO is responsible for Asset & Liability Management including the assessing the interest rate gap maintenance of the Company.

### - Commodity Price Risk

The global price for gold faced wide fluctuations during the year under review owing to factors such as world economic downturns, restriction on importation of gold, the upcoming US presidential elections, movements of the Fed rates (US policy rates), war between the Russia and Ukraine, demand and supply movements etc. The Company expects to change its strategies to move from short term concentration to long term tenors and have products with attractive features in order to mitigate this risk.

The graph given below depicts on the movement of the local market prices, USD/LKR changes during the period along with US fed rate changes occurred.



Source: IdeaBeam, CBSL, Forbes Adviser (US)

PMF has assessed the market value and change in Caratages of the gold loan portfolio and identified potential losses/gains incurred with plausible scenarios at the end of the financial years as depicted below.

As at 31st March Shock Levels	2023 Impact on market value LKR '000	2022 Impact on market value LKR '000
10% shock Increase	294,969.80	235,681.59
10% shock (Decrease)	(294,969.80)	(235,681.59)

Note: Prices of 22 carat gold were considered as LKR 168,200 and LKR 183,000 at the FY 2022/23 and 2021/2022 respectively.

As at 31st March 2023 Plausible scenarios	Impact on market value (LKR Mn)	Impact on Margin of safety
10% in price change	294.97	14.05%
20% in price change	589.96	28.10%
Change in 1 Caratage change	138.49	6.60%
Change in 2 Caratage change	276.98	13.20%
15% in price change coupled with 1 Caratage change	560.17	26.68%

**- Equity price risk**

Equity price risks arises due to the fluctuations in market prices of individual stocks and management performs mark-to-market analysis on weekly basis for its trading portfolio and trading is made at right times and assess the impact accordingly. Further the economic fallout of the share market due to economic turbulences resulted in significant but dynamic momentums in share market indexes and management is monitoring the equity price movements on regular basis.

	2023 LKR '000	2022 LKR '000
Market value of quoted equity instruments as at 31 March	5,579.19	6,698.11

# Risks and Opportunities

## Equity price sensitivity

The Company has assessed the market value of the equity portfolio and identified potential losses/gains that might have occurred with a 10% possible shock on the market value at the end of the Financial Years and depicted below are the values assessed accordingly.

As at 31st March	2023	2022
Shock Levels	Impact on market value	Impact on market value
	LKR '000	LKR '000
10% shock Increase	557.92	669.81
10% shock (Decrease)	(557.92)	(669.81)

Further the company is engaged in the margin trading businesses and the credit risk of client positions are assessed against the regulatory (SEC & CBSL) and internal limits in which positions are sensitive to the equity price movements.

## Capital risk

The core capital represents the permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses and the total capital includes the revaluation reserves, general provisions/impairment allowances and unsecured subordinated debts, in addition to the core capital. The risk-weighted assets have been calculated by multiplying the value of each category of asset using the respective risk weight specified by the Central Bank of Sri Lanka for credit risk while the basic indicator approach is used for operational risk.

Stress testing on Capital Adequacy					LKR Mn
Based 31st March 2023 (Audited Financials)	Actual	Scenario I	Scenario II	Scenario III	
<b>Position of Core Capital</b>					
Stressed scenarios		5.00%	10.00%	15.00%	
Additional NPL on stressed scenarios		40.74	81.48	122.22	
Impact from borrower defaults in possible risk (60 to 120 NDIA)	814.77	814.77	814.77	814.77	
<b>Credit Risk</b>					
Impairment on stressed NPLs @ 1.5 : 10		(6.11)	(12.22)	(18.33)	
Strategic risk -Non-meet - up of the target bottom line (profit)	(13.17)	(0.66)	(1.32)	(1.98)	
Reputational risk - Major litigation events	(634.42)	(31.72)	(63.44)	(95.16)	
<b>Total impact</b>		<b>(38.49)</b>	<b>(76.98)</b>	<b>(115.47)</b>	
Stated Capital	3,762.05	3,762.05	3,762.05	3,762.05	
Statutory Reserve Fund	20.24	20.24	20.24	20.24	
<b>Retained Profit/(loss)</b>	<b>(1,105.09)</b>	<b>(1,143.58)</b>	<b>(1,182.07)</b>	<b>(1,220.56)</b>	
Core Capital	2,677.21	2,638.72	2,600.23	2,561.74	
Risk Weighted assets as per the CBSL reporting	9,659.01	9,659.01	9,659.01	9,659.01	
Capital Adequacy Ratio (CAR)	27.72%	27.32%	26.92%	26.52%	

Risk Appetite Criteria	Status		
	Regulatory Limit	As at 31st March 2023	As at 31st March 2022
Capital Adequacy			
Core capital ratio (CCR)	8.50%	26.76%	37.71%
Total risk weighted capital ratio (TRWCR)	12.50%	26.76%	37.71%
As of 31st March 2022, the CCR and TRWCR were 7.00% and 11.00% respectively.			

### Operational Risk

“Operational risk” is the possible direct or indirect losses due to the failures of processes, personnel, technology and infrastructure and from external factors. Operational risks arise from all of the Company’s operations.

The Company has taken measures to mitigate the operational risk in the following manner.

- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Development of contingency plans
- Training and professional development
- Risk mitigation, including insurance where this is cost effective

The Company is highly focused on managing credit, liquidity, market, reputational and operational risks. IT risks and cyber security are high priorities specially during this period where the PMF has taken long strides in addressing growing digitalisation while making sure to strengthen systems and controls in order to manage cyber risks. Concerns over money laundering, terrorism financing, fraud and corruption are growing and PMF has subscribed for World-check name screening solution which is a fully-fledged automated system managed by Thomson Reuters. Every on-boarded client is screened with this effective from 1st July 2021 in addition to the batchwise screening process made to the existing client base. Our compliance team has ensured that all our regulatory obligations are met in this regard too.

The Company has taken many initiatives for maintaining the health of the new portfolio disbursed from the calendar year 2020 during which a new Management started steering the journey of PMF. In addition to a skilled force of internal employees engaged in collection and recovery efforts, the Company has outsourced external parties backed with properly signed NDAs to optimise operational efficiency in collection and recovery with a target of zero NPL contribution from the new portfolio.

### The Impact of developing economic turbulences

The most significant risk event faced by all the corporates in the FY 2022/23, was the economic and social impact of the developing economic turbulences. The global economic downturn had a cascading effect on the Sri Lankan economy too causing some major challenges amidst dwindling export markets and severe disruptions in global trade activity. This has led to a muted loan growth. Having understood the extrapolatory behaviors of the market drivers, PMF is continuously vigilant to monitor the behaviour of its clients and stakeholders in responding to the challenges over the coming months. The Management is focused on maintaining the integrity of the balance sheet through continuous oversight of credit, liquidity, interest rate and capital risk while performing periodical stress testing and scenario analysis.

# Risks and Opportunities

## SUMMARY OF KEY RISKS AND MITIGATION STRATEGIES WITH A FORWARD LOOKING APPROACH:

### Credit risk

Losses arising from the failure of obligors to meet their financial or contractual obligations when due.

#### During the FY 2022/23

PMF managed to record the NPL position to 10.28% from 6.10% reported in FY 2021/22 against the industry ratio of 15.98% as at 31st March 2023 (Industry average as at 31st March 2022: 8.99%). Despite the turbulent and challenging volatile environmental conditions arising from the stressful situations following the developing economic turbulences, many strategies were implemented to healthy manageable level of NPLs. The periodical reporting and early warning signals provided to the recovery and credit staff members immensely assisted them to display proactive behavior. The collection ratios, branch-wise and officer-wise NPL positions, sector exposures were monitored giving high priority and a daily / monthly monitoring mechanism were put in place by the Risk and MIS team in order to provide early warning signals to the management and to the Board.

#### Focus points

PMF continue to have healthy manageable level of credit risk measured with risk parameters embedded in the risk appetite levels and to minimise their potential impact while adhering to the regulatory measures safeguarding all stakeholder interest.

The Risk Appetite Statement (RAS) would be reviewed in a more frequent manner to tackle the prevailing and future unforeseen risk events in a proactive manner.

Further, under the digitalisation platform, the company expects to have better quality informed risk events to respond the vulnerabilities in a forward-looking approach.

### Market risk

The risk of losses arising from a change caused by adverse movements in market interest rates, commodity prices, equity prices, and currency exchange rates.

PMF was able to maintain healthy margin levels throughout the year by having an optimum balance in the asset mix. The analyses on maturity mismatches, concentration on customer segments and stress testing and scenario testing were conducted and the outcomes were presented at monthly Board meetings, periodical BIRMC meetings and ALCO. Further at monthly ALCO meetings, interest rates predictions (budgeted rates), variance analysis, margins, asset liability composition, weighted average rates etc. were reviewed. Gold prices were monitored on a daily basis and achievements considering the budgeted versus net achievements were assessed.

Conducting portfolio analysis specially in terms of interest rates which would be challenging in the future with the upcoming market conditions.

Setting optimum advances (Gold) to minimise market risk.

Monitoring and managing possible elements of the market risk in the market environment.

Monitoring future market momentum in the macro environment.

Gold price movements, trend analyses were tabled for monthly Board meetings in addition to periodical revaluations at BIRMC.

### Liquidity risk

Failure to maintain or generate sufficient cash resources to meet day-to-day obligations

PMF honored all obligatory payments on time even during the period.

Liquidity stress testing was performed under different scenarios from lower to the worst-case scenarios and breakeven positions were identified. The Company has liquidity contingency plans too in place.

A monthly ALCO meeting was conducted focusing mainly on cash flow predictions to assess the Company's overall positions.

Maintaining healthy cash flows and additional buffers early while identifying early warning signals and meeting liquidity requirements.

Investing in high yielding marketable assets while meeting required liquidity level and meeting appropriate diversification strategies, tenor of funding and liquidity.

Conducting cash flow predictions/liquidity stress testing in order to meet unforeseen events.



### Operational risk

The risk of losses resulting from inadequacy of, or failure in internal processes or events including internal fraud processes or events including internal fraud, external fraud, employment practices and workplace safety, clients, products, business practices, damage to physical assets, business disruption and systems failures, execution, delivery, and process management.

Onboarding customers with due identification requirements (KYC) in line with FTRA.

Conducting and assessing clients using a credit risk score card (CRSC) in terms of 5Cs (Character, Capacity, Capital, Condition and Collateral) and rate the clients based on the score achieved in CRSC. Making proper induction programmes for new recruits with special emphasis on the cyber security.

Further, PMF was able to identify the gaps and the processes were re-engineered by formulating numerous policies and procedures including but not limited to the Credit risk, Market risk, Compliance risk and Reputational risk.

Further, PMF has taken several measures for maintaining the gold quality standards.

As specified in the early part of the risk management report, PMF has reviewed the Risk Appetite & Strategy (RAS) while meeting the current requirements and market norms in order to generate early warning signals.

Additionally, to strengthen the internal controls and identify the process gaps and thereby to mitigate the risks that may potentially arise, a dedicated internal control officer was recruited.

Placing more emphasis on the IT security with the digitalisation framework.

Enhancing the IT governance framework.

Making well planned BCP infrastructure arrangements and performing BCP drills to check the adequacy of contingency arrangements.

Conducting frequent vulnerability assessments and penetration testing to ensure that the systems are resilient to cyber-attacks.

Frequent branch onsite inspections were made and made and significant matters in summary were presented to the BIRMC.

### Operational risk - IT Risk

Any threat to the business data, critical systems and business processes. It is the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organisation

Under the digitisation platform, PMF is in the process of implementing the core application and other supporting systems for all products.

Enabled work-from-home arrangements whenever needed to prepare for the unforeseen operational events to smoothen the process without any interruptions to the business.

The IT security policy was reviewed and growing trends and concerns in the cyber security environment were incorporated.

Under the digitisation platform of the strategic plan, PMF is in the process of implementing a new core application system making special emphasis on the future trends in cyber security.

PMF developed a new BCP framework with the physical move to the new business premises considering all infrastructure and layout arrangements under the consultation of PwC Sri Lanka

With the new technological advancements, PMF would focus on a more secured environment for working-from-home conditions to ensure better customer service.

# Risks and Opportunities

## Operational risk - Strategic Risk

This is the risk that the future business plans and strategies are inadequate to prevent financial losses or protect the Company's competitive position and shareholder returns.

PMF has prepared a strategic plan spanning upto calendar year 2025/26 (5 year) and the budget reflecting the current environment.

Variance analysis was performed with the actual achievements vs budgeted values.

The company is focusing on the recent developments happening in the market environment and reflect same in the budgetary adjustments.

The Company would focus on the principles and procedures of the Code to develop a sustainable business environment and other sustainability reporting aspects for qualitative reporting.

## Operational risk - Reputational risk

Damage to the Company's image due to potential or actual events which may impair the profitability and/or sustainability of business.

Adhered to 'Work from Home' contingency plan with the current environmental changes.

A Board approved Complaints Handling Policy was developed and all requests for moratoria were considered under its guidelines.

Client complaint handling mechanism would be digitalised.

## Operational risk - Compliance Risk

The risk of legal or regulatory sanction, financial losses or damage to reputation the Company may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards

Maintained the Compliance Manual by updating the same with new and subsequent changes to the register.

All staff members have been made aware of Compliance including Anti Money Laundering aspects.

Continuous transaction monitoring was carried out in order to identify unusual and suspicious transactions.

The Corporate Governance Framework was strengthened.

Formulated policies and procedures in order to maintain a compliance culture.

PMF has subscribed to the World-check name screening solution which is a fully-fledged automated system managed by Thomson Reuters. Every on-boarding client is screened with this effective from 1st July 2021 in addition to the batchwise screening process made to the existing client base.



# DELIVERING VALUE TO STAKEHOLDERS

PMF Finance adopts a holistic approach to nurture entrepreneurship. We are a beacon of hope for entrepreneurs who dare to dream, innovate and make a difference in the world.

# Financial Capital

## Overview

With the hardships experienced during the financial year with the economic turbulence impacted to the fiancé industry, PMF showed financial results recording a significant increase of gross income to a level of LKR 2.09bn compared to LKR 0.97bn reported in the previous year.

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Despite the challenges encountered due to the volatile interest rate environment and the weak credit appetite from the market, PMF continued to demonstrate its resilience. This was due to the robust business strategies assisted to realign its operations in line with the rapidly evolving external environment coupled with prudent lending practices.

## Analysis of the Statement of Profit or Loss

### Net interest income

Interest income, which accounted for 96% of the gross income of LKR 2,095 Mn, grew by 153% to LKR 2,008 Mn for the year from LKR 794 Mn reported in the financial year 2021/22. The main contributing segment for the interest income was lease and loan receivables contributing 86.40% of the total interest income in addition to the interest income generated from the placements with banks and financial institutions and unit trust investments.

Interest expenses, which accounted for 63% of the interest income, increased to LKR 1,280 Mn during the year from LKR 300 Mn reported in 2021/22. The change in the composition of the deposit portfolio, coupled with the highly volatile interest rate regime that prevailed for most of the financial year, contributed to higher interest expenses. The Company recorded a 138% year-on-year growth in its overall term deposit.

The net interest income improved to LKR 728 Mn from LKR 494 Mn reported in 2021/22, recording a growth of

47.21%, accounting for 89.28% of the total operating income. The net interest margin reported a decrease of 55 bps to 8.52% from 9.07% reported in 2021/22.

### Fee-based income

Net fee and commission income, comprising fees related to loans and advances and insurance-related services, increased to LKR 29.6 Mn in 2022/23 from LKR 19.2 Mn reported in 2021/22. This year-on-year growth was driven by a substantial increase in fee-based revenue generated from lending-related transactions.

### Other income

The total other income of the Company amounted to LKR 27.1 Mn for the financial year compared to LKR 127.6 Mn reported in 2021/22 and recorded a decline of 78.8%. The gain on real estate business, recovery of bad debts written off and other operating income are the main contributors of other income reported during the financial year under review.

### Total operating income

Consequent to the improvements in the net interest income, fee and commission income and other income sources, the total operating income grew to LKR 815 Mn from LKR 669 Mn reported in 2021/22 by LKR 146 Mn or 21.7% in 2022/23.

### Impairment charges

The Company reported a charge of impairment provisions and other losses of LKR 154.03 Mn for the year compared to the reversal of LKR 40.91 Mn for the previous year. This was mainly due to the change in classification and measurement of loan losses as per the Finance Business Act Direction No. 01 of 2020 which required LFCs to adopt 120 past due dates for classification of NPLs with effect from 1st April 2022, compared to the earlier requirement of 180 days.

### Operating expenses

Total operating expenses for the year increased by 60.2% to LKR 815.4 Mn from LKR 508.9 Mn in 2021/22. The main contributory factors for the increase were the increase in administrative and personnel expenses to LKR 699 Mn from LKR 429 Mn in 2021/22 as a result of recruitment of new staff members for strengthening some of the functional areas and the increase in other operating expenses. The cost to income ratio increased by 13.20% and stood at 96.64% for FY 2022/23 compared to 83.44% in the previous year.

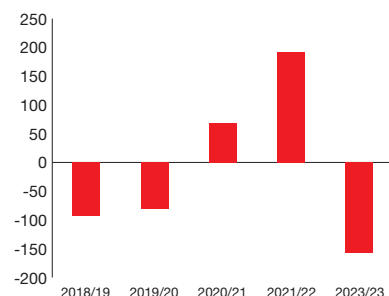
### Taxation

The increase in VAT on financial services is directly correlated to the change in profitability for the year. The total VAT on the financial services liability for the year under review is LKR 33.27 Mn against the LKR 61.25 Mn for the previous financial year, reflecting a YoY decrease of 45.7%. The company applied the revised rate of 30% in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/ liabilities as of 31st March 2023. An increased tax rate was applicable for six months of the year of assessment. During the first six months of the year of assessment commencing on April 1, 2022, the rate was 24% and for the second six months of the same year of assessment the rate was 30%. The company applied the revised rate of 30% to compute the deferred tax as of 31st March 2023. Accordingly, a tax reversal of LKR 29.8 Mn has been recognised in the current financial year.

### Profitability

The Company reported a loss before tax (LBT) of LKR 187.83 Mn during the FY 2022/23, when compared with the PBT of LKR 140.00 Mn recorded in the previous financial year.

### Profit/(Loss) after tax for the past five years



### Total other comprehensive income

Total other comprehensive loss of the Company was LKR 156.5 Mn during the year as against the other comprehensive income of LKR 194.6 Mn reported in the previous financial year. Primarily this was due to taking in to account other comprehensive income from reassessment of the retirement benefit liability, considering the minimum retirement age of the workers under the “Minimum Retirement Age of Workers Act No. 28 of 2021”. This reassessment resulted in a net reversal of liability, immediately reversed to the statement of profit or loss. It is considered a change to the plan in compliance with the Sri Lanka Accounting Standard’ LKAS 19 - “Employee Benefits”.

### Analysis of the Statement of Financial Position

#### Assets

Total assets of the Company grew by a healthy 38% during the year to reach LKR 11.42 Bn from LKR 8.27 Bn at the previous financial year end.

This growth is well over the industry growth of 5.36%. This was due to the growth in loans and advances portfolio and the excess liquidity invested in unit trust, term deposits with banks and Government Securities.

#### Loans and advances to customers

Having adopted a cautious approach towards credit growth over the financial year, the Company has witnessed solid credit growth during the financial year under review.

The Company’s net loans and advances increased by 24.6% to LKR 8.32 Bn in 2022/23. Loan growth was primarily funded by customer deposits, equity and external borrowings. Accordingly, loans and advances portfolio accounted for 72.83% of total assets compared to 80.64% in 2021/22.

During the financial year 2022/23, the growth was seen across all core product

categories of the Company, viz. leasing, gold loans excluding loans and margin trading.

#### Asset quality

Asset quality has remained a key focus for the Company and is a crucial determinant of the sustainability of the Company’s operations. Despite challenges within the economy, the robust risk management framework helped the Company end the year with improvements in gross and net NPL ratios at 10.28% and 4.41%, respectively, in 2022/23, compared to 6.10% and 0.63% in the previous year. The industry averages of gross and net NPL ratios remained at 15.98% and 10.65%, respectively, as of March 2023. Cumulative impairment provisions for loans and advances as a percentage of the total loans and advances portfolio at the end of the year was 5.87% compared to 5.45% in the previous year.

#### Deposits and liabilities

Customer deposits continued to be the single most significant source of funding for the Company, accounting for 67.03% of the total assets as of 31 March 2023. The Company’s deposit book reported LKR 7.66 Bn as of 31 March 2023, with a year-on-year growth of 137.10%, driven mainly by term deposits.

#### Liquidity

At a time of unprecedented volatility which we currently experience, excess liquidity provides a high level of comfort to the Company. It enables the Company to benefit from the upturn envisaged in credit demand in the years ahead. Given its importance, a review of liquidity is a permanent item on the agenda in the ALCO meetings of the Company. The liquid assets ratio of the Company was maintained well above the statutory minimum required throughout the year with sufficient liquidity buffers.

Core product	2022/23 LKR Mn	2021/22 LKR Mn	Growth percentage (%)
Leasing	4,411	3,277	34.6
Loans	1,660	1,668	(0.5)
Gold loans	2,099	1,165	80.2
Margin trading	666	952	(30.0)
<b>Total</b>	<b>8,836</b>	<b>7,062</b>	

Core product	2022/23 LKR Mn	2021/22 LKR Mn	Growth percentage (%)
Fixed deposits	7,627	3,198	138.5
Savings accounts	29	31	(6.0)
<b>Total</b>	<b>7,656</b>	<b>3,229</b>	



# Financial Capital

## Capital

The Company is guided by its Internal Capital Management Plan in maintaining capital corresponding to its current and projected business volumes. The Company has met the minimum capital requirement stipulated by the Central Bank of Sri Lanka of LKR 2,500 Mn.

The Company maintained all its capital ratios well above the regulatory requirements throughout the year. As of 31 March 2023, the Company's core capital ratio and total capital ratio were at 26.76% and 26.76%, compared to 37.71% and 37.71%, respectively, at the end of 31 March 2022.

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Indicator	Minimum regulatory requirement percentage	2023 Percentage	2022 Percentage
Core capital adequacy ratio	8.50	26.76	37.71
Total capital adequacy ratio	12.50	26.76	37.71

# Empowering Our Employees



PMF Finance PLC recognises employees as the company's most valuable asset while fostering a supportive and inclusive work environment to support them to reach their best level. The Management focuses on continuous development of the employees by investing in employee growth and learning opportunities and encouraging a culture of skill enhancement and personal development in a systematic way.



## Highlights of the Year

**274**

Number of employees

**12**

Number of Promotions

**728**

Number of Training Hours

**146**

Employment opportunities created

# Empowering our employees

Benefits paid:

**LKR 365 Mn**

Training hours:

**728**

Employment opportunities created:

**146**

No. of promotions:

**12**

→ PMF Finance is committed to invest in its employees, internal processes and business systems to serve our customers. We are strengthening our core competencies as well as investing in the development of new capabilities.

→ We strive to explore their best by creating opportunities for growth and development while maintaining discipline and demeanour in consonance with the culture and values of the organization.

Our HR Goal at **PMF** is to be **The Employer of Choice**

**Delegating decision-making authority to employees**

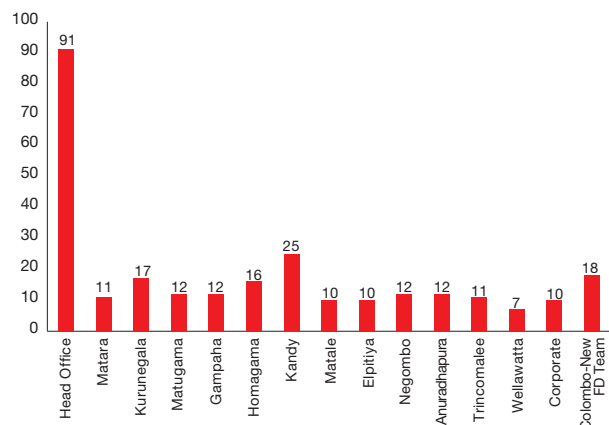
This will be the key in developing the next level employee to take over the duties in the challenging situations.

**At PMF we give our employees a sense of ownership and accountability**

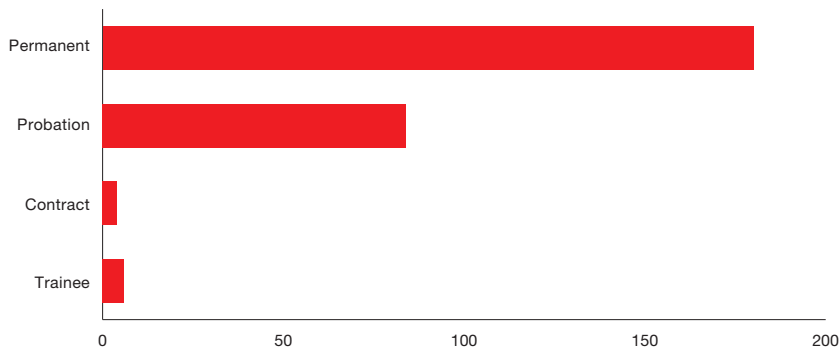
## Our team

We are highly dependent on the quality of our employees as they enable us to offer the best service to our stakeholders. Our employees are from diverse backgrounds and cultures and their location-wise composition is depicted below. A majority of our staff members have been engaged on a permanent basis and the HR team continued to focus on finding the right person for the right position and retaining these quality employees throughout the company's journey.

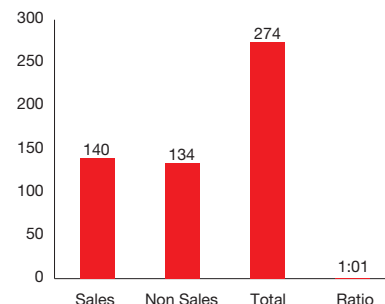
Location-Wise



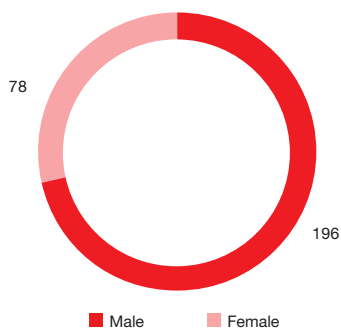
### By Employment Type



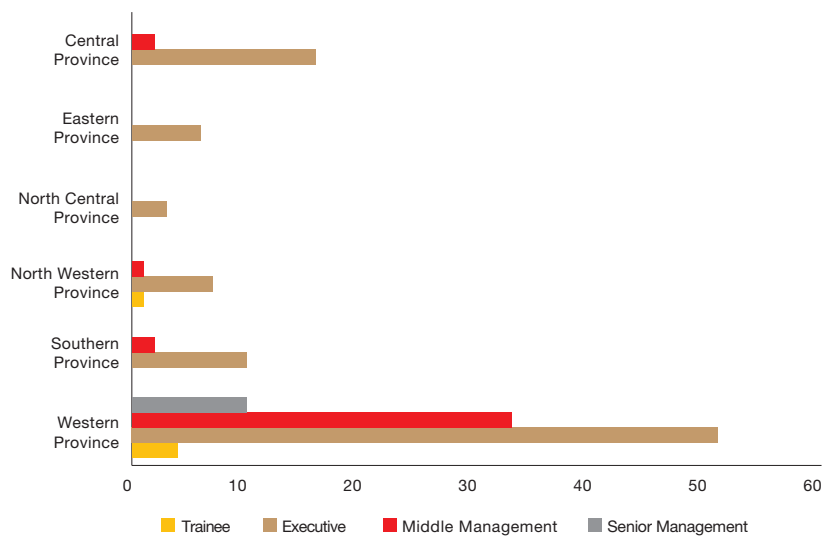
### Sales and non-sales staff



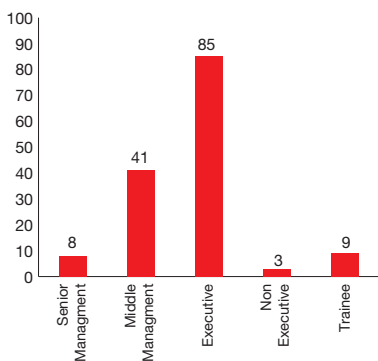
### By Gender



### New recruits by Region



### New Recruits by Employment Category



# Empowering our employees

## Training and Development

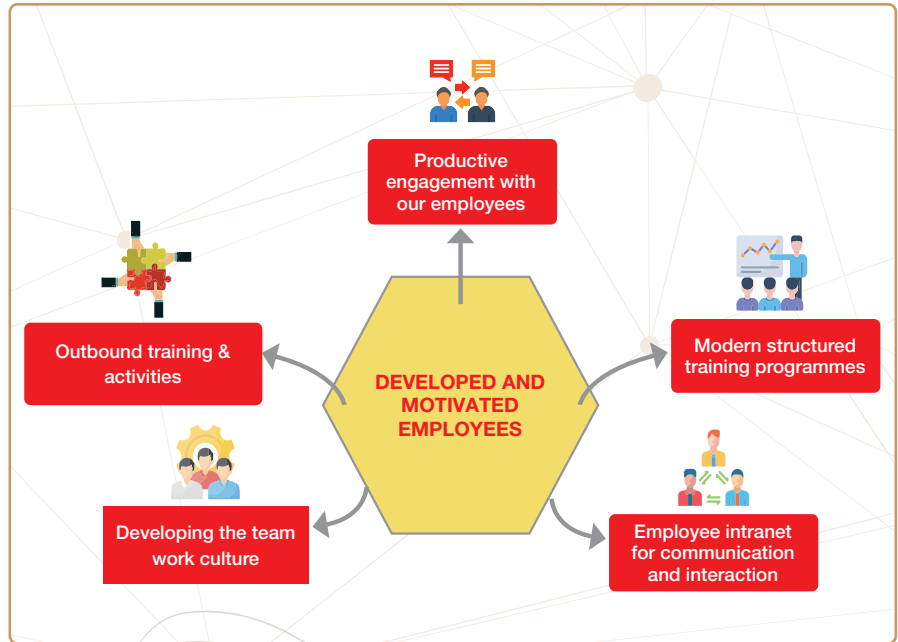
Employee development is a key focus area of our HR department. By developing a team of motivated and talented employees within PMF we aim to build a foundation to retain them in the long run. Our Succession Planning and Career Growth training modules focus on identifying and developing employees with high potential within the organisation and equipping them with the required skills to take on leadership and responsibility.



We identify skill gaps and develop areas for individuals to meet the job demands and give them opportunities to acquire competencies that are required for good performance. PMF makes it a point to provide tailored training programmes that focus on addressing individual and team requirements whenever needed. Creating clear career paths and growth opportunities is considered as a key responsibility of the organisation to prepare the next level of leaders to take over future duties and responsibilities

## How do we do this?

PMF provides access to both internal and external training resources while encouraging participation in workshops, conferences, and seminars.

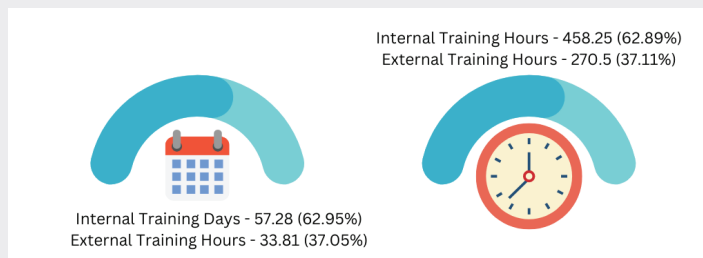


**16**  
staff members  
were nominated to  
participate in

→ PMF initiated the Train the Trainer programme with the aim of developing future trainers among the staff. As the initial step, the HR department conducted a session in consultation with an external HR consultation group and identified 16 staff members from both branches and departments.

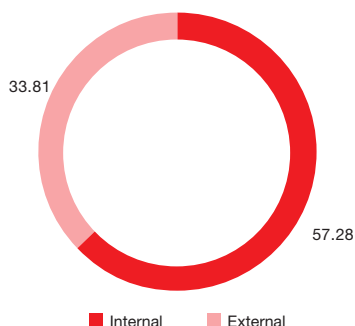
the Train  
the Trainer  
programme

→ They were trained in this discipline and were assigned a task to complete a total of 40-man hours of conducting training for their peers.

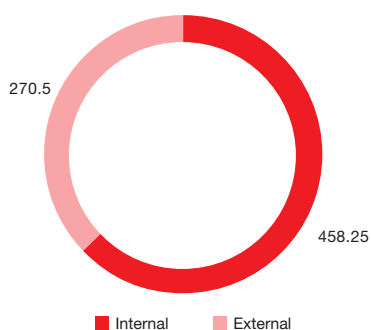




### Type of training in work-days



### Type of training in work-hours



### Staff engagement

We carry out various activities and programmes which are specifically aimed at increasing employee engagements as well as supporting their individual development and sense of personal achievement. These activities promote team building, help foster positive attitudes towards the organisation and ultimately affect the overall productivity of the company.

A staff get together, staff cricket tournament and outbound workshops are some of the activities that have been scheduled for the coming year. Our staff members will be encouraged to take part in these events so that the Management can set up realistic goals and objectives to be achieved in the long run.

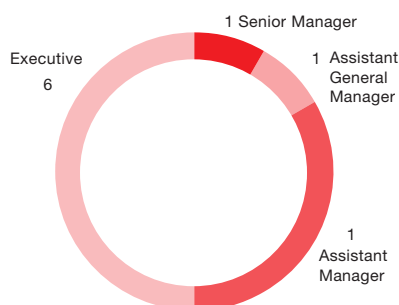
### Remuneration and benefits

Even amidst the country’s economic downturn, the Management of PMF continued to uphold the financial commitments towards employees and treat them in the best possible manner. We did not limit or cut down incentives or other allowances which the employees were entitled to and paid salaries on time.

12 Promotions were given during the period under review.

PMF Finance PLC also has in place one of the most advanced health insurance schemes to cover the staff members and their belongings which includes life insurance and provides hospitalisation covers, OPD reimbursements and dental and spectacle requirements.

### 12 Promotions were given during the period under review.



### Performance, rewards and recognition

Employees are assigned their financial and quantitative targets (KPIs) on an annual basis or at the time of joining the company. These are formulated in line with the strategic plan of the company, and the targets of the respective designations and departments. The final assessment will be adjusted fairly according to the time it was communicated and the Management

has the discretion to add or change such KPIs at any time based on business requirements.

Employees shall be considered for promotions only if their performance has been evaluated as “Very Good or Outstanding” in the overall appraisal grading during the period of evaluation. The superior gives due consideration to such factors as ability, intellectual capacity and willingness to assume responsibility, job aptitude and past performances when evaluation subordinates. All promotions are approved by the CEO.

Subsequent to carrying out appraisals and performance monitoring, we consider it our duty and privilege to acknowledge outstanding performance through various rewards and opportunities as we consider this as a key factor in motivating talented employees. We place high importance on aligning rewards with the company values and achievements and reward our candidates based on both skills and alignment with the company culture.

We have introduced incentive schemes, monthly recognitions for top performers and appreciations are also given by the CEO to appreciate our top performers.

# Empowering our employees

## Whistle-blowing policy

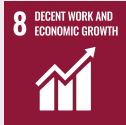
As mentioned above, when creating an ideal environment for motivated employees, open lines of communication help to further strengthen the bond between our employees and the organisation. We have introduced a Whistle-blowing Policy to make it easier for members of staff to be able to report irregularities in good faith, without fear that their actions may have adverse consequences. By creating an environment of trust and respect and providing maximum protection for the members of its staff, the company hopes to make employees feel connected to its purpose and give their fullest cooperation towards achieving its goals.

## Diversity and inclusion

We pride ourselves on being equal opportunity employers and we believe in female empowerment and equality. Embracing diversity to create a rich and inclusive workforce would create a sound organisational culture. Implementing anti-discriminatory hiring practices is a key strategy that is being used by the HR professionals in PMF to maintain a sound working environment within the organisation.



Promoting a healthy work-life balance for all employees is a key factor when it comes to the well-being of the employee. Implementing flexible work arrangements wherever possible would bring positives both to the employee and to the organisation.



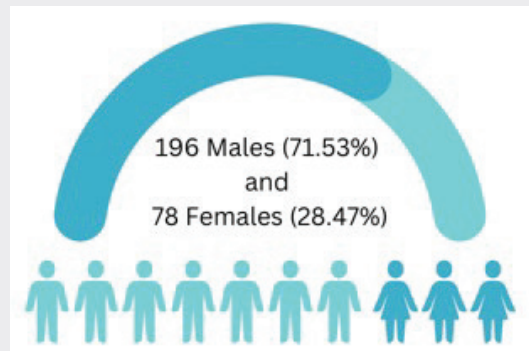
The PMF Welfare Society has added a value to the company and company and also given an opportunity for recognition to employees. The members make a monthly contribution based on their grade and the total contribution is credited to the welfare account and the contribution is matched by the company.

The Whistle-blowing Policy is a key element for safeguarding the company's integrity

It is aimed at enhancing the company's transparency and underpinning its system for combating practices that might damage its activities and reputation.

Protecting the integrity and reputation of the company requires the active support of all members of the company's staff, who are instructed to report incidents of;

- Suspected Fraud
- Corruption
- Collusion and Coercion
- Other Serious Infringements of the Rules and Policies in force in the Company.



## Plans for the year ahead



PMF's HR strategy will be directly aligned with the company's vision, ensuring that the essential competencies, behaviours and attitudes are in place to drive the strategic ambitions. As customer-centricity will be a key differentiator, we hope to inculcate behavioural changes that will help us achieve this objective and drive corporate growth.

# Enriching the Lives of Our Customers

Customer centricity is a concept that is strongly ingrained in PMF’s philosophy. With a history that dates back more than 40 years, PMF finance has consistently interacted with customers on a personal level, resulting in long standing relationships across a range of segments. Ensuring the commercial sustainability and survival of our customers was of critical importance in 2022/23 and PMF continued to guide and support clients to make the most prudent financial decisions that would advance their lives and help them achieve their goals.

## HIGHLIGHTS OF THE YEAR

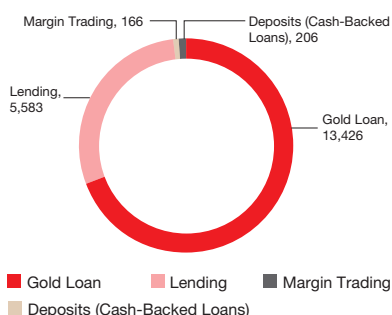
<b>18,032</b> new customers	<b>2</b> new branches added
<b>1</b> new products introduced	<b>364%</b> increase in total lending customer base

## VALUE CREATED FOR CUSTOMERS

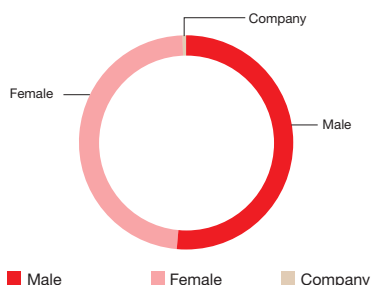
- Personalised customer engagement
- Product and service quality and reliability
- Tailor-made solutions for different customer segments

## Customer profile

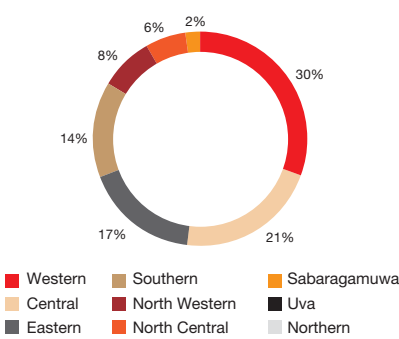
### Number of Clients



### Gender-wise client break up



### Province-wise Customer base



## Customer touchpoints

We continued to invest in both our physical and digital infrastructure to increase accessibility to customers, thereby fulfilling their needs reliably and conveniently.

13 branches	Corporate website	Social media
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## Augmenting customer experience

The key focus at PMF is not just to provide financial services, but to equip the right customers with the right financial solutions that would help them advance their lives. PMF offers a gamut of investment and lending products to a diverse customer base and applies a unique Customer Acquisition Strategy, which is threefold: Cross-selling our financial products, converting wholesale business to retail business and launching products that are innovative and cater to untapped segments of the market.

## Product development

Product conceptualisation and development follows ongoing assessment of market dynamics, the competitive landscape and customer needs. During the year, PMF sought to enhance its portfolio of loan products

in selected market segments through value-addition to existing products and launching new products to suit the changing economic climate and cater to the needs of its chosen market space. These included the following:

- Navodhaya Entrepreneurship Loan Scheme: Aimed to provide financial assistance to entrepreneurs who are operating Micro, Small & Medium Enterprises (MSME), for their business expansions. Target segment will be entrepreneurs planning for expansion of existing business ventures who have limited access to conventional banking and expecting a personalised speedy service.

## Digital value proposition

We made investments during the year under review to boost our team’s productivity and capabilities, enhance and streamline our procedures and operations and expand our digital capabilities. In the upcoming years, we intend to considerably expand our customer base with the launch of our new core banking system, digital banking solution, and customer relationship management (CRM) solution.

Implementation of our core banking system, scheduled for completion by August 2023, aims to substantially enhance productivity and operational efficiency, ensure greater accountability with customers, simplify our processes and expand the outreach and accessibility of the Company. By offering future-ready, innovative and cost-effective solutions, we expect to expand our customer base and strengthen existing customer relationships while aligning PMF’s goal of enhancing its customer centric focus.

# Enriching the Lives of Our Customers

## Planned IT developments

- Upgrade the core banking system.
- Upgrade our network and infrastructure and IT security.
- Enable connectivity to wider payment platforms such as Lankapay and CEFT.
- Introduce mobile banking.
- Introduce agent banking.
- Serve entrepreneurs via a unique mobile portal.

## Expected outcomes

- Enhance productivity and efficiency.
- Reduce operational costs.
- Enhance accessibility and provide greater convenience to stakeholders.
- Enable faster response time.
- Real-time view of data and KPIs which will help understand customer needs better.

Our IT strategy was revamped during the year to fully align with our vision driving “Service Excellence in Financial Services Whenever Wherever”. We intend to digitally enable our staff and equip them with new digital tools that would help them to provide a better service to our customers. These planned upgrades will also help us to perform a better analysis of customer trends and behaviour and obtain more up to date KPI information that will enable more precise decision making.

## Complaint handling

Customer service and experience is the key differentiator in today’s intensely competitive finance industry. Accordingly, PMF organises training programmes for all of its branch employees which are focused primarily on service-related skill development. In nurturing a service-oriented culture, PMF continues to provide customer services related training to front office staff.

Creating a customer experience that is responsive, efficient and courteous is imperative towards ensuring an enhanced customer value proposition. We have a Board approved complaint handling policy which outlines the process and measures to be followed to address customer concerns. We have appointed a dedicated complaint handling officer at each branch who reports to the chief complaint handling officer at the Head Office.

## Responsible lending

During the year our key focus was to maintain a healthy portfolio and thus, we adopted a very conscious approach towards lending. Thorough risks assessment procedures, strict policies and controls were adhered to as we strove to provide the most appropriate solutions for customers, while balancing the quality of the portfolio. We introduced a loan reviewing mechanism to assess new facilities as well as to carry out a continuous review of the existing facilities to identify any red flags and take appropriate action.

PMF Finance is deeply committed towards upholding the highest quality and standards throughout every stage of its operations; ensuring we adopt and adhere to the relevant guidelines outlined by locally and internationally renowned certification bodies. We continue to abide by all product and consumer-specific laws, rules and regulations. In line with PMF’s commitment for product responsibility, no incidents, fines or warnings of non-compliance related to products and services were recorded during the year.

## Customer education



The role of the financial sector is central in reducing income inequality by facilitating economic opportunities. As a responsible financial institution PMF plays its part in building financial literacy and financial inclusion among the general public.

We continue to engage with our customers through awareness programs, workshops, community projects and other functions which bring about greater interaction between staff members and customers. Furthermore, we also make it a point to publish general awareness notices and letters provided by our regulator to heighten awareness among our customers. In addition, the customer protection framework is published in all three languages on our corporate website.

Among some of the key events organised by PMF during the year was the Navodaya Entrepreneurship Development Workshop which brought together several industry experts to teach, inspire and encourage entrepreneurs and share their valuable tips and insights.







Digital awareness via the corporate website



**Customer privacy**

With the Company’s increased thrust towards digital platforms, confidentiality of customer data has gained critical

importance. We are currently in the process of strengthening the Company’s IT and cybersecurity frameworks with vulnerability testing and alignment to leading IT/cyber security standards and frameworks. With our planned upgrades we will be in line with CBSL framework and baseline security concerns of the industry.

The Board IT Steering Committee (ITSC) governs our overall IT processes while a separate executive level committee reports to the ITSC and Risk Committee. There were no substantiated complaints pertaining to the breach of customer privacy or loss of customer data in 2022/23.

**Strength of our brand**

Our brand is the lens through which our stakeholders view us. In light of this, we embarked on a transformational journey of revamping our brand and identity to attract a new generation of stakeholders while maintaining the fundamental principles that have earned respect over our 40 years in business.

PMF previously known as People’s Merchant Finance now stands for path-maker frontier finance and aims to become the go-to-brand for the people’s financial needs. We focus on guiding our customers along the right path that would lead them to their desired destination and the asterisk in our brand logo represents our customers – our most important stakeholder. With a revitalised brand, greater emphasis was placed on building better brand visibility and positioning during the year via traditional and digital campaigns as well as via greater engagement with customers and communities.

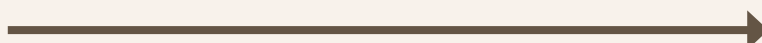
**Branding strategy in FY 2022/23**

During the first few months of the financial year PMF practiced a general branding strategy consisting of ATL & BTL activities. Consequent to the re-branding of PMF we shifted from the traditional marketing campaigns and repositioned the organisation adopting a unique branding strategy . We placed greater focus on promoting our corporate image by executing a digital marketing plan that consisted of a series of brand building exercises. Accordingly, a digital marketing strategy that included a comprehensive social media strategy geared to reach all customer segments, was implemented in tandem with our overall transformation trajectory. In total the company spent LKR 41 Mn on brand building and marketing communication during the year under review.

**Marketing and communications**

Branding, marketing communications and promotions play a key role in our efforts to build and enhance our brand value. The Company relies on a balanced mix of print and electronic media for above-the-line advertising and where applicable, utilises direct marketing initiatives including roadshows and door-to-door promotions, which target consumers and traders. In addition to brochures and leaflets outlining product information, we leverage on a range of online channels and social media platforms to promote our brand-building exercises. During the year under review, the Group invested LKR 41 Mn on branding, marketing and promotional activities.

**Plans for the year ahead**



- Execute the digital developments as planned.
- Further strengthen our entrepreneurship development and education loan products.
- Expand our regional presence by adding 5 new branches.



# Creating sustainable value for the community and environment

Finance companies are important providers of capital for the development of the national economy. PMF Finance has been guided by a spirit of community since its inception in 1983 and has aimed to be a financial service provider for all. While the challenge of global warming and other mega trends determine our future, we remain focused on actively contributing to a future worth living, which requires a healthy environment and a functioning society.

## HIGHLIGHTS OF THE YEAR

<b>LKR 54 Mn</b> Portfolio of Entrepreneur Development Loans	<b>LKR 18 Mn</b> Carbon footprint
<b>11.42%</b> Green lending Portfolio	

## VALUE CREATED FOR THE COMMUNITY AND ENVIRONMENT

- Empowering communities through economic opportunities and skills development.
- Uplifting communities through community development initiatives.
- Ensuring that environmental considerations are incorporated into our lending decisions.

## Building resilient communities



MAKE CITIES AND HUMAN SETTLEMENTS INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE

### 'Navodaya' loan scheme for rural transformation

PMF Finance, in line with its transformational strategy and bolstered vision of catering to the diverse financial needs of all Sri Lankans, launched the Navodaya Entrepreneurship Loan Scheme in October 2021, to empower MSME entrepreneurs to scale up their enterprises and make them commercially viable to create a positive impact on the nation. Throughout 2022 the Company focused on bringing this product closer to our communities to help enrich their lives and livelihoods. This product is the very first of its kind to be introduced to the market by a non-banking financial institution in Sri Lanka. PMF is proud to have achieved this milestone, which will become a long-term accomplishment for the company.

A separate unit has been tasked with overlooking this product and is responsible to provide personalised services to individual entrepreneurs based on their distinct needs. This product is being targeted predominantly at the upper end of the microfinance sector and the lower end of the SME sector as the opportunity for growth and expansion for emerging Sri Lankan entrepreneurs is vast with great rewards to be gained.



Water lily project funded by the Navodaya scheme



Batik project financed by the Navodaya scheme

This entrepreneurship loan scheme is designed to be commercially viable and sustainable and aligned to the development of the client’s business needs. Considering the importance of technology in this digital age, PMF will provide tech support in partnership with emerging technology companies. Also included as part of the product is training and development to build individuals’ business and financial skills, knowledge on laws and regulations and best practices to adopt to for business success.

To ensure the product reaches the right target market with the right needs, PMF works hand in hand with the Ceylon Chamber of Commerce, other district-wise chambers, the Microfinance Institution and the Women’s Chamber, as well as Farmers and Traders Associations, among others. PMF has identified and engaged with several key industry and service sectors connected to agriculture and rural economic segments as the ideal target market for their product. Our team of experts at the head office aims to drive the Navodhaya product dispersion to its full potential over the upcoming years, enabling PMF to nurture entrepreneurial growth and make a positive impact on the Sri Lankan economy.


**Environment and resource efficiency**



TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

Our commitment to environmental sustainability is ingrained in our corporate strategy and core business activities. Climate change is one of the most critical challenges facing our planet and society today and we are responding by minimising the carbon footprint of our own operations and by leveraging our business to support and accelerate the global transition to a low-carbon economy.


- Key focus areas**
- Preserve energy
  - Reduce paper consumption
  - Green financing
  - Protect water
  - Responsible waste management
  - Conserve nature



**Preserve energy**

We continue to drive towards greater energy efficiency within the Company by nurturing a sustainability-conscious culture through ongoing communication on the importance of saving energy and adopting energy conservation measures. Our primary source of energy is electricity from the national grid and our staff members are encouraged to reduce electricity usage by switching off air conditioners, lights, chargers and other electronic items when they leave the office premises. Furthermore, we use energy-efficient hybrid vehicles for official travel wherever possible.


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**Protect water**

As a service organisation our water usage is mainly limited to staff consumption and sanitary purposes. We make every effort to optimise the consumption of water, display notices to inculcate the importance of water conservation and encourage staff members to adopt sustainable practices whilst continuously improving current practices of managing water-use.

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**Reduce paper consumption**

Most of our internal processes are running on paperless platforms through which we have been able to significantly reduce paper usage. With the proposed digitalisation and core banking implementation we will be able to further minimise paper usage and our carbon footprint by way of improved processes and reduced the costs.

# Creating sustainable value for the community and environment



## Responsible waste management

We believe being mindful of our consumption and disposal patterns can have a positive impact on the planet and the sustainability of such scarce resources in the long-term and strive to incorporate best practices in terms of managing our footprint across the organisation. We continue to raise awareness amongst staff members and encourage responsible waste segregation and disposal at all our offices and branches and commit to the 3R principles of Reduce, Reuse and recycle.



## Green financing

The financial sector has a unique role to play, particularly in mobilising the capital necessary to develop new technologies and build sustainable infrastructure. At PMF we are using our capabilities to promote sustainable business practices and help our clients respond to and drive new solutions to the challenges the world faces. This includes working with clients to support the transition to a low-carbon economy and providing sustainable investing and financing solutions.

### Strategic CSR

We take a holistic view of strategic CSR, committing our efforts and resources to areas in which we feel we can have the most impact in the long term. Accordingly, the PMF’s strategic CSR activities revolve around the areas of entrepreneurship, environment, education and healthcare and are closely linked to the United Nations Sustainable Development Goals.

PMF Finance PLC was a proud partner in contributing for the “Global Week of Action (Act4SDGs)” powered by the United Nations SDG Action Campaign and we were able to contribute 273 actions in total with the help of all our staff members as well as their family members.

### Plans for the year ahead



We will continue to support the sustainable financing agenda in the industry through greater stakeholder engagement. We are passionate about driving meaningful change in the communities we operate in and will continue to invest in strategic CSR initiatives which are in line with PMF’s overall corporate sustainability agenda and ambition to support local entrepreneurs.

Meanwhile we will continue to avoid, minimise and mitigate our environmental impact by placing greater emphasis on green financing, by reviewing our environmental and social management system and by striving to reduce our carbon footprint through more responsible consumption of resources.



# LEADING TO NEW FRONTIERS

At PMF Finance we are committed to creating an enriching platform where entrepreneurship flourishes enabling dreams to take flight, innovations come to life and entrepreneurs rise to their full potential.



# Board of Directors



**1. Mr. Chandula Abeywickrema**

**Chairman**

**Independent Non-Executive Director**

**3. Mr. Rangana Koralage**

**Non-Independent Non-Executive Director**

**5. Ms. Krystle Reid Wijesuriya**

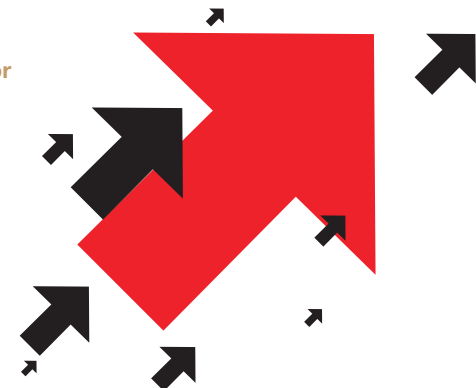
**Independent, Non-Executive Director**

**2. Mr. Travis Waas**

**Non-Independent Non-Executive Director**

**4. Dr. Nirmal De Silva**

**Independent Non-Executive Director**



## Mr. Chandula Abeywickrema

### Chairman

### Independent Non-Executive Director

Appointed to the Board as a Non-Executive Independent Director with effect from 26th June 2019 and serves as the Chairman of PMF Finance PLC.

#### Qualifications, Skills & Experience:

He is a global expert on Financial Inclusion, Social Entrepreneurship and Impact Investing. He is the current Chairman of the Banking with The Poor Network (BWTP), Asia's Largest Microfinance Network and also an advisor on financial inclusion to the Asian Bankers Association (ABA). He is also leader representing Asia for the Global Steering Group (GSG) for Impact Investing and he is regularly invited to major international forums and conferences to speak as a keynote speaker in the areas of development banking, financial inclusion and impact investing and has served on a number of Boards of Financial Institutions, both locally and internationally. He is the Chairman of CSR Sri Lanka the national apex body for Corporate Social Responsibility, representing the largest number of private sector companies, and the Chairman of Lanka Financial Services for Underserved Settlements, a public and private sector collaborated credit guarantee fund to support low-income housing finance. He also serves as a board member of World Vision Lanka and Continental Insurance Lanka Limited.

He holds a Bachelor of Commerce (Special) degree from the University of Kelaniya, a Diploma in Marketing from the National University of Singapore, Training in Leadership Strategies at Ashridge University, UK, Finance & Banking in South East Asia conducted by the Association for Overseas Technical Scholarships, Tokyo, Japan, and has studied Corporate Management Strategy at the University of Melbourne. He has also completed a programme on Advanced Leadership strategies at Wharton Business School of the University of Pennsylvania.

#### Current Appointments:

He is the Co-Founder of 'Ath Pavura' the first-ever TV reality show for Social Entrepreneurs and Impact Investors in Sri Lanka, telecasted on the largest national TV network, and also the Founder and Chairman of Lanka Impact Investing Network (Private) Ltd (LIIN), Sri Lanka's very first impact investing firm focused on channeling private equity funds with the purpose of investing and providing business development support to nurture a well-developed ecosystem of social entrepreneurs across the country. He also Chairs the National Advisory Board for Impact Investing in Sri Lanka (NABIISL).

#### Former Appointments:

An accomplished and well respected senior commercial banker with lead expertise and experience in retail and development banking, Mr. Abeywickrema has a proven track record of over 35 years and is recognized in Asia as an expert in Financial Inclusion. As Deputy General Manager – Retail & Development Banking, he spearheaded the retail and development banking strategy which provided management and strategic direction in steering HNB's SME and Microfinance portfolios to greater heights. During his tenure, HNB was named the best retail bank in Sri Lanka by Asia Money for 7 consecutive years, until his retirement in 2013 after serving the bank for 25 years. Subsequently, he served as the Managing Director/ CEO of CCC Solutions, the project management arm of the Ceylon Chamber of Commerce from 2014 to 2015 and as the Consultant- Strategy and Marketing for National Savings Bank (NSB) from 2016 to 2017.

#### Membership of Board

##### Sub-committees:

He serves as the Chairman of the Board Integrated Risk Management Committee, Credit Committee, Related Party Transactions Review Committee, Nominations Committee, Human Resources and Remuneration Committee and a member of the Board Audit Committee.

## Mr. Travis Waas

### Non-Independent Non-Executive Director

He was involved in the restructuring of People's Merchant Finance PLC, and was appointed as a Non-Independent Non-Executive Director with effect from 22nd June 2020.

#### Qualifications, Skills & Experience:

Mr. Waas counts more than 3 decades of experience in the financial services sector, having commenced his career at Lanka Orient Leasing Company Ltd in 1987.

An alumnus of the University of Colombo with a B.Sc and a MBA from the University of North Texas, USA.

#### Former Appointments:

He has pioneered the setting up of the leasing operations at Hatton National Bank, Vanik Inc. Ltd. and Assetline Leasing Co. Ltd., where he served in the capacity of Senior Manager Leasing, Senior Vice President and Managing Director respectively.

He was an Executive Director of the financial services cluster of the David Pieris Group of Companies, Director/CEO of Orient Financial Services Corporation Ltd. and a Non-Executive Director of Capital Alliance Finance Ltd, People's Merchant Bank, LB Finance Ltd. and the Leasing Association of Sri Lanka.

#### Membership of Board

##### Sub-committees:

He serves as a member of the Board Audit Committee, Board Integrated Risk Management Committee, Related Party Transaction Review Committee, Credit Committee, IT Steering Committee and the Human Resources and Remuneration Committee.



# Board of Directors

## Mr. Rangana Korralage

### Non-Independent Non-Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director with effect from 26th June 2019.

#### Qualifications, Skills & Experience:

Having started his career at Ernst & Young as an Audit trainee he progressed over 8 years in the Audit & Assurance sector by becoming a Senior Manager of BDO Partners having gained valuable experience in Business Valuations, Due Diligence, Forensic Audits, Internal Audits, Project Proposal Formulation, Business Process Outsourcing and Financial Advisory Services. His expertise is widespread covering a range of industries from banking & finance, insurance, micro-finance, plantations, manufacturing, general trading, apparel, not-for-profit organizations and service-oriented organizations to name a few.

He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and holds a MBA from Cardiff Metropolitan University of UK. He is also an Associate Member of the Institute of Professional Finance Managers - UK and an Associate Member of the Association of Accounting Technicians of Sri Lanka.

#### Former Appointments:

He has a proven track record of over 10 years in the corporate world, having held leadership positions in both leading local and overseas entities at senior and strategic level. He was Group Accountant and Senior Accountant at Durdans Hospital and Asiri Surgical Hospital respectively. Further, he strengthened his senior management skills by joining Arabian Sugar Company B.S.C. in Bahrain, the only sugar refinery situated in the Kingdom of Bahrain and one of the biggest sugar suppliers to the Gulf region as the Group Finance Manager.

#### Current Appointments:

He is the Chief Executive Officer of Sterling Automobiles Lanka (Pvt) Ltd. and a Director of Sterling Capital Investments (Pvt) Ltd.

#### Membership of Board

##### Sub-committees:

He currently serves as the Chairman of the Board Audit Committee and a member of the Board Integrated Risk Management Committee, Credit Committee, IT Steering Committee, Human Resources and Remuneration Committee and Nomination Committee.

## Dr. Nirmal De Silva

### Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 29th September 2022.

#### Qualifications, Skills & Experience:

Dr. De Silva has a Doctorate in Business Administration (Specializing in HR) from the University of Aldersgate, a Masters in Business Administration from the Edith Cowan University – Australia, a Bachelor of Business Management Degree from the Monash University – Australia.

He is a CIMA Passed Finalist, qualified as a Certified Management Accountant (CPM – Australia) and has a Post graduate Diploma in Marketing by CIM. He is also a Fellow Member of the Chartered Institute of Professional Managers (CPM - Sri Lanka) & Association of Business Executives (ABE - UK).

#### Current Appointments:

Dr. Nirmal De Silva is a multi-award-winning Strategy Consultant, SME Evangelist, Entrepreneur & Associate Professor in Business Management with two decades of 'C Level' experience across the world, where he has provided leadership to several Multinational and Fortune 500 companies.

He is a Board Member of Global Entrepreneurship Network (GEN) in Sri Lanka, Co-founder/ Director of Paramount Realty Pvt. Ltd. and Capazity Pvt Ltd. He is also an Independent Non-Executive Director of Asia Pacific Technology Systems. Dr. De Silva is an important influencer in shaping the start-up and social enterprise ecosystem in the country. As an Academic, Dr. De Silva focuses on areas such as curriculum enhancement, soft-skills development, entrepreneurship, leadership & holistic learning.

He serves as a mentor for Faster Capital in the UAE, Mentor Capital Network (MCN) in USA, Hatch - Sri Lanka and as a member of the National Advisory Committee (NAC) for Entrepreneurship Eco-system Development at the Ceylon Chamber of Commerce. He is also a Consultant to the SALE programme of the International Labour Organization's Curriculum Development of the South Asia Leadership in Entrepreneurship programme and is an Associate Professor of several global universities. In addition, he serves in the advisory committee of Sri Lanka Tourism, and is a board member of the National Advisory Board for Impact Investment (NABIISL) in Sri Lanka & a co-opted member of the Governing Council of CPM Sri Lanka.

#### Past Appointments:

He has served as a Director of the Pradeshiya Sanwardhena Bank (RDB), as the Country Head of Regus, a board member of the Lanka Impact Investing Network & advisor to the State Ministry of Urban Development.

#### Membership of Board

##### Sub-committees:

He serves as the Chairman of the IT Steering Committee, and is a member of the Board Audit Committee and the Board Integrated Risk Management Committee.

## Ms. Krystle Reid Wijesuriya

### Independent, Non-Executive Director

Appointed to the Board as an Independent, Non-Executive Director on 22nd August 2022.

#### Qualifications, Skills & Experience:

She holds the role of General Manager for Strategy and Growth Initiatives at We Are Team Rocket, a UK-based agency specializing in lead generation and B2B growth marketing. She has experience working with multiple cross-functional teams related to strategic planning, process improvement, risk management, business development, and project management. She is also a diversity and inclusion specialist; she is one of the Co-Founders of Enable Lanka Foundation, which works to dignify and reframe the value of young persons with disabilities in society. The Foundation is the Sri Lankan partner for the APAC Microsoft Enabler program in Sri Lanka, which provides online training in data engineering and programming, cloud computing, and application development to young persons with disabilities.

She has a BSc (Hons) in Global Business Management, Strategic Management and reading for her M.Sc. in Applied Finance at the University of Sri Jayewardenepura.

Her work has been featured in 'I Am Inspired' book published by two Sri Lankan authors, BBC, the House of Lords in London, Commonwealth articles, SBS Australia, Institute of National Security Studies - Sri Lanka, Ministry of Foreign Affairs - Sri Lanka and many other national newspapers and television channels.

#### Former Appointments:

She was a member of the sub-committee appointed by the National Child Protection Authority to sensitize public administrations and authorities on inclusion. In 2019, she was selected

as one of the 50 Young Global Shapers (Davos 50) to attend the Annual Meeting of the World Economic Forum in Davos. She was also named the Commonwealth Young Person of the Year in 2017.

#### Current Appointments:

She is a Fellow of ChangemakerXchange, which is a global collaboration platform for young social innovators, and an Associate Fellow for the South Asia Foresight Network (SAFN) for the Sri Lanka Node of the Millennium Project. She sits on the Lirneasia Disability Research Advisory Board and is a Founding Member of the Commonwealth Children and Youth with Disabilities. She is also the Community Champion for Southern India, Sri Lanka, and the Maldives for the Global Shapers Community, an initiative by the World Economic Forum.

#### Membership of Board

##### Sub-committees:

She is a member of the Related Party Transaction Review Committee, Human Resources and Remuneration Committee and Nomination Committee.

# Corporate Management Team



**1. Mr. Terrance Kumara**  
Chief Executive Officer

**2. Mr. Yasas Ariyaratna**  
Deputy General Manager –  
Leasing

**3. Mr. Dinil Perera**  
Head of Digitalization

**4. Mr. Dilan Wasantha**  
Deputy General Manager -  
Fund Mobilization

**5. Mr. Amila Katuwawala**  
Deputy General Manager –  
Credit and Operations

**6. Mr. Sahan Rodrigo**  
Assistant General Manager –  
Recoveries and Real Estate

**7. Mr. Athula Bandaranayake**  
Assistant General Manager – Risk &  
Management Information System (MIS)

**8. Mr. Nilantha Perera**  
Head of Human Resources

**9. Mr. Sampath Kumara**  
Assistant General Manager –  
Internal Audit



## Mr. Terrance Kumara

### Chief Executive Officer

Appointed as the Deputy Chief Executive Officer on 15th June 2022 and promoted as Chief Executive Officer from 9th January 2023.

### Qualifications, Skills and Experience:

He is a seasoned financial sector professional with a sound academic foundation and brings with him over 20 years of diversified expertise in financial, leasing, corporate finance, and investment management areas locally and internationally. He has extensive experience in financial reporting, taxation, structuring capital market transactions and analytics. He also has years of experience in designing internal controls, legal, compliance & financial risk management and is specialized in analyzing, identifying, and translating business needs into executable strategies through bespoke service delivery. Additionally, during his tenure at SANASA Development Bank, he has spearheaded and implemented Sri Lanka's first rights issue through a digital platform.

He holds a Master of Business Administration (MBA) from University of Southern Queensland, Australia, and is a Fellow Member of Institute of Chartered Accountants of Sri Lanka (ICASL), Member of Institute of Certified Management Accountants of Sri Lanka (CMASL), Member of Association of Accounting Technicians of Sri Lanka (AAT) and a Finalist of the Chartered Institute of Management Accountants of UK (CIMA).

### Former Appointments :

He was the Chief Financial Officer at SANASA Development Bank PLC prior to joining PMF Finance PLC, and has also worked at Lanka Financial Services for Underserved Settlements as Chief Financial Officer, Ali Al Afy Group of Companies as Finance Controller, Lisvin Investments Ltd., Assetline Leasing Co. Ltd., Lanka Tech Computers and

Jayaweera & Company (Chartered Accountants).

## Mr. Yaras Ariyaratna

### Deputy General Manager – Leasing

Mr. Ariyaratne joined PMF Finance, PLC in 2011 as DGM – Business Promotions and is currently responsible for Leasing business development. He has also headed Gold Loan and Fund mobilization units through-out his service period. He counts over 28 years of experience in marketing, sales, banking and insurance and has undergone extensive local and overseas training. He started his career at Bank of Ceylon and has held key positions in AIA Insurance PLC.

Mr. Ariyaratna is a Certified Member of Sri Lanka Institute of Marketing (SLIM) and also a Certified NLP Practitioner (Neuro-Linguistic Programming) under the American Board of NLP. He holds following qualifications; MBA from Buckinghamshire New University – UK, Professional Graduate Diploma in Strategic Management in EDhat International – UK, Diploma in Insurance from University of Wayamba, Diploma in Journalism from University of Colombo and a Diploma in Development Psychology from INDETH Institute. He has completed the Agency Management Training Course, programme conducted by LIMRA International USA.

## Mr. Dinil Perera

### Head of Digitalization

Mr. Dinil Perera is an experienced and results-driven professional in Technology Management with over 30 years of experience in Banking, with exposure to areas such as IT Service Management, Operations Management, Project/ Portfolio Management, Data Centre Management, Consumer Banking Operations and Digital Products.

Mr. Perera commenced his career at the Standard Chartered Bank, Sri Lanka in 1989 and held senior positions in IT at the Commercial Bank of Qatar and the

Standard Chartered Bank – UAE. Prior to joining PMF, he served as the Chief Digital Officer at SDB Bank. Mr. Perera has completed the Intermediate Banking Diploma from the Institute of Bankers of Sri Lanka and is a Certified Project Management Professional (PMP) and a member of the Project management Institute (PMI).

## Mr. Dilan Wasantha

### Deputy General Manager - Fund Mobilization

Mr. Wasantha joined with PMF in January 2023 as the DGM - Fund mobilizations, and is responsible for the deposit mobilization operation. He counts more than 20 years of experience in the finance industry, specifically on Liability Marketing, Sales and Strategic Planning.

Prior to joining PMF, he has headed teams as the General Manager - Fixed Deposit and Business Development at Nation Lanka Finance PLC, Assistant General Manager – Fixed Deposits at Commercial Credit PLC, and Assistant General Manager – Investment at Ceylinco Grameen Credit Company Ltd. (Present HNB Finance).

He holds a Higher National Diploma in Business Management, Diploma in Marketing Management from Aquinas College of Higher Studies – Sri Lanka, has followed a course in Fund Management at the Institute of Bankers of Sri Lanka and holds a Postgraduate Diploma in Strategic Management and Leadership (an ABE qualification).

## Mr. Amila Katuwawala

### Deputy General Manager – Credit and Operations

Mr. Amila Katuwawala counts over 20 years of experience in the banking and finance sector and is a specialist in credit approval, credit administration and recoveries, credit risk, product development, strategic planning, lending operations, and training and development. He commenced his career



# Corporate Management Team

at DFCC Bank and held leadership positions in credit and operations at Orient Finance PLC, ICICI Bank, and Softlogic Finance PLC. He holds an MBA from the Cardiff Metropolitan University, UK and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka (IBSL).

## Mr. Sahan Rodrigo

### Assistant General Manager – Recoveries and Real Estate

Mr. Rodrigo provides oversight to the entire recover operation of PMF. He counts over 18 years of extensive experience in the finance industry, particularly in recovery and legal operations. He commenced his career at Seylan Merchant Leasing Ltd., as a Banking Assistant. He has worked at Central Finance PLC and held diverse positions in Softlogic Finance PLC over 12 years.

He holds an MBA from the Cardiff Metropolitan University – UK, holds L.LB (Hons) Degree from the Buckinghamshire New University – UK, a Diploma in Credit Management and an NCC International Diploma from the University of Cambridge. He is an Associate member of the Sri Lanka Institute of Credit Management.

## Mr. Athula Bandaranayake

### Assistant General Manager – Risk & Management Information System (MIS)

Mr. Bandaranayake counts over 19 years of experience in finance, strategic planning and MIS. He started his career at Sun Match Company Ltd. and held key positions at Earl's Court Group of Companies, Assetline Finance Ltd., and Orient Finance PLC.

He holds an MBA specialization in Finance from the University of Southern Queensland – Australia, a Postgraduate Diploma in Business and Finance (CA Sri Lanka), an Executive Diploma in Business and Accounting (CA Sri Lanka), and a

Diploma in Credit Management (IBSL). He has completed a Certificate Course in Leasing and Hire Purchase (IBSL) and a Certificate Level of Chartered Tax Advisor (CA Sri Lanka). He is a Member of the Institute of Certified Management Accountants (CMA – Australia).

## Mr. Nilantha Perera

### Head of Human Resources

Mr. Nilantha Perera brings with him over 30 years of experience in Human Resource Management.

Prior to his appointment at PMF, he has served as the Head of HR at Orient Finance PLC, Ceylinco General Insurance PLC and as a HR Consultant to Lakderana Investment. He has extensive experience and exposure in company mergers and acquisitions, setting up of formal Human Resources divisions and building in-house HRIS systems in his former roles.

Nilantha holds a Master's Degree in Business Administration from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenepura, a Master's Degree in Business Studies from the University of Colombo and a B.Sc. Degree in Human Resource Management from the University of Sri Jayawardenepura. He is a Chartered Member of Chartered Institute of Personnel Management (CIPM).

He is also a visiting lecturer at the Chartered Institute of Personnel Management (CIPM) and serves as an independent director to the Board of JFS Holdings.

## Mr. Sampath Kumara

### Assistant General Manager – Internal Audit

Mr K G Sampath Kumara holds a BSc (Finance) (Sp) from the University of Sri Jayawardenepura and an MBA from the Postgraduate Institute of Management (PIM). He is an Associate Member of The Institute of Chartered Accountants of Sri

Lanka (CA). He counts over 15 years' experience in Financial Management, Risk management and Auditing in both local and international firms including KPMG, CDB Finance PLC, Richard Peiris Finance Ltd and leading multinational - Samsung India Electronics Ltd.

## Senior Management Team



**Mr. Bandara Chandrasekara**  
Chief Manager – Regional Business Development

Mr. Bandara Chandrasekara joined PMF in 2021 as Chief Manager – Regional Business Development. He counts over 20 years of experience in sales, marketing, business development, recovery, planning, execution and branch operations. His career journey started in 2003 at Assetline Finance Ltd., and he has held key positions throughout his service period.

His local and overseas training experiences offers him the ability to build a strong team based culture, formulating multichannel marketing initiatives to support business growth. He holds an MBA from the University of Wales Trinity Saint David – UK. He also has done a Certificate in Leadership Development Programme at the National University of Singapore and a Certificate in Developing Managers for the Future at the Postgraduate Institute of Management Alumni.



**Mr. Nishantha Fonseka**  
Head of Recovery - Micro Leasing

Mr. Fonseka counts 17 years of experience in Recoveries. Having started his career at Bartleet Finance PLC as a Recovery Executive, he has held key positions at Orient Finance PLC during his career.

He joined LOLC in 2015, as a Manager Recoveries and was promoted as Senior Manager recoveries subsequently. He has overseen the entire Recovery and Pre-Legal Recovery operations of LOLC Micro Leasing.



**Mr. Suneth Kumara**  
Chief Manager – Gold Loan Sales

Mr. Suneth Kumara counts over 17 years of experience in the financial sector with expertise in Branch Operation, Gold Loan Sales & Operations and Marketing. He commenced his career at ETI Finance Limited and also held different key positions in Gold Loan and Branch Operations at Swarnamahala Financial Services PLC.

Mr. Suneth Kumara Holds a Diploma in credit management from the Institute of Bankers of Sri Lanka (IBSL) and a Diploma in Marketing from the University of Kelaniya.



# Senior Management Team



## Ms. Thilini Gunawardana

### Head of Legal

Ms. Gunawardana counts over 15 years of experience in the Legal profession related to finance sector. She commenced her career at David Pieris Motor Company (Pvt) Ltd. and held key positions in its subsidiary Assetline Finance Limited.

After a dynamic corporate journey of 13 years, she moved on to the position of Director – Legal and Company Secretary of Rakna Arakshaka Lanka Limited dealing with Government Policies and Foreign Investments with increased exposure.

Ms. Gunawardana is an Attorney at Law, Notary Public & Company Secretary.

She holds a BSc. Special Honors Degree in Information Technology from Sri Lanka Institute of Information Technology - Affiliated to Curtin University of Technology Curtin, Australia.



## Mrs. Shyamali Pamarathna

### Compliance Officer

Mrs. Pamarathna counts over 8 years of experience in Risk and Compliance field in the Financial Sector. She commenced her career at Kreston MNS & Co., as an Audit Trainee. She has worked at Swarnamahal Financial Services PLC and Orient Finance PLC in the capacities of Compliance and Risk Officer and Assistant manager Risk and Compliance respectively.

Mrs. Pamarathna holds a B.Com. Special Degree from the University of Sri Jayawardenepura, a Diploma in Bank Integrated Risk Management from the Institute of Bankers of Sri Lanka (IBSL) and a Certificate in Accounting and Business from the Institute of the Chartered Accountants of Sri Lanka. Currently she is following a Diploma in Compliance at IBSL.

# Corporate Governance

Corporate governance provides the structure through which the objectives of the Company are set, and the means of attaining those objectives and monitoring performance are determined. Essentially, progress and prosperity of PMF Finance PLC (PMF), as a finance company depends on trust and confidence placed by the public on the affairs of the Company. Therefore, the Company has put in place the best corporate governance practices to achieve its vision while complying with all the regulatory requirements.

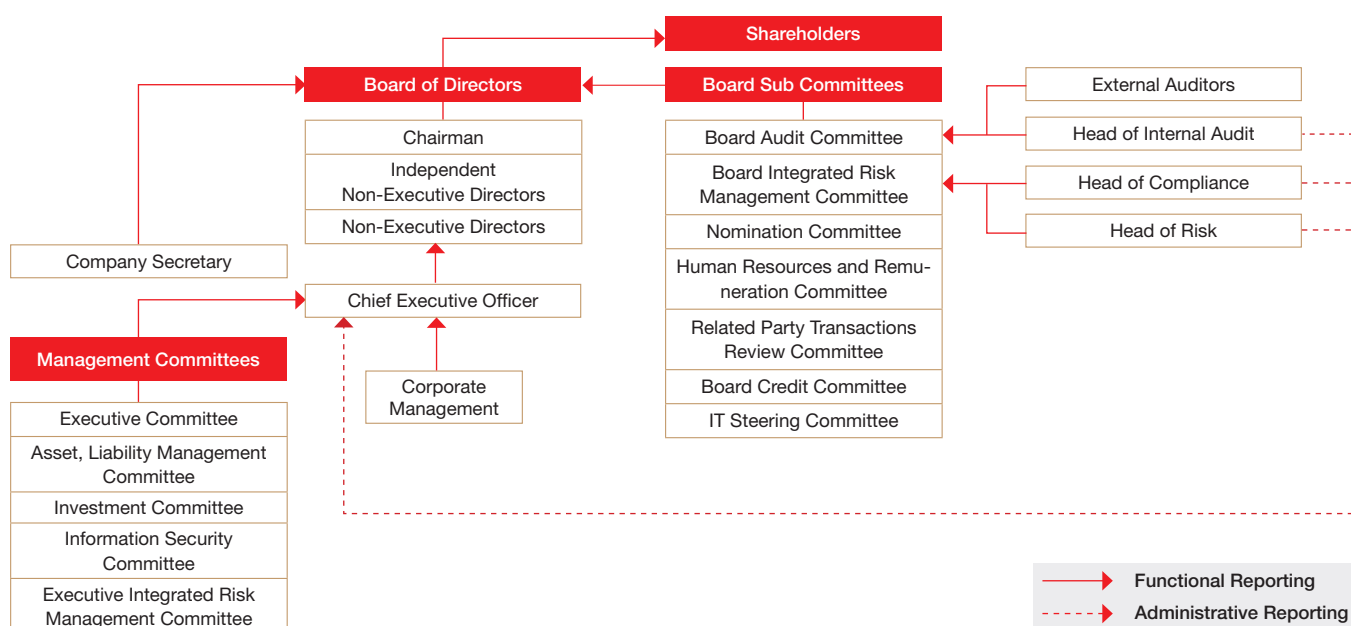
## GOVERNANCE FRAMEWORK

Board of Directors of PMF Finance PLC holds apex responsibility for implementing sound governance structures and formulating policy frameworks, thereby effectively setting the tone at the top. Governance practices are reviewed and updated regularly to reflect regulatory changes, emerging risks and opportunities and internal changes. Governance Framework of PMF has been developed to comply with external & internal benchmarks, as listed below.

Regulatory benchmarks on corporate governance	Internal benchmarks on corporate governance
Companies Act No. 07 of 2007	Articles of Association of the company
Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued by the Monetary Board of the Central Bank of Sri Lanka including Finance Business Act (Corporate Governance) Direction No. 05 of 2021	Charters/Terms of Reference of Board, Subcommittees and Management Committees
Listing Rules of the Colombo Stock Exchange (CSE)	Board approved Corporate Governance Framework
The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka (voluntary)	Board approved Policies & Procedures
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto including new Act no 19 of 2021.	Operational Circulars
AML and CFT legislations and relevant rules and regulations issued by the FIU including Customer Due Diligence rule 01 of 2016 and Financial Transactions Reporting Act No. 6 of 2006	Policy on Anti-Money Laundering & Suppression of Terrorist Financing
Inland Revenue Act No. 24 of 2017 and amendments thereto	

## GOVERNANCE STRUCTURE

### BOARD OF DIRECTORS



# Corporate Governance

Information on Board of Directors has been published in the Annual Report under “Profiles of Directors” (pages 60 to 63)

## DEVELOPMENTS DURING THE YEAR

Board oversight for the management of the Company	Key Highlights for 2022/23
<b>Strategic Oversight</b>	<ul style="list-style-type: none"> <li>Board approved the Annual Budget for the FY 2022/23</li> </ul>
<b>Financial Control</b>	<ul style="list-style-type: none"> <li>Reviewed the Interim Financial Statements for the year ended 31st March 2023.</li> </ul>
<b>Compliance Oversight</b>	<ul style="list-style-type: none"> <li>Following policies, procedures and Terms of References (TORs) were reviewed in line with the requirements of Finance Business Act (Corporate Governance) Direction No. 05 of 2021.                             <ul style="list-style-type: none"> <li>Corporate Governance Framework</li> <li>Compliance Management Policy</li> <li>Board Integrated. Risk Management Committee TOR</li> <li>Board Audit Committee TOR</li> <li>Related Party Transaction Review Committee TOR</li> <li>Nomination Committee TOR</li> <li>Board Human Resources and Remuneration Committee TOR</li> <li>Related Party Transaction Policy</li> </ul> </li> <li>All Directors participated on a Web Conference on Key Aspects of AML/CFT Obligations for Board of Directors and Senior Management of the Licensed Finance Companies.</li> <li>AML Compliance reports were submitted to the Board as per CDD rule No 1 of 2016 and updated monthly compliance checklists were also presented.</li> <li>Gap analysis on Finance Business Act (Corporate Governance) Direction No.5 of 2021 was reviewed by the Board.</li> </ul>
<b>Risk Oversight</b>	<ul style="list-style-type: none"> <li>Risk Management Policy and Risk Appetite Statement were reviewed considering the prevailing market conditions and trends.</li> <li>Risk dashboard assessing all key risk areas was presented to the Board in monthly basis.</li> <li>ML/TF Risk Assessment was presented to the Integrated Risk Management Committee in Annual Basis</li> <li>Risk Assessment report was submitted within a week of each BIRMC meeting to the Board seeking the Board’s views, concurrence and/or specific directions</li> </ul>
<b>IT Governance</b>	<ul style="list-style-type: none"> <li>Ensured IT steering committee meetings are held as per the schedule and key IT governance matters are presented at the board/ board subcommittee level for strategic oversight.</li> <li>Established Information Security Committee (ISC) in line with the Finance Business Act (Technology Risk Management and Resilience) Direction No 1 of 2022</li> <li>Completed phase 1 &amp; 2 of the core banking implementation process and commenced phase 3 of the implementation process strengthening the Company’s core IT infrastructure</li> </ul>

## EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

The level of compliance with the regulations on Corporate Governance is presented under three sections given below.

### Section One

The level of compliance with Finance Business Act (Corporate Governance) Direction No. 05 of 2021 issued by the Central Bank of Sri Lanka

Section Reference	Corporate Governance Principle	Status of compliance	Level of 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.	Compliant	A sound business strategy & corporate values have been put in place by the Board which guides the Company to success in all its endeavors. The Board approved Strategic Plan for 2021-2026 has also been established.
<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.	Compliant	Board has approved strategic plan for five years period (2021-2026) is in place and updates it annually in line with the changes in business environment.  The Company's Strategic Plan for 2021-2026 includes measurable goals for the next five years.
1.2.b	Approving and implementing the Company's governance framework in light of the Company's size, complexity, business strategy, and regulatory requirements.	Compliant	The Board has approved the company's governance framework commensurate with the company's size, complexity, business strategy and regulatory requirements.
1.2.c	Assessing the effectiveness of its governance framework periodically.	Compliant	Effectiveness of Governance Framework is assessed by the Board periodically through a gap analysis.
1.2.d	Appoint the Chairman and the Chief Executive Officer and define the roles and responsibilities.	Compliant	The Board of Directors has appointed the Chairman and the Chief Executive Officer (CEO) and the responsibilities of the Chairman and the CEO have been clearly defined in the Board approved Corporate Governance Framework.
<b>1.3</b>	<b>Corporate Culture and Values</b>		
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent, and professional behavior.	Compliant	The Company invests in building Human Resources culture and there is a people management strategy in place that focuses on leadership and management culture, and embeds cultural values across all levels of the organization.
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.	Compliant	A Board approved Code of Conduct for employees is in place to establish a corporate culture and values across the company.

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
1.3.c	Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	Compliant	Business strategies have developed considering the appropriate environmental, social and governance considerations.
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.	Compliant	The Board has adopted and approved the policy on communication to ensure effective internal and external communication of corporate information with all stakeholders.
1.4	<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.	Compliant	The company has developed a Risk Appetite Statement (RAS) in line with the company's business strategy and governance framework. The Board reviews the statement in annual basis.
1.4.b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	Compliant	Risk indicators and monitoring pertaining to Credit Risk, Market Risk, Liquidity Risk Operational Risks, and all other risk factors 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.	Compliant	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
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.	Compliant	Board approved Business Continuity Plan (BCP) is in place. BCP is being reviewed by the BIRMC and the current status is updated at meetings.
1.5	<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.	Compliant	Directors devote adequate time for Board meetings as well as Board Sub-committee meetings to ensure that their duties and responsibilities are satisfactorily discharged.
1.5.b	All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.	Compliant	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.	Compliant	Directors have recognized the need for continuous training and take part in professional development as they consider it necessary in carrying out their duties as Directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programs relevant to the Board are communicated to the Board by the Company Secretary for the Directors' participation.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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.	Compliant	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.
1.5.e	The Board shall resolve to obtain external, independent, professional advice to the Board to discharge duties to the FC.	Compliant	A Board approved policy is in place that enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense
1.6	<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.	Compliant	The Board has identified and designated Senior Management who are in a position to carry out the Company's operations and risk management processes.
1.6.b	Defining the areas of authority and key responsibilities for the senior management.	Compliant	The senior management job roles and areas of authority have been defined in order to enable effective oversight of the affairs of the Company within the strategic objectives of the Company.
1.6.c	Ensuring the senior management possesses the necessary qualifications, skills, experience, and knowledge to achieve the FC's strategic objectives.	Compliant	Senior management of PMF possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.
1.6.d	Ensuring there is appropriate oversight of the affairs of the Company by senior management.	Compliant	to safeguard better governance practices, the affairs of the Company are reviewed and monitored by the Board of Directors through the CEO. To ensure better management, development, and effective performance of the Company, Other members of the Senior Management make presentations to the Board on matters under their purview.
1.6.e	Ensuring the FC has an appropriate succession plan for senior management.	Non-Compliant	Succession Plan for Senior Management is being developed.
1.6.f	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.	Compliant	The Board interacts regularly with the senior management in order to execute and review policies and to ensure corporate objectives are met.
1.7	<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.	Compliant	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.



# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
1.7.b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	Compliant	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.
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.	Compliant	Civil liabilities are covered through "Director's and Officer's liability insurance policy. Continuous monitoring is in place to avoid criminal liabilities through implementing a governance framework, recruiting Directors of suitable caliber and obtaining fit & 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.	Compliant	Board approved Corporate 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.	Compliant	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.	Compliant	This will be effective from 01.07.2024. During the transitional period, the provisions contained in "Section 4: Composition of the Board" of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 will be applicable.
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.	Compliant	There are no Directors on the Board who has been a Director of the Company for more than 09 years.
3.4	Non-Executive directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, 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 (1/4) of the total number of directors on the Board.	Compliant	None of the Non-Executive Directors of the Company have exceeded nine years of service as at 31st March 2023.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>3.5</b>	<b>Executive Directors</b>		
<b>3.5.a</b>	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.	<b>Not applicable</b>	There are no Executive Directors on the Board.
<b>3.5.b</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.	<b>Not applicable</b>	There are no Executive Directors on the Board.
<b>3.5.c</b>	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.	<b>Not applicable</b>	There are no Executive Directors on the Board.
<b>3.5.d</b>	All Executive Directors shall have a functional reporting line in the organization structure of the Company.	<b>Not applicable</b>	There are no Executive Directors on the Board.
<b>3.5.e</b>	The Executive Directors are required to report to the Board through the CEO.	<b>Not applicable</b>	There are no Executive Directors on the Board
<b>3.5.f</b>	Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.	<b>Not applicable</b>	There are no Executive Directors on the Board
<b>3.6</b>	<b>Non-Executive Directors</b>		
<b>3.6.a</b>	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.	<b>Compliant</b>	All Non-Executive Directors are professionally qualified and possess adequate skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.
<b>3.6.b</b>	A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the Company.	<b>Compliant</b>	None of the Non-Executive Directors are appointed or function as the Executive Directors of the Company.

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>3.7</b>	<b>Independent Directors</b>		
<b>3.7.a</b>	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.	<b>Compliant</b>	Three Directors out of five Directors are Independent Directors.
<b>3.7.b</b>	Independent Directors appointed shall be of the highest caliber, with professional qualifications, proven track records, and sufficient experience.	<b>Compliant</b>	All Independent Directors are professionally qualified and have proven track record and sufficient experience.
<b>3.7.c</b>	A Non-Executive Director shall not be considered independent if such:		
<b>3.7.c.i</b>	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.		
<b>3.7.c.ii</b>	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.		
<b>3.7.c.iii</b>	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.	<b>Compliant</b>	All Independent Directors meet independency criteria's specified in these direction.
<b>3.7.c.iv</b>	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.		
<b>3.7.c.v.</b>	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.		

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
3.7.c.vi	Director represents a shareholder, debtor, or such other similar stakeholder of the FC;		
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 organization, in which any of the other directors of the FC is employed or a director;		
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.	Compliant	All Independent Directors meet independency criteria's specified in these direction.
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.	Compliant	In FY 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.	Compliant	Declarations have been obtained from the Directors regarding the status of their independence / non-independence against the specified criteria, and copies of the same are under the custody of the Company Secretary for review. In FY 2022/23, no such circumstance transpired.
3.8	<b>Alternate Directors</b>	Not applicable	No alternate directors have been appointed to represent the existing Board members
3.9	<b>Cooling off Periods</b>	Not applicable	In FY 2022/23, no such appointments were made.
3.10	<b>Common Directorships</b>		
3.10	Director or senior management of a Company shall not be nominated, elected, or appointed as a director of another Company except where such Company is a parent Company, subsidiary Company, or an associate Company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f).	Compliant	No Directors or Senior Management held positions in other Finance Companies during the financial year 2022/23.

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
3.11	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a Finance Company shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	Compliant	No Director holds directorships of more than 20 companies/societies/bodies including subsidiaries and associates of the FC.
<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.	Compliant	All Directors appointed to the Board are fit and proper person to hold office as a Director in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.
4.2	A person over the age of 70 years shall not serve as a director of an FC.	Not applicable	No Director has reached 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 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to a maximum of 75 years of age subject to the following;	Not applicable	No Director has reached the age of 70 years.
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.	Not applicable	In FY 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).	Not applicable	In FY 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.	Not applicable	In FY 2022/23, no such appointments occurred.
4.3.d	The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.	Not applicable	In FY 2022/23, no such appointments occurred.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>5.</b>	<b>APPOINTMENT AND RESIGNATION OF DIRECTORS AND SENIOR MANAGEMENT</b>		
5.1	The appointments, resignations, or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	Compliant	Appointments, resignations or removals of directors and senior management are made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.
<b>6.</b>	<b>THE CHAIR AND THE CHIEF EXECUTIVE OFFICER</b>		
6.1	There shall be a clear division of responsibilities between the Chairperson and CEO and the responsibilities of each person shall be set out in writing.	Compliant	Responsibilities of Chairman and CEO have set out in the Board approved Corporate Governance Framework.
6.2	The Chairperson shall be an Independent Director, subject to 6.3 below.	Compliant	The Chairman is an Independent, Non-Executive Director.
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.	Not applicable	The Chairman is an Independent, Non-Executive Director.
<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 set out in the Board approved Corporate Governance Framework.
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.		The Annual self-evaluation process ensures that the said requirements are fulfilled.
6.4.d	Ensure the Board works effectively and discharges its responsibilities	Compliant	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.e	Ensure all key issues are discussed by the Board in a timely manner		
6.4.f	Implement decisions/directions of the regulator.		The Board approved communication policy is in place for communication with all stakeholders including depositors, creditors, shareholders, and borrowers
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.		



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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
6.4.h	Not engage in activities involving direct supervision of senior management or any other day-to-day operational activities.	Compliant	
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.		
<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 Chief Executive Officer functions as the executive-in-charge of the day- to-day management of the Company's operations and business.
6.5.a	Implementing business and risk strategies in order to achieve the FCs strategic objectives;	Compliant	Responsibilities specified in the direction have incorporated to the Job Description of CEO
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 behavior.		
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.		

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>7.</b>	<b>MEETINGS OF THE BOARD</b>		
7.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.	Compliant	Board meetings are held at monthly intervals. Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings are conducted as and when required.
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the board are to be represented in the agenda for scheduled Board Meetings.	Compliant	Schedule of items and matters to be discussed in the Board meeting are included in the agenda. Additionally, the Chairman frequently consults Directors with a view to ascertain their requirements with regard to matters for discussion.
7.3	A notice of at least 3 days shall be given for a scheduled Board Meeting. For all other Board meetings, reasonable notice shall be given.	Compliant	Sufficient notice has been given to the Board Members, to ensure all Directors have an opportunity to attend. The annual calendar of meetings is adopted at the first meeting of the calendar year and any changes are agreed upon with adequate notice.
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	Compliant	Directors devote adequate time for Board meetings as well as Board Sub-committee meetings to ensure that their duties and responsibilities are satisfactorily discharged.
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.	Compliant	In 2023, 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.	Not applicable	All members of the Board are Non-Executive Directors
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.	Compliant	In terms of the Company Act, there is a requirement in place for the Directors to declare the nature of their interest. Directors' interests (if any) are disclosed to the Board and any Director who has a particular interest in matters set before the Board abstains from participating and voting. Further, there is a Board approved policy on Conflict of Interest in place for directors
7.8	A director, who has not attended at least two-third 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.	Compliant	All Directors have regularly attended Board Meetings.

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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>7.9</b>	<b>Scheduled Board Meetings and Ad Hoc Board Meetings</b>		
	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where the director cannot attend on short notice, participation through electronic means is acceptable.	<b>Compliant</b>	Please refer 'Directors' Attendance and Committee Memberships' table given on page 118 of the Annual Report. Further, participation in person or through electronic media is clearly recorded in the minutes
<b>8.</b>	<b>COMPANY SECRETARY</b>		
<b>8.1.a.</b>	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.	<b>Compliant</b>	Corporate Services (Pvt) Ltd has been appointed as the Company Secretary in line with the stipulated requirements.
<b>8.1.b.</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 01st July 2024. A transitional period until 01st July 2024 has been granted to comply with the same.
<b>8.2</b>	All directors shall have access to the advise and services of the Company Secretary with a view to ensuring the Board procedures laws, directions, rules, and regulations are followed.	<b>Compliant</b>	All directors have access to the advise and services of the Company Secretary as required.
<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.	<b>Compliant</b>	The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.
<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 6 years.	<b>Compliant</b>	Minutes of Board meetings are maintained by the Company Secretary. The Board Minutes are available for inspection by any Director as and when required.
<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.	<b>Compliant</b>	Minutes of the Board meetings with all Board Minutes are maintained in orderly manner.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
8.6	<p>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:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <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. (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>(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>	Compliant	Board Minutes are maintained in sufficient detail with data and information used by the Board in its deliberations, decisions and Board resolutions. Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Compliant	Minutes of Board meetings are maintained by the Company Secretary. The Board Minutes are available for inspection by any Director as and when required.
9.	<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.	Compliant	The Board has approved a Delegation of Authority (DA) and give clear directions to the senior management.
9.2	In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	Compliant	All sub-committees required in the direction are in operation.
9.3	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.	Compliant	The Board has established appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.

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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
9.4	The Board shall not delegate any matters to a Board Sub-committee, Executive Directors, or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Compliant	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions. The exercise of delegated authority is clearly monitored.
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.	Compliant	Delegation arrangements are periodically reviewed.
<b>10.</b>	<b>BOARD SUB-COMMITTEES</b>		
A transitional period until 01.7.2024 will be granted. However, during the transitional period provisions contained in "Section 8: Board Appointed Committees" of the Finance Companies (Corporate Governance) Direction No.03 of 2008 will be applicable.			
<b>Board Sub-Committees</b>			
<b>10.1 (a)</b>	<b>FCs with asset base of less than Rs. 20 Bn</b>		
	Shall establish at least the BAC, BIRMC and Related Party Transactions Review Committee.	Compliant	The Board has established Board Audit Committee, Integrated Risk Management Committee, Related Party Transaction Review Committee, Nomination Committee and Human Resources and Remuneration Committee.
	Meetings - Meetings shall be held at least quarterly for BAC and BIRMC. Other committees shall meet at least annually	Compliant	There were 8 BAC meetings and 6 BIRMC meetings held during the year 2022, which comply with the requirements. Please refer 'Directors' Attendance table given on page 118 of the Annual Report.
<b>10.1.b</b>	Each Board sub-committee shall have a written term of reference specifying clearly its authority and duties.	Compliant	Each Board sub -committee have a board approved written terms of reference specifying clearly its authority and duties
<b>10.1.c</b>	The Board shall present a report on the performance of duties and functions of each Board Sub- Committee, at the Annual General Meeting of the Company.	Compliant	A report on the performance of duties and functions of each Board sub-committee is available in the Annual Report.
<b>10.1.d</b>	Each sub-committee shall appoint a Secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records, and carry out such other such secretarial functions under the supervision of the Chairperson of the committee.	Compliant	The Company Secretary is the Secretary to the Board Nomination Committee, Board Human Resources and Remuneration Committee, and Board Related Party Transaction Review Committee. Further, Head of Internal Audit, and Head of Risk are the secretaries to the Board Audit Committee, and Board Integrated Risk Management Committee respectively.
<b>10.1.e</b>	Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge, and experience relevant to the responsibilities of the committees.	Compliant	Each Board sub-committee consists of three or more Board members and shall only consists of members of the Board ,who have the skills ,knowledge and experience relevant to the responsibilities of the committee.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
10.1.f	The Board may consider the occasional rotation of members and of the Chairperson of Board sub-committees to avoid undue concentration of power and promote new perspectives.	Compliant	When necessary, the Chairs and members of the Board's subcommittees will be taken into consideration for rotation.
10.2	Board Audit Committee (BAC) 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.		This will be effective from 01.07.2024. During the transitional period, the provisions contained in "Section 4: Composition of the Board" of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 will be applicable.
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.		
10.2.c	The secretary to the Board Audit Committee shall preferably be the Chief Internal Auditor (CIA)	Compliant	Chief Internal Auditor acts as the Secretary of the BAC.
10.2.d	<b>External Audit Function</b>		
i	The BAC shall make recommendations on matters in connection with the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the auditor.	Compliant	The Audit Committee makes recommendations on the stated matters.
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.	Compliant	Service of Present Audit partner has not exceeded five years.
iii	The audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.	Compliant	Present Audit partner of the company is not a substantial shareholder, director, senior management or employee 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.	Compliant	BAC 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.



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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
v	Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor’s independence or objectivity.	Compliant	Present Audit partner has not been assigned to any non-audit services with the company during the same financial year in which the audit is being carried out. BAC has developed and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services.
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.	Compliant	BAC discuss and finalize relevant matters with the external auditor before the audit commences.
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: <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>	Compliant	BAC reviews Annual report and periodical reports prepared for disclosure as required in the direction.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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.	Compliant	BAC is having closed door meetings with the external auditor twice a year without senior management being present.
ix	The BAC shall review the External Auditor's Management Letter and the Management's response thereto within 3 months of submission of such, and report to the Board.	Compliant	BAC reviews management letter and the management responses thereto as required in the direction.
10.2.e	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	Compliant	The effectiveness of the Company's internal control mechanism has been certified by the Directors on pages 137 to 138 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting".
10.2.f	The BAC shall ensure that the Senior Management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to the Internal Audit function of the Company.	Compliant	BAC monitors this through regular reporting from the Internal Audit Department.
10.2.g	<b>Internal Audit function:</b>		
i	The Committee shall establish an Independent Internal Audit function, either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the Company's internal control, risk management, governance systems and processes	Compliant	The Internal Audit function is an independent function which directly reports to the Board Audit Committee and the audits are performed with impartiality and due professional care
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.	Compliant	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.
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;	Compliant	Board Audit Committee discuss the adequacy of the scope, functions, and resources of the Internal Audit Department

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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
	(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit ;	Compliant	The Board Audit Committee review and approves the Annual Internal Audit Program. Internal Audit Reports, with the management comments, discuss 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;	Compliant	The Board Audit Committee has carried out the performance appraisal of the Head of Internal Audit for the year 2022 /23.
	(iv) Ensure that the Internal Audit Function is independent and activities are performed with impartiality, proficiency, and due professional care;	Compliant	Head of Internal Audit reports directly to the BAC and the audit work has been performed with impartiality proficiency and due care.
	(v) Ensure the Internal Audit Function carries out a periodic review of the Compliance Function and regulatory reporting to regulatory bodies.	Compliant	BAC reviews the annual compliance review conducted by Internal Audit Function.
	(vi) Examine the major findings of internal investigations and management's responses thereto. ;	Compliant	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.	Compliant	BAC reviews the progress of implementing the Time Bound Action Plan of the Statutory Examination Report of CBSL in quarterly basis.
10.2.i	<b>Meetings of the Committee</b>		
	i. The committee shall meet as specified in direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Compliant	The BAC meets as it deems necessary to discharge its role and responsibilities but not less than once in each quarter
	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.	Compliant	Other Board members, senior management or any other employee attend meetings upon the invitation of the committee when discussing matters under their purview
	iii. BAC shall meet at least twice a year with the external auditors without any other directors / senior management / employees being present.	Compliant	The Committee met with the external auditors twice during the financial year 2022/23 at the Board Audit Committee meetings without any other directors/Senior management /employees being present.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>10.3</b>	<b>Board Integrated Risk Management Committee (BIRMC)</b> <b>The following shall apply in relation to the BIRMC</b>		
	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.	Compliant	Chairman of the BIRMC is an Independent Director and other Board members appointed to the committee are non-executive Directors with knowledge and experience in banking, finance, risk management issues and practices  The CEO, Head of Risk and Compliance Officer attends meeting as permanent invitees.  The Committee executes its duties in line with its terms of reference and work closely with the key Management Personnel with regard to identified risks.
<b>10.3.b</b>	The secretary to the committee may preferably be the CRO.	Compliant	Head of Risk functions as the Secretary of the Committee.
<b>10.3.c</b>	The committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, compliance and technology to the Company at least once on two monthly basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board;	Compliant	The Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic, compliance and technology risks to the Company on a monthly basis through appropriate risk indicators and management Information.
<b>10.3.d</b>	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.;	Compliant	The BIRMC has developed a comprehensive Risk Appetite Statement which articulates the individual and aggregate level and types of risk that PMF will accept or avoid, in order to achieve its strategic business objectives.
<b>10.3.e.</b>	The BIRMC shall review the Company's risk policies including RAS, at least annually.	Compliant	The committee reviews risk policies including RAS in annual basis.

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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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.	Compliant	Minutes of management level committees are submitted to the Committee to review the adequacy and effectiveness of the respective committees.
10.3.g	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Compliant	The Committee meets once in every two months to assess all aspects of risk management including updated business continuity plans.
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO.	Compliant	Performance of the compliance officer and the CRO for the FY 2022/23 has been assessed by the BIRMC.
10.3.i	<b>Compliance function</b>		
10.3.i.i	BIRMC shall establish an independent compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business' operations.	Compliant	The Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Compliance Officer carries out the compliance function and reports to the Committee periodically.
10.3.i.ii	For a Company with an asset base of more than Rs. 20 bn, a dedicated Compliance Officer considered to be Senior Management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.	Not applicable	
10.3.i.iii	For FCs with an asset base of less than LKR 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	Compliant	An officer with adequate seniority has been appointed as the Compliance Officer.
10.3.i.iv	<b>The responsibilities of a compliance officer would broadly encompass the following:</b>		
	i. Develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements;	Compliant	Board approved policies and procedures are in place.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
	ii. Ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;	Compliant	Board approved Compliance policy is in place and available on the intranet which is accessible by all employees of the Company.
	iii. Ensures that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;	Compliant	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;	Compliant	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	Compliant	Compliance Officer is a member of the Product Development Committee and Board approved Product Development policy is available to streamline the process of designing or redesigning a product in the Company.
	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	Compliant	Compliance Audits are carried out periodically and action is taken to rectify if deviations are noted.
	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	Compliant	With the regulators, a positive working relationship is upheld.
<b>10.3.j</b>	<b>Risk management function</b>		
<b>10.3.j.i</b>	BIRMC shall establish an independent risk management function responsible for managing risk- taking activities across the FC.	Compliant	The Company has established an Independent Risk Management function.
<b>10.3.j.ii</b>	For FCs with an asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO, considered to be senior management, shall carry out the risk management function and report to the BIRMC periodically.	Compliant	Separate department for Risk Management Function is established, which is headed by the Head of Risk.
<b>10.3.j.iii</b>	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	Compliant	The Company has established Risk Management policies with relevant RAS and is in line with the strategic objectives of the Company.



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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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. The framework shall be reviewed and updated at least annually.</li> </ul>	Compliant	Head of Risk is discharged his responsibilities in accordance with the given the direction.
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.	Compliant	Head of Risk 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.	Compliant	Risk division maintains and updates risk register and submits BIRMC once in every two months.
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.	Compliant	BIRMC submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.
10.4	<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.	Compliant	The committee constitutes with Non-Executive Directors.
10.4.b	Secretary to the nomination committee may preferably be the Company Secretary.	Compliant	Company secretary serves as the Secretary of The Committee
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.	Compliant	Committee has established a formal and transparent procedure to select /appoint new Directors and senior management. Senior management are appointed with the recommendation of CEO, excluding CIA and CRO and compliance officer.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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).	Compliant	The Committee ensures that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of fitness and propriety of Key Responsible Persons) Direction
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.	Compliant	The selection process is carried out in accordance with the provision of this direction.
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.	Compliant	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.	Compliant	The qualification and experience of CEO and senior management have been documented in job descriptions (JDs) which were recommended by the Board Human Resources and Remuneration Committee and approved by the Board.
10.4.h	Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the Company Secretary to disclose to shareholders: <ul style="list-style-type: none"> <li>(i) a brief resume of the director;</li> <li>(ii) the nature of the expertise in relevant functional areas;</li> <li>(iii) the names of companies in which the director holds directorships or memberships in Board committees; and (c</li> <li>iv) whether such director can be considered as independent.</li> </ul>	Compliant	Upon the appointment of a new director to the Board, the company secretary discloses to shareholders the relevant disclosures.
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.	Compliant	The Company conforms to the stated section.
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.	Compliant	This is considered at the Board Nomination Committee (BNC) and BNC is responsible for the selection, nomination, appointment, election, and retirement of Key Responsible Persons.

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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
10.4.k	A member of the Nomination Committee shall not participate in decision-making relating to their own appointment/re-appointment and the Chairperson of the Board should not chair the Committee when it is dealing with the appointment of the successor.	Compliant	Members of the Board Nomination Committee is not involved in the decision-making process for their own appointment or re-appointment. Moreover, the Board Chairperson abstains from the meeting when the topics of discussion concern the appointment of the successor.
10.5	<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.	Compliant	Chairman of the committee is an Independent Non-Executive Director and all members are non-executive directors.
10.5.b	The secretary to the Human Resource and Remuneration Committee may preferably be the Company Secretary.	Compliant	Company secretary serves as the secretary of 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.	Compliant	The Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to senior management are decided by the Board Human Resources and Remuneration Committee.
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	Compliant	The Remuneration and Benefits Policy has been formulated and developed to achieve fair and equitable benefits with transparent guidelines which integrate with the market-related modern remuneration practices. Further, the Remuneration and Benefits Policy is reviewed annually by considering the material changes which are to be included in the policy.
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.	Compliant	The committee recommends remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the company which is subject to periodic review of 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 incentivize employees to take an excessive risk or to act in self-interest.	Compliant	The remuneration structure is in line with the business strategy, objectives, values, long-term interests, and cost structure of the Company.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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.	Compliant	The performance of the senior management excluding the Head of Audit, Head of Risk and Head of Compliance has been reviewed by the Board Human Resources and Remuneration Committee. Financial benefits have been decided based on their performance
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.	Compliant	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 organizational structure, segregation of duties, clear management reporting lines, and adequate operating procedures in order to mitigate operational risks.	Compliant	The Board Audit Committee assists the Board in assessing the adequacy and the integrity of the Internal Controls System and the Management Information System and the financial reporting processes of the Company. Internal Audit Department helps the process by carrying out audits to assess the internal controls over financial reporting and management information systems. Board reviews the adequacy and integrity of the MIS through the critical management information reports submitted by the Internal Audit Department of the Company. 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'.
11.2	A proper internal control system shall: <ul style="list-style-type: none"> <li>• promote effective and efficient operations;</li> <li>• provide reliable financial information;</li> <li>• safeguard assets;</li> <li>• minimize 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.	Compliant	Relevant responsibilities for internal controls have been incorporated in the job description of employees.
<b>12.</b>	<b>RELATED PARTY TRANSACTIONS</b>		
12.1	<b>Board shall establish a policy and procedures for related party transactions, which covers the following.</b>		
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.	Compliant	Committee Chairman is an independent Director. Members appointed to the committee are Non-Executive Directors
12.1.b	All related party transactions shall be prior reviewed and recommended by the RPTRC.	Compliant	All related party transactions are prior reviewed and recommended by the RPTRC

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
12.1.c	<p>The business transactions with a related party that is covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>• Granting accommodation;</li> <li>• Creating liabilities to the FC in the form of deposits, borrowings and any other payable;</li> <li>• Providing financial or non-financial services to the FC or obtaining those services from the FC.</li> <li>• Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to sharing proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.</li> </ul>	Compliant	All such related-party transactions are reviewed by the Board Related Party Transactions Review Committee.
12.2	<p>The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.</p> <ul style="list-style-type: none"> <li>• Directors and senior management.</li> <li>• Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.</li> <li>• Subsidiaries, associates, affiliates, holding Company, ultimate parent Company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa</li> <li>• Directors and senior management of legal persons in paragraph (b) or (c).</li> <li>• Relatives of a natural person described in paragraph (a), (b) or (d).</li> <li>• Any concern in which any of the FC’s directors, senior management or a relative of any of the FC’s director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.</li> </ul>	Compliant	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 discusses categories of related parties, and aids the Company to avoid any conflicts of interest that may arise from any transaction of the Company

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
12.3	<p>The Committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, “more favorable treatment” shall mean:</p> <ul style="list-style-type: none"> <li>• Granting of “total accommodation” to a related party, exceeding a prudent percentage of the FC’s regulatory capital, as determined by the committee.</li> <li>• 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;</li> <li>• Providing preferential treatment, such as favourable terms, that extends beyond the terms granted in the normal course of business with unrelated parties;</li> <li>• Providing or obtaining services to or from a related party without a proper evaluation procedure;</li> <li>• 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.</li> </ul>	Compliant	The Company treats all Related Parties on the same basis as they would treat unrelated counter parties for all transactions.
13.	<b>GROUP GOVERNANCE</b>		
13.1	Responsibilities of the FC as a Holding Company.	Not applicable	
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.	Not applicable	
14.	<b>CORPORATE CULTURE</b>		
14.1	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, the integrity of reporting, protection and proper use of Company assets and fair treatment of customers.	Compliant	Code of conduct for the company has established with the relevant provisions in the direction.



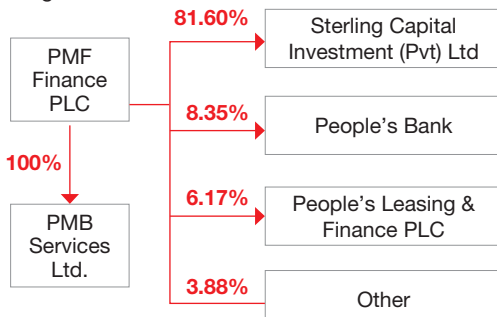
# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
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.	Compliant	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.	Compliant	The company has established a Whistle blowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. The policy is reviewed by BAC periodically.
15.	<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.	Compliant	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.
15.1.b	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall; <ul style="list-style-type: none"> <li>Identify circumstances that constitute or may give rise to conflicts of interests.</li> <li>Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.</li> <li>Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest.</li> <li>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.</li> <li>Identify those responsible for maintaining updated records on conflicts of interest with related parties, and</li> <li>Articulate how any non-compliance with the policy is to be addressed.</li> </ul>	Compliant	A Board approved Policy on managing conflicts of interest is in place.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
<b>16.</b>	<b>DISCLOSURES</b>		
<b>16.1</b>	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.	<b>Compliant</b>	Relevant Financial Statements are prepared and published at the specified frequencies in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English languages.
	<p>i. Financial Statements- In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,</p> <ul style="list-style-type: none"> <li>• A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</li> <li>• A statement of responsibility of the Board in preparation and presentation of financial statements.</li> </ul>	<b>Compliant</b>	Relevant disclosures are included on the Annual Report under “Directors statement of internal controls over financial reporting on page 137 of the Annual report.
	<p>ii. Chairperson, CEO and Board Related Disclosures</p> <ul style="list-style-type: none"> <li>• Name, qualification and a brief profile.</li> <li>• Whether executive, non-executive and/ or independent director.</li> <li>• Details of the director who is serving as the senior director, if any.</li> <li>• The nature of expertise in relevant functional areas.</li> <li>• Relatives and/or any business transaction relationships with other directors of the company.</li> <li>• Names of other companies in which the director/ CEO concerned serves as a director and whether in an executive or non-executive capacity.</li> <li>• Number/percentage of board meetings of the FC attended during the year; and</li> <li>• Names of board committees in which the director serves as the Chairperson or a member.</li> </ul>	<b>Compliant</b>	Relevant disclosures have made under “Board of Directors” on page 60 to 63 and under “Annual Report of the Board of Directors on the affairs of the company” on page 129 to 134 of the Annual Report.

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance																				
iii.	Appraisal of Board Performance An overview of how the performance evaluations of the Board and its committees have been conducted	<b>Compliant</b>	<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.</p> <p>Overview of the Board Performance Evaluation has disclosed in “Annual Report of the Board of Directors on the Affairs of the company” on pages 129 to 134 of the Annual Report.</p>																				
iv.	<p>Remuneration</p> <ul style="list-style-type: none"> <li>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)</li> <li>The aggregate values of remuneration paid by the FC to its directors and senior management.</li> </ul>	<b>Compliant</b>	<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 Budget.</p> <p>All employee’s annual promotions, increments, bonus are directly in relation with the employee’s performance, contribution, commitment, professional conduct and behavior.</p> <p>The remuneration structure of the staff, Senior Management shall be in line with the business strategy, objectives, values, long term interest, cost structure of the Company.</p> <p>Aggregate values of remuneration paid for:</p> <p>Senior Management Remuneration - LKR 58.5 Mn</p> <p>Directors fees are given in Note 35 of the financial statement.</p>																				
v.	<p>Related Party Transactions</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ul>	<b>Compliant</b>	<p>There is no any relationship [including financial, business, family or other material/relevant relationship(s)], between the Chairmen and the CEO and the among members of the Board.</p> <p>Net Accommodation granted to Related Parties</p> <table border="1"> <thead> <tr> <th>Category of related party</th> <th>Balance (LKR. Mn)</th> <th>% of capital fund</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>-</td> <td>-</td> </tr> <tr> <td>Senior Management</td> <td>5.45</td> <td>0.20%</td> </tr> <tr> <td>Related companies</td> <td>334.01</td> <td>12.48%</td> </tr> </tbody> </table> <p>Transactions with Senior Management</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Short term employment benefit (LKR. Mn)</th> <th>Term Deposits/ Savings Deposits (LKR. Mn)</th> <th>Total Accommodation granted (LKR. Mn)</th> </tr> </thead> <tbody> <tr> <td>Senior Management</td> <td>58.5</td> <td>3.62</td> <td>5.45</td> </tr> </tbody> </table>	Category of related party	Balance (LKR. Mn)	% of capital fund	Board of Directors	-	-	Senior Management	5.45	0.20%	Related companies	334.01	12.48%	Category	Short term employment benefit (LKR. Mn)	Term Deposits/ Savings Deposits (LKR. Mn)	Total Accommodation granted (LKR. Mn)	Senior Management	58.5	3.62	5.45
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Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
vi.	<p>Board Appointed Committees</p> <p>The details of the chairperson and members of the board committees and attendance at such meetings.</p>	Compliant	Relevant disclosures are made on page 118 of the Annual report.
vii.	<p>Group Structure</p> <p>The group structure of the FC within which it operates. The group governance framework</p>	Compliant	<p><b>PMF Group Structure</b></p> <p>Company fulfills its own legal and governing obligations</p>  <pre> graph TD     A[PMF Finance PLC] -- 100% --&gt; B[PMB Services Ltd.]     B -- 81.60% --&gt; C[Sterling Capital Investment (Pvt) Ltd]     B -- 8.35% --&gt; D[People's Bank]     B -- 6.17% --&gt; E[People's Leasing &amp; Finance PLC]     B -- 3.88% --&gt; F[Other]     </pre>
viii.	<p>Director's Report - A report, which shall contain the following declarations by the Board</p> <ul style="list-style-type: none"> <li>The FC has not engaged in any activity, which contravenes laws and regulations.</li> <li>The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.</li> <li>The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.</li> <li>The business is a going concern with supporting assumptions; and</li> <li>The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.</li> </ul>	Compliant	Relevant disclosures are made on page 129 to 134 in the Annual Report under "Annual report of the Board of Directors on the affairs of the company."

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
ix.	<p>Statement of Internal Control</p> <ul style="list-style-type: none"> <li>A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</li> <li>The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.</li> <li>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</li> <li>A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions.</li> </ul>	Compliant	Directors Statement on Internal Control Over Financial Reporting is published on pages 137 to 138 of the Annual report.
x.	<p>Corporate Governance Report</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>	Compliant	The Corporate Governance Report is set out on pages 69 to 118 of the Annual Report. 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.
xi.	<p>Code of Conduct</p> <p>FC's code of business conduct and ethics for directors, senior management and employees. The Chairperson shall certify that the company has no violations of any of the provisions of this code.</p>	Compliant	<p>A Board approved Code of Conduct is in place.</p> <p>Please refer the Chairperson's message on pages 10 to 13 that the Company has no violations of any of the provisions of this code.</p>
xii.	<p>Management Report</p> <ul style="list-style-type: none"> <li>Industry structure and developments</li> <li>Opportunities and threats Risks and concerns</li> <li>Sustainable finance activities carried out by the company</li> <li>Prospects for the future</li> </ul>	Compliant	Please refer pages 17 to 58 and CEO's Review on pages 14 to 16 of the Annual Report.

Section Reference	Corporate Governance Principle	Status of compliance	Level of Compliance
	xiii. Communication with Shareholders The policy and methodology for communication with shareholders. The contact person for such communication.	Compliant	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. The Company Secretary shall communicate with the shareholders through the Annual report, Quarterly Reports, and by notices issued to the shareholders.

## Section Two

The level of compliance with the Section 7.10 of the Listing Rules of Colombo Stock Exchange on Corporate Governance and Section 9 of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>7.10</b>	<b>Corporate Governance</b>		
<b>7.10.a</b>	Statement confirming that as at the date of the annual report that the Company is in compliance with these rules.	Compliant	The Company is compliant with the corporate governance requirements of the Listing Rules of the Colombo Stock Exchange.
<b>7.10.1</b>	<b>Non-Executive Directors</b>		
<b>7.10.1</b>	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors.	Compliant	All Directors of the company are Non-Executive Directors.
<b>7.10.2</b>	<b>Independent Directors</b>		
<b>7.10.2 (a)</b>	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Compliant	Three Directors out of five Non-Executive Directors are independent.
<b>7.10.2 (b)</b>	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	Compliant	All Non-Executive Directors have submitted annual declarations in respect of the year under review.
<b>7.10.3</b>	<b>Disclosure relating to Directors</b>		
<b>7.10.3 (a)</b>	The Board shall make determination of Independence/ Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Compliant	Please refer page 131 of the Annual Report.
<b>7.10.3 (b)</b>	In the event of a Director does not qualify as Independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.		Not Applicable
<b>7.10.3 (c)</b>	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Compliant	Please refer pages 60 to 63 in the Annual Report



# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public.	Compliant	During the year under review, two directors were appointed to the Board and their resumes have been published in the CSE as required.
7.10.4	Criteria for determination of Independence of Directors		
7.10.4 (a-h)	Requirements of meeting criteria to be independent.	Compliant	All Independent Directors of the Company met the criteria for independency specified in this Rule.
7.10.5	<b>Remuneration Committee</b>		
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Compliant	Board appointed Remuneration Committee is in place. Two Directors are Independent Non-Executive Directors out of Four Non-Executive Directors of the committee.
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer the Report of the Remuneration Committee on page 122 to the Annual Report.
7.10.5 (c)	The Annual Report shall set out; <ul style="list-style-type: none"> <li>(i) The names of the Directors that comprise the Remuneration Committee;</li> <li>(ii) A statement of remuneration policy;</li> <li>(iii) Aggregate remuneration paid to Executive and Non-Executive Directors.</li> </ul>	Compliant	Please refer the page 122 of Remuneration Committee Report.
7.10.6	<b>Audit Committee</b>		
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.  One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.  The Chief Executive Officer and Chief Financial shall attend Audit Committee meetings.  Chairman or one member of the Committee should be a member of a recognize professional accounting body.	Compliant	Two Directors are Independent Non- Executive Directors out of four Non-Executive Directors of the committee.  Chairman of the Committee is a Non-Executive Director.  Both Chief Executive Officer and Chief Financial Officer attend the meeting by invitation.  The Chairman of the Audit Committee is an Associate Member of the Institute of Chartered Accountants of Sri Lanka.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules.	Compliant	Please refer Audit Committee Report on pages 119 to 121 of the Annual Report.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
7.10.6 (c)	<p>Annual Report shall set out;</p> <p>(i) The names of the Directors who comprise the Audit Committee.</p> <p>(ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</p> <p>(iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.</p>	Compliant	Please refer the Audit Committee Report' on pages 119 to 121 for the required disclosures.
<b>9.2</b>	<b>Related Party Transactions Review Committee</b>		
9.2.2	The Committee should comprise a combination of Non-Executive Directors and Independent Non- Executive Directors. The composition of the committee may also include executive directors at the option of the listed entity. One independent Non- Executive Director shall be appointed as Chairman of the Committee.	Compliant	Two Directors are Independent Non-Executive Director out of three Non-Executive Directors of the committee. One Independent Director is the Committee Chairman. For further details, please refer the Committee Report on pages 125 to 126.
<b>9.3</b>	<b>Related Party Transactions - disclosures in the Annual Report</b>		
9.3.2 (a)	Non-recurrent Related Party Transactions	Not applicable	There were no non-recurrent Related Party Transactions exceeding 10% of the gross income during the year.
9.3.2 (b)	Recurrent Related Party Transactions	Not applicable	There were no recurrent Related Party Transactions exceeding 10% of the gross income during the year.
9.3.2 (c)	Report of the Related Party Transactions Review Committee	Compliant	Please refer the Committee Report on pages 125 to 126.
9.3.2 (d)	A declaration by the Board of Directors in the Annual Report	Compliant	Please refer the Committee Report on pages 125 to 126.

# Corporate Governance

## Section Three

The Code of Best Practice on Corporate Governance 2013 was issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>A.1</b>	<b>THE BOARD</b>		
	Every public Company should be headed by an effective Board, which should direct, lead and control the Company.	<b>Compliant</b>	The Board of Directors at PMF Finance PLC (the “Company”) represents professionals from different disciplines bring with them a wealth of business experience to provide leadership to the Company.
<b>A.1.1</b>	<b>Board meetings</b> The Board should meet regularly. Board meeting should hold at least once in every quarter of the financial year in order to effectively execute the board’s responsibilities, while providing information to the board on a structured and regular basis; ideally monthly or as agreed by the board.	<b>Compliant</b>	The Board met 14 times during the financial year concerned.  Individual participation of each Director at Board meetings is disclosed in page 118 of the Annual report
<b>A.1.2</b>	<b>Responsibilities of the Board</b> Board should provide an entrepreneurial leadership within a framework of prudent and effective controls.	<b>Compliant</b>	The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of business. The Board has provided strategic direction in vision statement, mission statement and the Annual budget.
<b>A.1.3</b>	Agreed procedure on seeking independent professional advice	<b>Compliant</b>	A Board approved policy is in place for the directors to seek independent professional advice as and when required. The Board sub-committees advise the Board on various matters under their purview, when necessary.
<b>A.1.4</b>	Advice and services of the Company Secretary	<b>Compliant</b>	Legal matters for which the Board needs clarification are referred to the Company Secretary. She provides such information after obtaining necessary professional advice whenever required.
<b>A.1.5</b>	Independent judgment of directors	<b>Compliant</b>	All directors are free to bring independent judgement to aid with the decision-making of the Company and for the decisions taken by the Board on issues of strategy, performance, resources, and standards of business conduct.
<b>A.1.6</b>	Dedicating adequate time and effort by the directors	<b>Compliant</b>	All directors of the Company dedicate adequate time and effort at Board and Committee meetings to fulfill their duties. Further, they also spend their time before and after the meetings, to ensure that the duties and responsibilities owed to the Company are discharged according to the highest standards.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
A.1.7	Training for new and existing directors	Compliant	Directors have recognized the need for continuous training and take part in professional development as they consider it necessary in carrying out their duties as directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programmes relevant to the Board are communicated to the Board by the Company Secretary for the director's participation.
<b>A2</b>	<b>Chairman and Chief Executive Officer (CEO)</b>		
	There are two key tasks at the top of every public Company – Conducting of the business of the Board and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.		The positions of Chairman and CEO are separated to ensure a balance of power & authority and to prevent any one individual from possessing unfettered decision-making authority
<b>A.3</b>	<b>CHAIRMAN'S ROLE</b>		
<b>A.3</b>	Chairman is responsible to ensure that all Board members make a full contribution to the Board's affairs and ensure that the Board acts as a team while discharging Board functions. He provides leadership to the Board and effectively manages the Board while preserving order and facilitating the effective discharge of Board functions.		
<b>A.3.1</b>	<b>Role/functions of the Chairman</b>	Compliant	
	The Chairman should conduct Board proceedings in a proper manner and ensure an effective discharge of the Board functions.		The Chairman leads the Board ensuring effectiveness in all aspects of its role. The Chairperson is a Non-Executive Director, elected by the Board.  The Chairperson's role encompasses – Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities
<b>A.4</b>	<b>FINANCIAL ACUMEN</b>		
<b>A 4</b>	Availability of sufficient financial acumen and knowledge	Compliant	The Code of Best Practice requires that the Board comprises members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Company has met the above requirement as two Board members out of Five directors are qualified accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>A.5</b>	<b>BOARD BALANCE</b>		
	The Code requires that a balance is maintained between the Executive and Non-Executive Directors (NEDs) thus no individual or a small group of individual directors is able to dominate the Board's decision making.		
<b>A.5.1</b>	Presence of a strong team of Non- Executive Directors (NEDs)	<b>Compliant</b>	All Directors of the Board are NEDs which complies with the minimum number prescribed by this Code, which is a minimum of two NEDs or NEDs equivalent to one-third of the total number of directors, whichever is higher. This ensures that the views of Non-Executive Directors are taken into consideration in Board decisions.
<b>A.5.2 &amp; A.5.3</b>	Independence of NEDs	<b>Compliant</b>	Three out of Five NEDs are independent which complies with the minimum prescribed by this Code which is at a minimum two NEDs or NEDs equivalent to one-third of NEDs appointed to the Board of Directors whichever is higher should be 'independent'.
<b>A.5.4</b>	Annual declaration of NEDs	<b>Compliant</b>	Every NED of the Company has made written declarations as to their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H of this Code.
<b>A.5.5</b>	Annual declaration by the Board on the independence of directors	<b>Compliant</b>	The Board has determined the independence of directors based on the declarations submitted by the NEDs as to their independence as a fair representation and will continue to evaluate their independence on this basis annually in line with CBSL directions, the CSE and the Code of Best Practice. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code.
<b>A.5.6</b>	<b>Appointment of alternate Director</b> If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive of the company.	<b>Not Applicable</b>	At present, there are no alternate Directors on the Board.
<b>A5.7 &amp; A5.8</b>	Requirement to appoint a 'Senior Non-Executive Director' and make himself available for confidential discussions.	<b>Not Applicable</b>	The current Chairman of the Company is an Independent Non-Executive Director. Hence, the requirement to appoint a 'Senior Non-Executive Director' has not arisen.
<b>A5.9</b>	<b>Meeting of Non-Executive Directors</b> The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	<b>Not Applicable</b>	All Directors are Non-Executive Directors and meet on a monthly basis.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>A.5.10</b>	<b>Recording of concerns in Board minutes</b>  Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure the	<b>Compliant</b>	Deliberations raised by the Directors are part of the Board Meetings and such information is adequately detailed by the Company Secretary in the minutes.  The Company Secretary minutes as to how the decision had arrived at all times. All minutes are kept in a detailed manner.
<b>A.6</b>	<b>SUPPLY OF INFORMATION</b>  The Code requires the Company's management to submit timely information to the Board with sufficient information for making decisions that would enable it to discharge its duties.		
<b>A.6.1</b>	Obligation of the Management to provide appropriate and timely information to the Board	<b>Compliant</b>	The Senior Management of the Company should ensure that the directors are provided with adequate information in a timely manner and make every effort to provide the information, as early as possible. The Board Papers are prepared by the Senior Management of the Company to provide adequate information to the Board enabling it to deliberate on all key issues concerning the Company. Directors are free to raise inquiries/ concerns for additional information, where necessary.
<b>A.6.2</b>	<b>Adequate time for effective Board meetings</b>  The minutes, agenda and papers required for a Board meeting should ordinarily be provided to Directors at least seven days before.	<b>Compliant</b>	All Board members are given notice well ahead of the meeting, and all minutes of previous meetings, agenda, and Board Papers are dispatched in advance. Further, adequate notice is given to all directors prior to emergency/special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at the meetings.
<b>A.7</b>	<b>APPOINTMENT TO THE BOARD</b>  Company has a formal and transparent procedure in place to appoint new Directors.		
<b>A.7.1&amp; A.7.2</b>	<b>Presence of a Nomination</b>  Committee and annual assessment of the composition of the Board.	<b>Compliant</b>	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board and Chairman and members are disclosed in the Annual Report under "Report of the Board Nomination Committee"



# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
A.7.3	Disclosure of information to shareholders upon appointment of New Directors	Compliant	All new appointments to the Board are communicated to the shareholders via the Colombo Stock Exchange in the English language, together with brief resumes of such Directors. Such announcements set out the fields of the respective Director's expertise, his/her directorships in other companies, and the number of shares he/she holds in the Company, whether he/she is appointed as an Executive Director or a Non-Executive Director, and whether as an Independent Director or as a Non-Independent Director.
A.8	<b>RE-ELECTION</b> The Code requires all Directors to submit themselves for re-election, at regular intervals and at least once every three years.		
A.8.1 & A.8.2	Re-election of Non- Executive Directors including Chairman and Directors	Not Applicable	
A.9	<b>APPRAISAL OF BOARD PERFORMANCE</b> The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.		
A.9.1 & A.9.2	Annual appraisal of the Board's performance and the performance of its Sub-Committees.	Compliant	The performance of the Board is evaluated by the Chairman and the directors. The Board subcommittees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement and being in line with good governance.
A.9.3	Disclosure of criteria used for performance evaluation	Compliant	The Company Secretary and the Board subcommittee secretaries submit the self-evaluation questionnaire to each director and obtain their individual responses.
A.10	<b>DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b> The Code requires that details of directors be disclosed in the Annual Report for information of the shareholders.		
A.10.1	Disclosures on Directors in the Annual Report	Compliant	The following details pertaining to each director are disclosed in the Annual Report <ul style="list-style-type: none"> <li>(a) Brief profile with expertise and experience - pages 60 to 63.</li> <li>(b) Other business interests - pages 129 to 134</li> <li>(c) Remuneration - Note 35 on page 201.</li> <li>(d) Status of independence - page 131</li> <li>(e) Details of Board Meetings and Board Committee Meetings held during the year - page 118.</li> </ul>

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>A.11</b>	<b>APPRAISAL OF CHIEF EXECUTIVE OFFICER</b>		
	The Code requires the Board to assess the performance of the Managing Director at least annually to ascertain the degree to which the Managing Director met the pre-set financial and non-financial targets.		
<b>A.11.1 &amp; A11.2</b>	Setting annual targets and the appraisal of the performance of the CEO/Managing Director	<b>Compliant</b>	<p>At the beginning of each financial year, the Board discusses the next year budget with the CEO to be achieved by the CEO within the course of that year.</p> <p>Assessment of the performance of the CEO is carried out by the Board in Annual basis to ensure that the performance of the Company is achieved.</p>
<b>B.</b>	<b>DIRECTORS' REMUNERATION</b>		
<b>B.1</b>	<b>REMUNERATION PROCEDURE</b>		
	This principle ensures that the Company has a well-established formal and transparent procedure in place for developing an effective remuneration policy to avoid potential conflict of interest.		
<b>B.1.1</b>	Establishment of a Remuneration Committee	<b>Compliant</b>	The Company has a Board Human Resources and Remuneration Committee which has the power to evaluate, assess, and decide matters that may affect the Human Resources Management of the Company.
<b>B.1.2</b>	Composition of the Remuneration Committee	<b>Compliant</b>	As prescribed in this code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors, and the Chairman of the Committee is appointed by the Board.
<b>B.1.3</b>	Chairman and the Members of the Committee	<b>Compliant</b>	Please refer to 'Board Human Resources and Remuneration Committee Report' on page 122 for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
<b>B.1.4</b>	Determination of the remuneration of Non-Executive Directors, including members of the Remuneration Committee	<b>Compliant</b>	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
<b>B.1.5</b>	Ability to consult the Chairman and/ or the Managing Director and to seek professional advice by the Committee	<b>Compliant</b>	The Committee has the authority to seek internal and external independent professional advice on all matters falling within the purview of the Committee at the Company's expense.

# Corporate Governance

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>B.2</b>	<b>LEVEL AND MAKE-UP OF REMUNERATION</b>		
	The Company ensures that the remuneration of Non-Executive Directors is at a satisfactory level to attract and retain the services of directors.		
<b>B.2.1</b>	Remuneration packages of Executive Directors	<b>Not Applicable</b>	No Executive Directors in the PMF Board
<b>B.2.2</b>	Competitiveness of levels of remuneration		In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the HRRC.
<b>B.2.3</b>	Comparison of remuneration with other companies in the Group	<b>Compliant</b>	The HR & Remuneration Committee, where necessary, reviews the Company's remuneration levels in relation to the industry standards of the country.
<b>B.2.4</b>	Performance-based remuneration of Executive Directors	<b>Not Applicable</b>	No Executive Directors in the PMF Board.
<b>B.2.5</b>	Executive Share Options		
<b>B.2.6</b>	Designing the performance-related remuneration of Executive Directors.		
<b>B.2.7 &amp; B.2.8</b>	Early termination of Executive Directors		
<b>B.2.9</b>	Levels of remuneration of Non-Executive Directors	<b>Compliant</b>	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
<b>B.3</b>	<b>DISCLOSURE OF REMUNERATION</b>		
	The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.		
<b>B.3.1</b>	Disclosure of Remuneration	<b>Compliant</b>	Please refer to 'Human Resources and Remuneration Committee Report' on page 122 for disclosure of the names of the Remuneration Committee members and the Remuneration Policy of the Company.  Please refer Note 35 to the Financial Statements for the aggregate remuneration paid to Directors.
<b>C.</b>	<b>RELATIONS WITH SHAREHOLDERS</b>		
<b>C.1</b>	<b>CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS</b>		
	The Code requires the Board to use the AGM to communicate with shareholders and encourage their active participation.		
<b>C.1.1</b>	Companies should count all proxy votes and should indicate the level of proxies lodged in each resolution, and the balance for and withheld after it has been dealt with on a show of hands, except where a poll is called.	<b>Compliant</b>	The company has a mechanism to record all proxy votes and proxy votes lodged on each resolution.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
C.1.2	A separate resolution at the AGM on each substantially separate issue and adoption of Annual Report Accounts.	Compliant	The Bank proposes a separate resolution at the AGM on each substantially separate issue.
C.1.3	Availability of Board Subcommittee Chairpersons.	Compliant	Board Subcommittee Chairpersons are available at the AGM, to answer any questions raised at the AGM.
C.1.4 & C.1.5	Adequate Notice of AGM to shareholders together with a summary of the procedure governing voting.		Annual Reports are dispatched to all shareholders of the Company, whereas a form of proxy together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.
<b>C.2</b>	<b>COMMUNICATION WITH SHAREHOLDERS</b>  The Code requires effective communication with shareholders. The Company is a fully owned subsidiary of Sampath Bank PLC.		
C.2.1	Channel to reach all shareholders of the Company	Compliant	By circular to shareholders and notice of shareholder meetings.
C.2.2	Policy and methodology for communication	Compliant	By circular to shareholders and notice of shareholder meetings.
C.2.3	Implementation of the policy and methodology for communication with shareholders	Compliant	By circular to shareholders and notice of shareholder meetings.
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Compliant	The main contact person is the Company Secretary.
C.2.5	Process to make all directors aware of major issues and concerns of shareholders	Compliant	Any major issue of concern of share holders are informed to Board Members by the Company Secretary.
C.2.7	Process responding to shareholder matters	Compliant	
<b>C.3</b>	<b>MAJOR AND MATERIAL TRANSACTIONS</b>  The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company if entered into.		
C.3.1	Disclosures on proposed major, transactions	Not Applicable	There were no major transactions involving the acquisition or disposal of assets greater than half of the net asset value of the Company.

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Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>D.</b>	<b>ACCOUNTABILITY AND AUDIT</b>		
<b>D.1</b>	<b>FINANCIAL REPORTING</b>		
	This Principle requires the Board of the Company to present a balanced and understandable assessment of the company's financial position, performance, and prospects.		
<b>D.1.1</b>	Board's Responsibility for Statutory and Regulatory Reporting	<b>Compliant</b>	The Board is well aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner and a statement to this effect is given on pages 129 to 134 of this Annual Report.
<b>D.1.2</b>	Declarations by Directors in the Directors' Report	<b>Compliant</b>	The Annual Report of the Board of Directors on the state of affairs of the Company on pages 129 to 134 contains the declarations as required by the Code.
<b>D.1.3</b>	Statements by Directors' and Auditors' on responsibility for financial reporting	<b>Compliant</b>	The 'Responsibility for Financial Statements for the preparation and presentation of financial statements is given on pages 135 to 136 of the Annual Report.
<b>D.1.4</b>	<b>Management Discussion and Analysis</b> Annual Report should contain a "Management Discussion and Analysis".	<b>Compliant</b>	Please refer pages 17-58 of the Annual Report presented as an integrated report covering all aspects referred to in the code.
<b>D.1.5</b>	Declaration by Board on the going concern of the business	<b>Compliant</b>	Please refer to 'Annual Report of the Board of Directors on the state of affairs of the Company on pages 129-134 of the Annual Report
<b>D.1.6</b>	Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	<b>Not Applicable</b>	No such event occurred during the financial year.
<b>D.1.7</b>	Declaration by Board on Related Party Transactions	<b>Compliant</b>	<p>Each Director and members of the Senior Management have declared their interest in transactions with the Company during the year ended 31st March 2023, if any.</p> <p>Internal controls are placed within the Company to identify, record, and disclose related party transactions.</p> <p>All Related Party Transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in Note 35 to the Audited Financial Statements.</p>

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>D.2</b>	<b>INTERNAL CONTROL</b>		
	The Code requires the Company's Board to ensure that an effective system of internal controls, which safeguards the Company's assets to protect the interest of shareholders is in place.		
<b>D.2.1</b>	Directors to conduct an annual review of internal controls	<b>Compliant</b>	The Company obtained the External Auditor's Certification on the Directors Responsibility Statement on Internal Control over Financial Reporting included in the Annual Report.
<b>D.2.2</b>	Need for an Internal Audit Function	<b>Compliant</b>	The Company has established an Internal Audit Function headed by the Head of Internal Audit who is independent and reports directly to the Board Audit Committee. The Board Audit Committee exercises oversight over the same. The Board Audit Committee reviews the Internal Audit function at regular intervals.
<b>D.3</b>	<b>AUDIT COMMITTEE</b>		
	The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting, and internal control principles and maintaining an appropriate relationship with the Company's External Auditor.		
<b>D.3.1</b>	Composition of the Audit Committee	<b>Compliant</b>	Details of the members, are given on the 'Board Audit Committee Report' on pages 119 to 121.
<b>D.3.2</b>	Duties of the Audit Committee	<b>Compliant</b>	As stated in the report of the Board Audit Committee of the Company, it regularly reviews the scope of the External Auditors, results, and effectiveness of the audit. It also ensures that non-audit services provided by External Auditors do not affect their independence.
<b>D.3.3</b>	Terms of Reference of the Audit Committee	<b>Compliant</b>	Terms of Reference of the Board Audit Committee are in place and approved by the Board of Directors.
<b>D.3.4</b>	Disclosure of names of the members of the Audit Committee	<b>Compliant</b>	Names and composition of the members of the Audit Committee are given under Audit Committee Report on pages 119 to 121.
<b>D.4</b>	<b>CODE OF BUSINESS CONDUCT AND ETHICS</b>		
	The Code requires the Company to adopt an internal Code of Conduct and Ethics to be adhered to by all directors and members of the senior management of the Company.		
<b>D.4.1</b>	Disclosures on the presence of Code of Business Conduct and Ethics.	<b>Compliant</b>	The Company has an internally developed a Code of Conduct and this Code covers the following areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc.



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Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
D.4.2	<p><b>Affirmative Statement by the Chairman</b></p> <p>The Chairperson must affirm in the Company's Annual Report that she is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.</p>	Compliant	Please refer to the Chairman's message for details on pages 10 to 13.
D5	<b>Corporate Governance disclosures</b>		
D.5.1	<p><b>Annual Corporate Governance Report in the Annual Report</b></p> <p>The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner in which Company has complied with the principles and provisions of this code.</p>	Compliant	Corporate Governance reports is given on pages 69 to 118 in the Annual Report.
<b>SECTION 2 : SHAREHOLDERS</b>			
<b>E. INSTITUTIONAL INVESTORS</b>			
<b>E1 Shareholder's Voting</b>			
E.1.1	<p><b>Institutional shareholders</b></p> <p>A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.</p>	Compliant	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and of concern. .
<b>E.2 EVALUATION OF GOVERNANCE DISCLOSURES</b>			
E.2.1	<p>When evaluating the Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention</p>	Compliant	Institutional investors' concerns are addressed as and when raised.
<b>F. OTHER INVESTORS;</b>			
<b>F.1 INVESTING/DIVESTING DECISION</b>			
F.1.1	<p>Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions</p>	Not Applicable	Information is readily available for individual shareholders investing directly in shares of the Company to encourage and carry out adequate analysis.
<b>F.2 SHAREHOLDER VOTING</b>			
F.2.1	<p>Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.</p>	Compliant	All individual shareholders are given the opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and newspaper notices.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>G.</b>	<b>SUSTAINABILITY REPORTING</b>		
<b>G.1.1</b>	<p><b>Economic Sustainability</b></p> <p>Principle of economic sustainability governance recognises how organisations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate in their sphere of influence and how this is integrated through the organisation</p>	<b>Compliant</b>	The company considers the impact when planning its strategies, activities and decisions on economic performance for economic sustainability governance.
<b>G.1.2</b>	<p><b>The Environment</b></p> <p>Environmental governance of an organisation should adopt an integrated approach that takes into consideration economic, social, health and environmental implications of their decisions and activities.</p>	<b>Compliant</b>	The company has taken into consideration an integrated approach on direct and indirect economic, social, health and environmental implications when taking decisions on pollution prevention, protection of environment and restoration of natural resources.
<b>G.1.3</b>	<p><b>Labour Practices</b></p> <p>Labour practices governance of an organisation encompasses all policies and practices relating to work performed by or on behalf of the organisation.</p>	<b>Compliant</b>	All practices and policies are formulated to have a present working environment in the organisation.
<b>G.1.4</b>	<p><b>Society</b></p> <p>Society governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community development.</p>	<b>Compliant</b>	Development including responsible public policies encompass support for a building for a relationship with the community.
<b>G.1.5</b>	<p><b>Product and Service Responsibility</b></p> <p>Product responsibility governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment</p>	<b>Compliant</b>	The company develops its products to ensure the safety and fair contractual practices and its data protection and privacy
<b>G.1.6</b>	<p><b>Stakeholder Identification, Engagement &amp; Effective Communication</b></p> <p>Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communication should be proactive and transparent</p>	<b>Compliant</b>	Communication with the stakeholders is cordial and include past performance and existing economic, social and environmental issues.
<b>G.1.7</b>	<p><b>Sustainable Reporting &amp; Disclosure</b></p> <p>Sustainability reporting and disclosure should be formalised as part of the Company's reporting process and take place on a regular basis.</p>	<b>Compliant</b>	

**DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND BOARD SUB-COMMITTEE MEETINGS – PMF FINANCE PLC**

Name of the Director	Status of Directorship		Board		Board Integrated Risk Management Committee (BIRMC)		Board Audit Committee		Related Party Transactions Review Committee		Human Resources and Remuneration Committee		Nomination Committee		Board Credit Committee	
	Independent Non-Executive	Non-Independent Non-Executive	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance
Mr. Chandula Abeywickrema	√		C	14/14	C	6/6	M	8/8	C	3/3 (i)	C	5/5	C	3/3	C	7/7
Mr. Rangana Korlage		√	M	14/14	M	6/6	C	8/8	M	4/4 (ii)	M	5/5	M	3/3	M	2/2 (ii)
Mr. Travis Waas		√	M	14/14	M	6/6	M	8/8	M	5/5	M	5/5	M		M	7/7
Ms. Krystle Wijesuriya	√		M	9/9 (iii)					M	1/1 (iii)	M	3/3 (iii)	M	1/1 (iii)		
Dr. Nirmal De Silva	√		M	7/7 (iv)	M	2/2 (iv)	M	4/4 (iv)								

C indicates the Chairman of the Board/Committee and M indicates Member of the Board/Committee.

- I. Mr. Chandula Abeywickrema appointed to the Related Party Transaction Review Committee w.e.f. 28th July 2022 as the Chairman of the committee.
- II. Mr. Rangana Korlage appointed to the Credit Committee and stepped down from Related party Transaction Review Committee w.e.f. 30th Nov 2022
- III. Ms. Krystle Wijesuriya appointed to the Board w.e.f. 22nd August 2022, Nomination Committee and HR & Remuneration Committee w.e.f. 30th Sep 2022 and Related Party Transaction Review Committee w.e.f. 30th Nov 2022.
- IV. Dr. Nirmal De Silva appointed to the Board w.e.f. 29th Sep 2022, Board Audit Committee w.e.f. 30th Sep 2022 and Board Integrated Risk Management Committee w.e.f. 30th Nov 2022

# Board Audit Committee Report

The Board Audit Committee (“BAC”) of the Company is appointed by and responsible to the Board of Directors (“the Board”). BAC comprises the following members and the professional profiles of the Committee Chairman and the Committee members are provided on pages 60 to 63 of this Annual Report.

## COMPOSITION OF THE COMMITTEE

Name of the Director	Directorship Status	Membership Status
Mr. Rangana Koralage	Non-Executive Non-Independent Director	Chairman
Mr.Chandula Abeywickrema	Non-Executive Independent Director	Member
Mr. Travis Waas	Non-Executive Non-Independent Director	Member
Dr. Nirmal De Silva (Appointed w.e.f. 29th September 2022)	Non-Executive Independent Director	Member
Mr. C. S Manoharan (Stepped down w.e.f. 30th June 2022)	Non-Executive Independent Director	Member

## Board Audit Committee Meetings

The Committee meets quarterly and additional meetings are held based on the requirements. The Committee held eight meetings during the financial year ended 31st March 2023. The details of the attendance of the Committee members are given below:

Name of the Director	Attendance
Mr Rangana Koralage	8/8
Mr Chandula Abeywickrema	8/8
Mr Travis Waas	8/8
Dr Nirmal De Silva	4/4
Mr C S Manoharan	1/1

Head of Internal Audit functions as the Secretary to the Committee in terms of section 10.2 (c) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021.

Members of Senior Management including the CEO, Head of Internal Audit, Head of Finance, Head of HR, Head of Deposit Mobilization, Head of Credit and the Compliance Officer participated in Committee meetings by invitation. Representatives of Messrs.

KPMG, the External Auditor of the Company, were invited to participate in the meetings as and when required.

## Terms of Reference

The Terms of Reference of the Committee are clearly defined in the Charter of the Board Audit Committee, which is approved by the Board of Directors. The Board reviews the Charter of the Board Audit Committee annually and/or as and when it is required, and it ensures that new developments and concerns are adequately addressed. The committee is responsible to the Board of Directors and reports on its activities regularly. The BAC also assists the Board in its general oversight of financial reporting internal control and functions relating to internal and external audits.

## Functions of the Committee

The Board Audit Committee functions are regulated in conformity with the Finance Business Act Direction No. 5 of 2021 on Corporate Governance, section 7.10 of the Listing Rules issued by Colombo Stock Exchange and the code of best practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka

(SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities, overseeing Management’s conduct of the Company’s financial reporting process and systems of internal accounting and financial controls, monitoring the independence and performance of the Company’s External Auditors, and providing an avenue of communication among the External Auditors, the Management, and the Board of Directors.

The Committee is responsible for the oversight of the effectiveness of the system of internal controls, compliance with laws, regulations, and Directions of the CBSL and the independence and performance of the External and Internal Auditors.

## Roles and Responsibilities

- Reviewing the Financial Statements (including interim financial statements) prior to publication to ensure compliance with statutory provisions, accounting standards, accounting policies that are consistently applied and adequacy of disclosures in the financial statements.
- Reporting to the Board on the quality and acceptability of the company’s accounting policies and practices
- Assessing the reasonableness of the underlying assumptions for estimates and judgments made in preparing the Financial Statements
- Reviewing accounting and financial reporting risk management process and regulatory compliance
- Overseeing the appointment of the External Auditor for audit services in compliance with the relevant statutes, assessment of the independence, approval of the audit fee, service period and any matters relating to the resignation or dismissal of Auditors.

# Board Audit Committee Report

- Assessing the independence and reviewing the adequacy of the scope, functions and resources of the Internal Audit Department, including the appointment of the Chief Internal Auditor (CIA) and the performance of the CIA and senior staff members of the Internal Audit Department.
- Reviewing the internal audit program and results of the internal audit process and, where necessary, ensuring appropriate actions are taken on the recommendations of the internal audit.
- Reviewing the adequacy and effectiveness of the Company's system of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial statements for external purposes has been done in accordance with the applicable accounting standards and the regulatory requirements.
- Reviewing the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensuring necessary corrective actions are taken in a timely manner and monitoring the progress of implementing the time bound action plan quarterly

## Activities during the Year

### Financial reporting

The Committee, as part of its responsibility to oversee the Company's financial reporting process on behalf of the Board of Directors, has reviewed and discussed with the Management and the External Auditors with regard to the interim and the Annual Financial Statements prior to their release for publication. The review included the quality and acceptability of accounting policies and practices, the clarity of the disclosures and the extent of compliance with Sri Lanka Accounting Standards (SLFRS and LKAS), the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto and other relevant financial and

governance reporting requirements. To facilitate their review, the BAC considered reports from the Head of Finance and also reports from the External Auditors on the outcome of their review of the annual audit.

The BAC continuously monitored the implementation of the Sri Lanka Financial Reporting Standards – SLFRS 9 “Financial Instruments” issued by The Institute of Chartered Accountants of Sri Lanka which became effective from 1 January 2018. During the year, existing impairment calculation models were revalidated through an independent party to incorporate the potential implications of the macro-economic situation of the country and the moratorium schemes introduced to support the recovery of the economy and adjustments have been made to economic factors as appropriately.

As part of the BAC's responsibilities, notably its review of financial results, reports from Internal and External audits, the Company's Accounting Policies, as well as the Annual Financial Statements; the BAC took cognisance of the Key Audit Matters as reported in the Independent Auditors' Report. In addition, the Committee reviewed.

Management's judgments on significant Accounting and External reporting requirements and obtained External auditor's agreement with the treatment thereof.

### Internal control Over Financial Reporting

The committee assessed the effectiveness of the Internal Control Over Financial Reporting as of 31 March 2023 in line with Section 10.2 (e) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance. The Company's internal control assessment was concentrated on processes documented by the respective process owners with the guidance of the Company's Internal and External Auditors. Based on Internal Auditors' and External Auditors' assessments, the Board has concluded that, as of 31 March 2023,

the Company's internal control over financial reporting is effective. Directors' Report on the Company's Internal Control over Financial Reporting is provided on pages 137 to 138 in the Annual Report. The Company's External Auditors have reviewed the effectiveness of the Company's internal control over financial reporting and have 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 over financial reporting of the Company. External Auditor's Report on the Company's Internal Control over Financial Reporting is provided on page 139 of the Annual Report.

### Internal Audit

During the year, the Committee reviewed the adequacy of the scope, functions, resources and independence of the Internal Audit Department, and was satisfied that the department has the necessary authority and independence to carry out its work. The risk-based audit plan was reviewed and approved by the Committee at the beginning of the year and the implementation of the audit plan was monitored throughout the period to ensure the effectiveness of the entire processes of the Company. The Committee reviewed the internal audit program, significant audit findings and management action plan for the audit recommendations and evaluated the effectiveness of the management action plan in terms of timely implementation and resultant audit issues. The Committee also reviewed the resource requirement of the Internal Audit Department.

### External Audit

The Audit Committee reviewed and monitored the independence and objectivity of the External Auditors Messrs KPMG, Chartered Accountants. The Committee reviewed the non-audit services provided by the Auditors to ensure that the provision of these services does not impair their independence.

The Audit Committee together with Management reviewed and discussed the audit scope, approach, and audit plan with Messrs KPMG, Chartered Accountants, prior to the commencement of the audit for the financial year 2022/23.

The Committee conducted two meetings with the External Auditor without the members of the Executive Management being present during the financial year.

The Management Letter issued by the External Auditors in respect of the financial year ended 31 March 2022 was considered by the Committee and corrective action is being pursued wherever such action is warranted.

### Regulatory Compliance

The Committee assessed the Company's compliance with financial reporting requirements, information requirements under the Companies Act, Finance Business Act and other relevant financial reporting related regulations (such as LKASs/ SLFRS) and requirements. The Committee scrutinized the reports submitted by the Compliance Officer and the Internal Audit to monitor compliance with such legal and regulatory requirements.

The Committee reviewed and monitored the progress on implementation of the recommendations made in the Statutory Examination Report of the Central Bank of Sri Lanka (CBSL) through regular follow up reports submitted to the Committee meetings.

### Whistle-blowing policy

The Company's Whistleblowing Policy was put in place and all members of staff were educated and encouraged to resort to whistleblowing if they had reasonable grounds to believe that there were wrongdoings or other improprieties. The policy intends to serve as a channel of fraud risk management. All appropriate procedures are in place to conduct independent investigations into incidents reported through this process or if identified through other means. Concerns raised are investigated and the identity of the person raising

the concern is kept confidential. Even anonymous complaints are investigated. This process is monitored by the Board Audit Committee.

### Reporting to the Board

The approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

### Committee Evaluation

The annual evaluation of the effectiveness of the Committee was carried out by the members of the Committee and concluded that the Committee had carried out its responsibilities effectively and satisfactorily.

On behalf of the Board Audit Committee,



**Rangana Korlage**  
Chairman  
Board Audit Committee

Colombo  
30th June 2023



# Report of the Human Resources & Remuneration Committee

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and its composition and functions are in conformity with the Listing Rules and Section 10.5 of the Finance Business Act, (Corporate Governance) Direction No.05 of 2021. The Committee was re-named during the financial year 2022/23 as Human Resources and Remuneration Committee (HRRC) in line with Sections 10.1 of the cited Direction. The purpose of establishing the HRRC to assist the Board in developing Human Resource strategies which would be enable the company to attract and retain the required talent.

## COMPOSITION OF COMMITTEE MEETINGS

The committee composition during the period ended 31st March 2023 is as follows.

Name of the Director	Directorship Status	Membership Status
Mr. Chandula Abeywickrema	Non-Executive Independent Director	Chairman
Mr. Rangana Koralage	Non-Executive Non-Independent Director	Member
Mr. Travis Waas	Non-Executive Non-Independent Director	Member
Mrs. Krystle Wijesuriya (Appointed w.e.f. 30th September 2022)	Non-Executive Independent Director	Member
Mr. C. S Manoharan (Stepped down w.e.f. 30th June 2022)	Non-Executive Independent Director	Member

Brief profiles of the members of the Remuneration Committee as at 31 March 2023 are given on pages 60 to 63 of this Annual Report.

## MEETINGS OF THE COMMITTEE

The Committee held five meetings during the year under review to discuss the extensive deliberations on matters relating to Human Resources Management. The details of the attendance of the committee members are given below.

Name of the Director	Attendance
Mr.Chandula Abeywickrema	5/5
Mr. Rangana Koralage	5/5
Mr. Travis Waas	5/5
Mrs. Krystle Wijesuriya	3/3

The company Secretary functions as the Secretary to the Committee.

## TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the relevant statutes.

## ROLES AND RESPONSIBILITIES

- The committee shall recommend Human Resource policy to provide clear guidance to company's management on how the company should utilize human resources to meet its goals.
- The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and Senior Management of the FC and fees and allowances structure for Non-Executive Directors.
- The committee shall recommend the remuneration policy for approval of the Board of Directors on paying salaries, allowances and other financial incentives for all employees of the company
- The committee shall set goals and targets for Chief Executive Officer (CEO) annually. The committee shall also set goals for the other members of the Senior Management in consultation with the CEO.

- The committee shall ensure proper succession plan for Senior Management is in place.

## REMUNERATION POLICY

Remuneration Policy is to provide competitive rewards to attract, motivate and retain staff of the highest caliber who are willing to spend significant amounts of time and effort to achieve the Company's goals.

- Apply demand key performance indicators.
- Link significant component of pay to individual and Company performance.
- Ensure remuneration arrangements are equitable and fair to all employees.

Due care is to be taken to ensure that the remuneration for Senior Management and staff is commensurate with their skills, knowledge, competencies, involvement in corporate activities and in keeping with industry standards.

## DIRECTORS REMUNERATION

The total amount paid as Directors' remuneration during the year under review is set out in Note 35 to the Financial Statements.

## EVALUATION OF THE COMMITTEE PERFORMANCE

The performance and effectiveness of the Committee was assessed by the Board as a whole as part of the annual self-assessment of the Directors,

On behalf of the Human Resources and Remuneration Committee.

**Chandula Abeywickrema**

Chairman  
Human Resources and Remuneration Committee

30th June 2023  
Colombo

# Report of the Board Integrated Risk Management Committee

Board Integrated Risk Management Committee (BIRMC) is vested by the Board with the role of providing oversight for Risk Management, defining the Risk Appetite of the company and ensuring that the company operates within its designated tolerance for risk at all times.

## COMPOSITION OF THE COMMITTEE

Name of the Director	Directorship Status	Membership Status
Mr. Chandula Abeywickrema	Non-Executive Independent Director	Chairman
Mr. Rangana Koralage	Non-Executive Non-Independent Director	Member
Mr. Travis Waas	Non-Executive Non-Independent Director	Member
Dr. Nirmal De Silva (Appointed w.e.f.30th November 2022)	Non-Executive Independent Director	Member
Mr. C. S Manoharan (Stepped down w.e.f. 30th June 2022)	Non-Executive Independent Director	Member

Brief profiles of the members of the BIRMC as at 31 March 2023 are given on pages 60 to 63 of this Annual Report

## MEETINGS OF THE COMMITTEE

The Committee held six meetings during the year under review. Through a risk report, key risks such as credit, operational, market (including interest rate), liquidity, strategic and other emerging risks were assessed. The risk reports together with the minutes of the meetings and recommendations when necessary were referred to the Board in once in two months. The details of the attendance of the committee members are given below.

Name of the Director	Attendance
Mr. Chandula Abeywickrema	6/6
Mr. Rangana Koralage	6/6
Mr. Travis Waas	6/6
Mr. C.S Manoharan	1/2
Dr. Nirmal De Silva	2/2

The Head of Risk functions as the Secretary to the Committee in terms of section 10.3 (b) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021.

## TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the section 10.3 of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021.

## ROLES AND RESPONSIBILITIES

- The committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the company at least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.

- Developing company's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that the company will accept, or avoid, in order to achieve its strategic business objectives.
- Review the company's risk policies including RAS at least annually.
- Review the adequacy and effectiveness of senior management level committees to address specific risks (such as credit, market, liquidity, operational, strategic and emerging risks) and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Assess all aspects of risk management including updated business continuity and disaster recovery plans.
- Establish an independent compliance function to assess the entity's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on the business operations.

## COMMITTEE ACTIVITIES DURING THE YEAR

### Credit Risk

- Existing credit risk limits in the Risk Appetite Statement were reviewed
- Reviewed and approved the amendments to the Credit Risk Management Policy.

### Capital Adequacy

- Performed frequent stress testing to ensure that adequate capital buffers are there to absorb unexpected shocks to the unimpaired core capital and the Capital Adequacy ratio making special emphasis on the possible impacts from credit risk and reputational risk.

# Report of the Board Integrated Risk Management Committee

## Liquidity and Market Risk

- Undertook more frequent cash flow projections to safeguard the Company's liquidity position especially under the tight market liquidity environment.
- Performed frequent stress testing to ensure liquidity buffers remained within Board approved limits and CBSL Limits.
- Reviewed the market rate fluctuations including the government security benchmark rates, internal and external Gold Price outlook to assess the impacts of price volatility.
- Reviewed the adequacy and effectiveness of ALCO activities by assessing the asset and liability limits, single borrower exposure/ single group exposure, single depositor exposure/large depositor exposure, maturity profile of deposits. Scenario
- Reviewed the liquidity position and liquidity management strategies of the Company.

## IT and Information Security

- Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience has been broadly reviewed by committee members to ensure the framework covered committee expectations.
- Information Security Committee was established with a Board approved Terms of Reference as a management level body responsible for information security and technology resilience of the company.

## Operational Risk

- Existing Risk Management policy was reviewed strengthening the operational risk management aspects.

## Compliance

- Compliance Management Policy was reviewed in line with the requirement of New Corporate Governance Direction i.e Finance Business Act Direction No. 05 of 2021 effective from 1st July 2022 subject to transitional provisions specified in the said direction.
- Develop compliance charter for establishing a permanent and effective compliance function
- Assessed the company's compliance with laws, regulations and regulatory guidelines, CBSL directions, internal policies in all areas of business operations.
- Reviewed the annual risk assessment of Money Laundering and Terrorist Financing (ML & TF) risks of the company.

## General

- Reviewed the terms of reference of management level Executive Integrated Risk Management Committee (EIRMC) comprising all risk owners in which it was established to oversee and control/mitigate the effects from risk events allowing to solve at operational levels in line with the company's risk management framework maximizing the process efficiencies & effectiveness in conformity with the internal and external rules and regulations facilitating in decision making allowable at management level. The key highlights including the minutes of the meeting is tabled for the BIRMC on periodical basis.
- Reviewed and approved amendments to the BIRMC Terms of Reference as per relevant regulations and best practices.

- Reviewed the adequacy and effectiveness of all other management level committees including the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks

## COMMITTEE EVALUATION

The Committee performed a self-evaluation of its performance, which was subsequently presented to the Board. The Board evaluated the performance of the Committee during the financial year 2022/23 as required by the Finance Business Act Direction 5 of 2021.

On behalf of the Board Integrated Risk Management Committee



**Chandula Abeywickrema**

Chairman

Board Integrated Risk Management Committee

Colombo

30th June 2023

# Related Party Transactions Review Committee Report

## PURPOSE OF THE COMMITTEE

The Related Party Transactions Review Committee (the Committee) was established by the Board in accordance with the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka ('SEC Code') and Section 9 of the Listing Rules of the Colombo Stock Exchange (the 'CSE Rules') thereby enhancing the Company's control mechanism which ensures that all transactions are conducted at arm's length. The Committee has complied with the applicable provisions of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance which came into effect on 01st July 2022.

## COMPOSITION OF THE COMMITTEE

The committee composition during the period ended 31st March 2023 is as follows.

Name of the Director	Directorship Status	Membership Status
Mr. Chandula Abeywickrema (Appointed w.e.f.28th July 2022)	Non-Executive Independent Director	Chairman
Mr. Travis Waas	Non-Executive Non- Independent Director	Member
Mr. Rangana Koralage (Stepped down w.e.f.30th November 2022)	Non-Executive Non- Independent Director	Member
Mrs. Krystle Wijesuriya (Appointed w.e.f. 30th November 2022)	Non-Executive Independent Director	Member
Mr. C. S Manoharan (Stepped down w.e.f. 30th June 2022)	Non-Executive Independent Director	Member

Brief profiles of the members of the RPTRC as at 31 March 2023 are given on pages 60 to 63 of this Annual Report.

## MEETINGS OF THE COMMITTEE

The Committee meets quarterly and additional meetings are held based on the requirements. The committee held five meetings during the financial year 2022/23. The details of the attendance of the committee members are given below.

Name of the Director	Attendance
Mr.Chandula Abeywickrema	3/3
Mr. Travis Waas	5/5
Mr. Rangana Koralage	4/4
Mrs. Krystle Wijesuriya	1/1
Mr. C.S Manoharan	2/2

The Company secretary functions as the secretary to the RPTRC.

## THE TERMS OF REFERENCE

The Committee operates within its Terms of Reference as approved by the Board of Directors.

## SCOPE OF THE COMMITTEE

- Adopting policies and procedures to review RPTs of the Company and reviewing and overseeing existing policies and procedures.
- Reviewing in advance all proposed RPTs of the Company except those explicitly exempted in the Code under Rule 27 and section 9.5 of the CSE listing rules.

- Determining whether RPTs that are to be entered into by the Company require the approval of the Board or Shareholders of the Company
- Establishing guidelines in respect of recurrent RPTs to be followed by the Corporate Management in respect of ongoing dealings with the relevant related party
- Ensuring that no Director of the Company shall participate in any discussion of a proposed RPTs for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the RPTRC
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulation are made in a timely and detailed manner

## POLICIES AND PROCEDURES

- The Company has in place a Related Party Transactions Policy whereby the categories of persons/entities who shall be considered as "related parties" has been identified. The RPT Policy ensures that the Company does not engage in transactions with related parties in a manner that would grant related parties "more favorable" treatment.
- In accordance of the RPT Policy, self-declarations are obtained from each Director and Senior Management in quarterly basis for the purpose of identifying parties related to them.
- The Company identifies the RPT transactions through the core banking system of the Company and table at the RPT committee meeting.
- In relation to the RPTs, the committee considers the values of the transactions, the terms and conditions of RPTs and will compare the other quoted prices from the

# Related Party Transactions Review Committee Report

market, and will decide whether such transactions are carried out in an arm's length basis. Also, the committee ensures whether such transactions are in line with the listing rules of the Colombo Stock Exchange whilst ensuring that such RPTs are in the best interest of the Company's operations and is in compliance with the applicable CBSL directions applicable to all finance Companies.

- The RPTs are approved at the committee meeting with the majority of the committee members with the quorum in place or by circulation with approvals from all committee Directors.
- The Code of Business Conduct and Ethics of the Company, which sets out internal policies applicable to conflicts of interests, also plays a key role in managing Related Party Transactions.

## REPORTING TO THE BOARD OF DIRECTORS

The Minutes of the Committee meetings are tabled quarterly at Board meetings, to communicate the views and activities of the committee.

## RELATED PARTY TRANSACTIONS FOR THE YEAR 2022/23

Details of all transactions with the related parties during the year 2022/23 were reviewed by the Committee and have communicated comments, observations to the Board of Directors.

## EVALUATION OF THE COMMITTEE PERFORMANCE

The performance and effectiveness of the Committee was assessed by the Board as a whole as part of the annual self-assessment of the Directors.

## DECLARATION

The declaration by the Board of Directors that the company is in compliance with Section 9 of the listing rules of the Colombo Stock Exchange, the SEC Code and Section 12 of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 pertaining to Related Party Transactions during the Financial Year ended 31st March 2023 is given on the Annual Report of the Board of Directors on the Affairs of the Company on page 133 of the Annual Report.

On behalf of the Related Party Transactions Review Committee



**Chandula Abeywickrema**  
Chairman  
Related Party Transactions Review Committee

30th June 2023  
Colombo



# Board Credit Committee Report

The Committee shall assist the Board in effectively fulfilling its responsibilities relating to Credit Direction, Credit Policy and Lending Guidelines of the Company in order to inculcate healthy lending culture, standards and practices and ensure relevant rules, regulations and directions issued by the appropriate authorities are complied with.

## COMPOSITION OF THE COMMITTEE

The committee composition during the period ended 31st March 2023 is as follows.

Name of the Director	Directorship Status	Membership Status
Mr. Chandula Abeywickrema	Non-Executive Independent Director	Chairman
Mr. Travis Waas	Non-Executive Non-Independent Director	Member
Mr. Rangana Koralage (Appointed w.e.f.30th November 2022)	Non-Executive Non-Independent Director	Member

Chief Executive Officer, DGM – Credit & Operations, AGM – Risk & Management Information System, AGM – Recoveries and Head of Legal are the members of the committee representing the Management and shall attend the Meetings by invitation to assist members of the credit committee and to provide expert knowledge on different areas of issues.

Brief profiles of the Board members of the Committee as of 31 March 2023 are given on pages 60 to 63 of this Annual Report.

## MEETINGS OF THE COMMITTEE

Seven Board Credit Committee meetings were held during the year under review. Proceedings of the Committee meetings are regularly reported to the Board of Directors. The details of the attendance of the committee members are given below.

Name of the Director	Attendance
Mr. Chandula Abeywickrema	7/7
Mr. Travis Waas	7/7
Mr. Rangana Koralage (Appointed w.e.f.30th November 2022)	2/2

The Company Secretary functions as the Secretary to the Committee.

## TERMS OF REFERENCE

The Board approved Terms of Reference of the Board Credit Committee contain the role and functions of the Committee.

## ROLES AND RESPONSIBILITIES

- The Committee shall oversee the credit management process of the Company, including reviewing and recommending internal credit policies, credit related procedure manuals and lending products & papers for the approval of the Board of Directors.
- The Committee shall review the quality and performance of the Company's credit portfolio, specifically disbursements, non-performing loans & collection efficiencies.
- The committee shall approve credit facilities recommended by DGM – Credit & Operations jointly with the Chief Executive Officer within the delegated authority limits.
- Identification, monitoring and administration over problematic credit facilities including watch listed and non-performing advances.
- Provide guidance and directives for credit origination.
- Ensure adequate measurement and controls over credit & sector risk exposures.

- Proper evaluation & management of new lending opportunities and threats in the operating environment.
- Monitor changes in the economic and the operating environment of the Company so that the Company can have adequate controls in the lending book.
- Ensure compliance of lending activities with approved credit policies, statutory and regulatory requirements and guidelines.
- Ensure adequate level of credit growth without compromising the credit quality of the lending portfolio.

## COMMITTEE ACTIVITIES DURING THE YEAR

- Reviewed the revised Terms of Reference of the Committee, revised Credit Policy and recommended for the approval of the Board of Directors.
- Reviewed and approved credit proposals comprising new facilities, annual review of revolving facilities, changes to terms and conditions of facilities already approved.
- Reviewed the progress of Recovery Department on the implementation of action plans approved by Board Credit Committee on handling of non-performing loan facilities.
- Reviewed the Top 20 Watch List Customers and Top 20 NPL Customers List and advised the Management on recoveries.

## COMMITTEE EVALUATION

The performance and effectiveness of the Committee was assessed by the Board as a whole as part of the annual self-assessment of the Directors.

On behalf of the Board Credit Committee



**Chandula Abeywickrama**  
Chairman  
Board Credit Committee

Colombo  
30th June 2023



# Nomination Committee Report

The Nomination Committee operates within the Board approved Terms of Reference in conformity with the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 issued by Central Bank of Sri Lanka and the Code of Best Practices on Corporate Governance (2017) jointly issued by Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

## COMPOSITION AND COMMITTEE MEETINGS

The committee composition during the period ended 31st March 2023 is as follows.

Name of the Director	Directorship Status	Membership Status
Mr. Chandula Abeywickrema	Non-Executive Independent Director	Chairman
Mr. Rangana Koralage	Non-Executive Non-Independent Director	Member
Mr. Travis Waas	Non-Executive Non-Independent Director	Member
Mrs. Krystle Wijesuriya (Appointed w.e.f. 30th November 2022)	Non-Executive Independent Director	Member
Mr. C. S Manoharan (Stepped down w.e.f. 30th June 2022)	Non-Executive Independent Director	Member

Brief profiles of the members of the Board Nomination Committee as at 31 March 2023 are given on pages 60 to 63 of this Annual Report.

## MEETINGS OF THE COMMITTEE

The Committee held three meetings during the year under review and the extensive deliberations on matters relating to Board & Senior Management's appointments. The Chief Executive Officer attends meetings of the Committee by invitation except when matters relating to him are reviewed. The details of the attendance of the committee members are given below.

Name of the Director	Attendance
Mr. Chandula Abeywickrema	3/3
Mr. Rangana Koralage	3/3
Mrs. Krystle Wijesuriya	1/1
Mr. C. S Manoharan	1/1

The company Secretary functions as the Secretary to the Committee.

## TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the relevant statutes.

## ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on the following matters:

- The committee shall implement a formal and transparent procedure to select/appoint new Directors and senior management.
- Review the Board Structure, within the guide lines given by the Central Bank and make recommendation to the Board regarding any adjustments that are deemed necessary.
- The committee shall recommend appointment of CEO and consultant/ advisor to the Board of Directors
- The committee shall ensure that Directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.

- 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 company as a whole.
- The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.
- 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.
- 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

## REPORTING TO THE BOARD OF DIRECTORS

The Minutes of the Committee meetings are tabled at Board meetings, to communicate the views and activities of the committee.

## EVALUATION OF THE COMMITTEE PERFORMANCE

The performance and effectiveness of the Committee was assessed by the Board as a whole as part of the annual self-assessment of the Directors.

On behalf of the Nomination Committee



**Chandula Abeywickrema**  
Chairman  
Nomination Committee

30 June 2023  
Colombo

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

## GENERAL

The Directors of the Company have pleasure in presenting its Annual Report on the State of Affairs of the company to the shareholders of PMF Finance PLC (the Company), together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31st March 2023 of the Company and the group and the Auditors' Report on these financial statements, conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the Directions issued thereunder including the Finance Business Act Direction No. 05 of 2021 on "Corporate Governance", the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

The Financial Statements of the company for the year ended 31st March 2023 were approved and authorized for issue by the Board of Directors on 30th June 2023.

PMF Finance PLC is a Licensed Finance Company registered under the Finance Business Act No.42 of 2011 and was incorporated on 26th January 1983 under the Companies Act No. 17 of 1982 and subsequently re-registered as required under the provisions of the Companies Act No. 07 of 2007. The Company was listed on the main board of Colombo Stock Exchange on 11th July 1994 and transferred to Dirisavi Board with effect from 2nd July 2018. The Registered office of the Company and the principal place of business are situated at 361, 361 1/1, R. A. De Mel Mawatha, Colombo 3. The company has been assigned a credit rating of B+ Stable by Lanka Rating Agency.

## VISION, MISSION, GOALS, VALUES AND CORPORATE CONDUCT

The Company's Vision and Mission statements are exhibited on page 4 of the Annual Report. The business activities of the company are conducted in keeping with the highest level of ethical standards

in achieving its Vision and Mission. The company issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the company's Code of Conduct.

## PRINCIPAL BUSINESS ACTIVITIES

### Company

The Company's principal business activities comprise accepting public deposits and providing finance leases, loans, margin trading, short term investments, gold loans and entrepreneur loans.

### Subsidiaries

The Company has a fully owned subsidiary company (PMB Services Limited). The principal activity of PMB Services Limited was operation of credit cards and to undertake all ancillary activities in connection there with. However, the subsidiary is not involved in any business operations at present.

The Company or its subsidiary have not engaged in any activities, which contravene any laws or regulations during the year under review.

## BRANCH NETWORK

Total branch network of the Company as at 31st March 2023 was 13.

## REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

An overall assessment of the Company's financial position and performance during the year, with comments on financial results, special events that took place and future developments, are contained in the Chairman's message on pages 10 to 13. These reports form an integral part of the report of the Directors and together with audited financial statements reflect the state of affairs of the Company and the Group. Segment wise contribution to Group revenue, results, assets and liabilities are disclosed in the Notes to the financial statements on page 226 of this Annual Report.

## FINANCIAL STATEMENTS OF THE GROUP AND THE COMPANY

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No.07 of 2007 and Finance Business Act No.42 of 2011.

The financial statements of the Group and the Company, which are duly certified by the Assistant Manager - Finance and the Chief Executive Officer as approved by the Board of Directors and signed by the Chairman and one director is reflected on pages 146 to 228 of this Annual Report.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements of the Company and the Group, which reflects a true and fair view of the state of its affairs. The Directors are of the view that the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies, and Notes thereto for the year ended 31st March 2023 and Statement of Financial position as at that date have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Regulations made under Finance Business Act. No. 42 of 2011.

The "Statement of Director's Responsibility for Financial Reporting" is provided on Page 135 forms an integral part of this report.

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

## DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 16.1(ix) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance. The said statement which forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company is given on pages 137-138. The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as given in pages 139-140.

## AUDITOR'S REPORT

The External Auditors of the company, M/s. KPMG, Chartered Accountants carried out the Audit on the consolidated financial statements for the year ended 31st March 2023 and the Auditor's Report issued thereon is given on pages 142 to 145 of this Annual Report.

## ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given in Note 3 on page 154. Accounting policies used by the Group and the Company during the year under review. Significant accounting policies together with the notes adopted in preparation of the financial statements of the Group and the Company are given on the pages 154 to 171. These financial statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

## GOING CONCERN

After considering the financial position, the Company's corporate/ business plans, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Directors have made an assessment of the company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern, such as restrictions or plans to curtail operations.

## ACCOUNTING PERIOD

The financial accounting period reflects the information from 1st April 2022 to 31st March 2023.

## FINANCIAL RESULTS AND APPROPRIATIONS

### Gross Income

The Group and the Company recorded a loss of Rs. 158.25 Million and Rs. 158.02 respectively for the financial year 2022/23 (Profit of Rs.191.63 Million and Rs. 191.80 Million in 2021/22). Details of the Company's performance and appropriation are tabulated as follows.

Company	2022/23 Rs.'000	2021/22 Rs.'000
Loss brought forward from previous year	(948,598)	(1,131,607)
Profit/(Loss) after taxation	(158,024)	191,800
Other comprehensive income	1,536	2,861
Transfers to reserve fund	0	(9,590)
Transaction cost related to rights issue	0	(2,062)
Loss carried forward from previous year	(1,105,087)	(948,598)

## PROVISION FOR TAXATION

The company applied the revised rate of 30% in line with the Inland Revenue Amendment Act No. 45 of 2022 to calculate the income tax and deferred tax assets/liabilities as of 31st March 2023. An increased tax rate was applicable for six months of the year of assessment. First six months of the year of assessment commencing on April 1, 2022, the rate was 24% and for the second six months of the same year of assessment the rate was 30%. The company applied the revised rate of 30% to compute the deferred tax as of 31st March 2023.

The Company was also liable for Value Added Tax (VAT) on Financial Services at 18% and Social Security Contribution Levy (SSCL) on Financial Services at 2.5% w.e.f 1 October 2022.

Descriptive note on income tax charged and differed tax assets/ liability of the Company and its subsidiaries are disclosed in note 14 to the financial statements respectively.

## RESERVES

A summary of reserves of the Group and Company as at year ended 31st March 2023 as follows.

Company	Company		Group	
	2022/23 Rs. '000	2021/22 Rs. '000	2022/23 Rs. '000	2021/22 Rs. '000
Statutory reserve Fund	20,239	20,239	20,239	20,239
Retained Earnings	(1,105,087)	(948,598)	(1,105,676)	(948,957)
<b>Total</b>	<b>(1,084,848)</b>	<b>(928,359)</b>	<b>(1,085,437)</b>	<b>(928,718)</b>

## DIVIDENDS ON ORDINARY SHARES

The Directors have not recommended the declaration of dividend for the financial year ended 31st March 2023.

## PREFERENCE SHARES AND PREFERENCE DIVIDEND

Outstanding balance of the Preference shares as at 31st March 2023 amounted to Rs. 10 million.

## CAPITAL EXPENDITURE

The total capital expenditure on the acquisition of property plant and equipment of the company amounted to LKR 112,443,000 (2022/23) LKR 66,879,000 (2021/22). Details are given in Note 21 to the Financial Statements.

## CAPITAL COMMITMENTS

The contracted and approved capital expenditure as at the date of the reporting is given in Note 39 to the Financial Statements.

## PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Information on property, plant and equipment of the Company are given in Note 21 to the Financial Statements on page 188. Particulars of intangible assets are given in Note 22 to the Financial Statements on page 189. Leasehold properties of the company are given under Note 23 to the Financial Statements on page 191.

## INVESTMENTS

Details of investments held by the Company are disclosed in notes 17 and 18 on pages pages 176 to 180 to the financial statements.

## STATED CAPITAL

In compliance with the Companies Act No. 07 of 2007, the financial statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital.

The Stated Capital of the Company and the Group as at 31st March 2023 amounted to Rs. 3,762,054,500 consisting of 405,301,750 ordinary shares (Rs. 3,762,054,500 consisting of 405,301,750 ordinary shares as at 31st March 2022).

Name of Director	Status of Directorship	Date of Appointment
Mr. Chandula Abeywickrema	Chairman/Non-Executive Independent Director	Appointed on 26th June 2019
Mr. Travis Waas	Non-Executive Non-Independent Director	Appointed on 22nd June 2020
Mr. Rangana Koralage	Non-Executive Non-Independent Director	Appointed on 26th June 2019
Mrs. Krystle Wijesuriya	Non-Executive Independent Director	Appointed on 22nd August 2022
Dr. Nirmal De Silva	Non-Executive Independent Director	Appointed on 29th September 2022

## SHARE INFORMATION

Shareholder information and information on trading are provided under the title Share Information on pages 233 to 234 of this Annual Report and is presented to the shareholders.

## SHAREHOLDINGS

The list of top 20 shareholders, number of shares held by them, percentage of their respective holding and Public holding percentage are given under the title Share Information on pages 233 to 234.

## THE BOARD OF DIRECTORS

The Board of Directors of the Company comprises of Five Directors with wide financial and commercial knowledge and experience. The names of the Directors who held office during the financial year 2022/23 are given below. The classification of Directors is given next to the names of the Directors as per the Listing Rules of the Colombo Stock Exchange and the Finance Business Act Direction No. 05 of 2021 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

The names of the Directors who held office as at the end of the FY 2022/23 are given below. A brief profile of the Directors is given on pages 60 to 63 of the Annual Report.

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

## APPOINTMENTS DURING THE YEAR 2022/23

Mrs. Krystle Wijesuriya	Non-Executive Independent Director	Appointed on 22nd August 2022
Dr. Nirmal De Silva	Non-Executive Independent Director	Appointed on 29th September 2022

## RESIGNATIONS DURING THE YEAR 2022/23

Mr. Ranjith Kodituwakku	Non-Executive Non-Independent Director	Resigned from the Board w.e.f.28th July 2022
Mr. Channa Manoharan	Non-Executive Independent Director	Resigned from the Board w.e.f.22nd August 2022

## ANNUAL ASSESSMENT OF CONTINUING DIRECTORS

All Directors have submitted affidavits and declarations for the year 2023/24 for annual assessment by the Director, NBFU under the Finance Business Act Direction No. 06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.

## INTERESTS REGISTER

In compliance with the Companies Act No. 07 of 2007, the Company maintains an interest's register which is available for inspection.

## DIRECTORS' INTEREST IN TRANSACTIONS

The Directors of the Company have made general declarations as provided in section 192 (2) of the Companies Act No. 07 of 2007 of their interests in transactions of the Company. Details of the transactions disclosed therein are given on pages 201 to 204 under related party transactions.

The Chairman and the Directors of the Company have made declarations as per the requirements in Section 16.1 (v) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance, that there is no financial, business, family or other material/relevant relationship(s) between the Chairman and the CEO and/or amongst the members of the Board.

## DIRECTORS' REMUNERATION

The details of Directors' fees and Directors' emoluments paid during the year are stated below.

Company	Company		Group	
	2022/23 LKR '000	2021/22 LKR '000	2022/23 LKR '000	2021/22 LKR '000
Directors' Fees & Emoluments	24,903	15,402	24,903	15,402

## DIRECTORS' INTEREST IN SHARES

In compliance with section 200 of the Companies Act No. 07 of 2007, the Directors have disclosed to the Board their shareholding in the Company and any acquisitions or disposals thereof.

No Director held shares in the Company as at 31st March 2023.

## CHIEF EXECUTIVE OFFICER'S INTEREST IN SHARES

The Chief Executive Officer does not hold shares in the Company as at 31st March 2023.

## DIRECTOR'S MEETINGS

The details of Directors' meetings are presented in the Corporate Governance report on pages 69 to 118 of this Annual Report.

## APPRAISAL OF BOARD AND BOARD SUB COMMITTEE'S PERFORMANCE

A scheme of self-assessment is undertaken annually by each Director in conformity with Section 4(1) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance. The Board also carried out an annual self-evaluation of its own performance and that of the Sub-Committees to ensure that they discharge their duties and responsibilities satisfactorily in terms of the Companies Act No. 07 of 2007, Finance Business Act Direction No. 05 of 2021 on Corporate Governance, Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance.

## BOARD SUB COMMITTEES

The Board of Directors of the Company has formed Seven Board Sub-Committees in compliance with the Finance Business Act Direction No. 05 of 2021 on Corporate Governance, the Securities and Exchange Commission of Sri Lanka and the Listing Rules of the Colombo Stock Exchange and as per the recommended Code of Best Practice on Corporate Governance 2017 issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

- Board Audit Committee
- Board Integrated Risk Management Committee
- Human Resource and Remuneration Committee
- Related Party Transactions Review Committee
- Nomination Committee
- Board Credit Committee
- IT Steering Committee



All the Board sub-committee details are presented on pages 119 to 128.

### **DONATIONS**

During the year, the Company has not made any donations. The information given above on donations forms an integral part of the Report of the Board of Directors as required by the Section 168(1) (g) of the Companies Act No. 07 of 2007.

### **RELATED PARTY TRANSACTIONS**

Directors have disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standards – LKAS 24 “Related Party Disclosures” which is adopted in preparation of the Financial Statements. Those transactions are given in Note 35 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors. The company has also complied with the requirement of the Code of Best Practice 2017 issued by The Institute of Chartered Accountants of Sri Lanka, Listing Rules of Colombo Stock Exchange (CSE) and with all disclosure requirements stipulated thereunder.

### **SYSTEM OF INTERNAL CONTROLS**

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial operations and compliance controls required to carry its operation in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Board Audit Committee Report forms an integral part of the Annual Report of the Board of Directors and is given on Pages 119 to 121 of the Annual Report.

### **CORPORATE GOVERNANCE**

The Directors of the Company are committed to maintaining an effective Corporate Governance Framework by implementing processes required to ensure that the Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka 2017, the Finance Business Act Direction No.05 of 2021 issued by the CBSL and Requirements of Section 7.10 of the Listing Rules of the Colombo Stock Exchange. Details are given on Corporate Governance Report on pages 69 to 118 of this Annual Report.

### **DIRECTORS' DECLARATIONS**

- i. The Company complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations.
- ii. The Directors have declared all material interests in contracts involving the company and refrained from voting on matters in which they were materially interested.
- iii. All endeavors have been made to ensure that the fair treatment for all stakeholders, in particular the depositors.
- iv. The Board of Directors has reviewed the Company's Corporate/Business Plans and is satisfied that the company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern assumption; and
- v. The Board has conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

### **HUMAN RESOURCES**

The number of employees as at 31st March 2023 was 274 (31st March 2022-217).

### **ENVIRONMENTAL PROTECTION**

To the best of knowledge of the Board of Directors, the Company has complied with the relevant environmental laws and regulations. The Company has not engaged in any activity that is harmful or hazardous to the environment.

### **STATUTORY PAYMENTS**

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

### **OUTSTANDING LITIGATION**

In the opinion of the Directors formed in consultation with the Company lawyers, litigation currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on note 34 to the Financial Statements on page 200.

### **EVENTS AFTER THE REPORTING DATE**

Details of events after the reporting date are reflected in note 42 Page 228 to the financial statements.

### **AUDITORS**

Messrs. KPMG, Chartered Accountants served as the Independent Auditors during the year under review.

The Auditors were paid LKR 2.1 Million (FY 2021/22 – LKR.1.95 Mn) as Statutory Audit fee and expenses by the Company. Further they were paid LKR 345,000 as non-audit services during the year under review.



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

M/s KPMG (Chartered Accountants) has been the Company's Auditors for over ten consecutive years. As per the Finance Business Act Direction No.05 of 2021 on Corporate Governance, all Licensed Finance Companies are required not to exceed the service period of the same external Audit firm for not more than ten consecutive years. Accordingly, a resolution to appoint M/s Ernst & Young (Chartered Accountants) as Auditors until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31 March 2024 will be proposed at the Annual General Meeting.

Based on the written representation made by the M/S Ernst & Young (Chartered Accountants) to the Board, the Directors are satisfied that the Auditors did not have any relationship with or any interest in the Company such that their judgments may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

## NOTICE OF MEETING

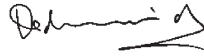
Notice of the meeting relating to the Annual General Meeting is provided on page 241 of this Annual Report.



**Travis Waas**  
Director



**Chandula Abeywickrema**  
Chairman



**Corporate Services (Private) Ltd**  
Company Secretary

29th June 2023  
Colombo

# Directors' Responsibility for Financial Reporting

The responsibilities of the Directors in relation to the Financial Statements of the PMF Finance PLC (the "Company") prepared in accordance with the provisions of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and other statutes, which are applicable in the preparation of Financial Statements are set out in the following statement. The responsibilities of the External Auditor in relation to the Financial Statements are set out in the Report of the Auditors given on page 144 to the Annual Report.

As per the provisions of Sections 150 (1), 151, 152 and 153 (1) and (2) of the Companies Act No. 07 of 2007 the Directors are required to prepare Financial Statements that give a true and fair view of the financial position of the Company for each financial year and place them before the Annual General Meeting. The Financial Statements comprise the Statement of Financial Position as at end of the financial year, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and Notes thereto.

The Financial Statements are prepared by the Assistant Manager Finance under the supervision of the Chief Executive Officer. The Directors confirm that the Financial Statements of the Company give a true and fair view of:

1. The state of affairs of the Company as of 31 March 2023; and
2. The financial performance of the Company for the financial year ended 31 March 2023.

The Board of Directors accepts the responsibility of the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing these Financial Statements.

1. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgements and estimates have been made which are reasonable and prudent; and
3. All applicable Accounting Standards, as relevant, have been complied with.

Further, the Directors have a responsibility to ensure that the Company has maintained sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company. The Financial Statements prepared and presented in this Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS) which came into effect from 1 January 2012, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and amendments thereto, the Listing Rules of Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of Licensed Finance Companies.

The Directors have also instituted effective and comprehensive systems of Internal Control for identifying, recording, evaluating, and managing the significant risks faced by the Company throughout the year and it is being under regular

review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of a Licensed Finance Company in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31 March 2023 are given in pages 137 to 138 of the Annual Report, "Directors Statement on Internal Control over Financial Reporting". External Auditors' Assurance Report on the "Directors Statement on Internal Control" is given on pages 139 to 140 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Company maintain proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 119 to 121 in the Annual Report. The Board of Directors also approves the Interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

Directors are required to prepare the Financial Statements and to provide the Company's External Auditor, Messrs' KPMG, Chartered Accountants, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

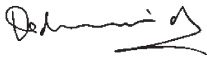
# Directors' Responsibility for Financial Reporting

The Financial Statements of the Company have been certified by the Assistant Manager Finance of the Company, the officer responsible for their preparation, as required by Sections 150(1) (b) and 152 (1) (b) of the Companies Act. Also, the Financial Statements of the Company have been signed by two Directors, Chief Executive Officer and Assistant Manager Finance of the Company on 30th June 2023 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



**Corporate Services (Private) Limited**  
Company Secretaries

30 June 2023  
Colombo

# Directors' Statement on Internal Control Over Financial Reporting

## DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

### REGULATORY REQUIREMENTS

In line with the section 16(1) (ix) of the Finance Business Act Direction No.05 of 2021- Corporate Governance, and Principle D.1.5 of the Code of Best Practice on Corporate Governance 2017 issued by Chartered Accountants of Sri Lanka, the Board of Directors ("Board") of PMF Finance PLC ("Company") presents this report on internal control over financial reporting.

### RESPONSIBILITY

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the system of internal control over financial reporting in place at PMF Finance PLC ("the Company"). The system of internal control has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the financial statements are prepared in accordance with the relevant financial reporting framework and are free from material misstatement due to fraud or error. Therefore, the system of internal controls cannot be expected to provide absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

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 controls in place to mitigate such assessed risks effectively in response to changes in the business and regulatory environment. This risk management process is regulatory reviewed for effectiveness by the Board and Board appointed sub committees including the Integrated Risk Management Committee.

The management is tasked with assisting the Board in the implementation of the policies and procedures related to risk and control. This includes identifying and assessing the risks faced by the Company as well as providing inputs

on design, operation, and monitoring of internal controls over financial reporting to mitigate and control these risks.

The internal control deficiencies reported by the external auditor in their management letter and their recommendations therein in connection with the internal controls over financial reporting identified during the external audit were reviewed by the Board Audit Committee and appropriate actions were taken to implement the recommendations. The Board Audit Committee reviews the management letter, discuss the same with external auditors and the management and periodically reviews the progress of implementation of the recommendations made by the external auditor.

The Board has considered the requirements of the Sri Lanka Accounting Standard, SLFRS 9 Financial Instruments, in the preparation of financial statements and implemented the calculation of impairment of financial instruments in compliance with the Standard by developing a model with the assistance of an independent professional accounting firm during the financial year.

The management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks facing the Company, and in the design, operation, and monitoring of appropriate internal controls to mitigate and control these risks.

### KEY ELEMENTS OF THE PROCESS ADOPTED FOR THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

The key elements of the processes that have been established within the Company for monitoring and enhancing the adequacy and effectiveness of the system of internal controls over financial reporting include the following:

- The Board has established several sub committees to assist the Board

in ensuring the effectiveness of the Company's daily operations and that the Company's operations are conducted in accordance with the corporate vision and objectives, strategies, and approved policies of the Company.

- The Internal Audit function of the Company reviews compliance with the approved policies and procedures and the effectiveness of the internal control system on an ongoing basis by way of conducting periodic internal audit reviews in accordance with the annual internal audit plan approved by the Board Audit Committee and reporting significant findings, which include deficiencies in the design and operation of internal controls and non-compliance with the established policies and procedures to the Board Audit Committee. Internal Audit reviews are conducted in accordance with the annual internal audit plan approved by the Board Audit Committee covering all the significant business units and the branches of the Company with sufficient regularly reflecting the risk associated with the business units or the branches. The annual audit plan is reviewed and approved by the Board Audit Committee. The significant findings of the internal audit reports and the progress of implementation of internal auditor's recommendations are reviewed by the Board Audit Committee at its periodic meetings.
- The Board Audit Committee of the Company reviews internal control deficiencies identified by the internal auditors the management and evaluates the adequacy and effectiveness of the internal control system of the Company including financial reporting controls. The Committee also reviews the effectiveness and efficiency of the internal audit function with particular emphasis on the independence of the function, resources and competencies, annual internal audit plan and the scope of internal audits. The Minutes of the Board Audit

# Directors' Statement on Internal Control Over Financial Reporting

Committee meetings are tabled at the meetings of the Board of Directors of the Company. Further details of the activities undertaken by the Board Audit Committee of the Company are described in the "Board Audit Committee Report" on pages 119 to 121.

- The comments specified by the CBSL Onsite examination about the internal control system over financial reporting in previous years were reviewed, and the formalization of the modified IT strategy, Recovery and Succession Planning policies are monitored quarterly until the issues raised are completely resolved. Further, The Board Audit Committee stipulates the increase in scope and frequency of the compliance function and FInNet reporting and charges the capitalization process to Internal Auditors to comply with the CBSL Onsite examination.
- Documented standard operating procedures are in important element in the process of embedding the risk management and internal controls in the system and operations of the Company. Therefore, the management have implemented a periodic process through designated officers to review and update the documented policies and procedures including the financial policies and procedures and the internal audit department reviews these procedures on a periodic basis to assess the design effectiveness of the internal controls embedded in the processes. The Company implemented documented Standard Operating Procedures (SOPs) for all significant processes and operations of the Company during the financial year with the approval of the Board.
- A process has been set up to continuously monitor the internal control system over financial reporting to mitigate the risk on misrepresentation of financial reporting. The respective process owners of the Company continuously review and update all procedures

and controls connected with significant accounts and disclosures of the Financial Statements of the Company. The risk department verifies the suitability of design and effectiveness of these procedures and controls on an ongoing basis, and internal audit department reviews the compliance and apprises the Board Audit Committee where necessary.

- The Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements are made to its processes to comply with requirements recognition, measurement, classification, and disclosure. Financial reporting and management information processes will be further strengthened by constant monitoring and adaption to market realities. The Company reviewed the existing models in use to ascertain the potential implications of the current economic condition and these models are regularly reviewed and validated through independent industry experts to ensure effective financial representation.

## REVIEW OF THE STATEMENT BY THE EXTERNAL AUDITOR

The External Auditors of the Company, Messrs. KPMG, have reviewed the Director's Statement on Internal Controls included in this Annual Report of the Company 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 over financial reporting of the Company. Their independent assurance report on the "Directors' Statement on Internal Controls over Financial Reporting" is given on pages 139 to 140 of this Annual report.

## CONFIRMATION

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards and the applicable regulatory requirements of the Central Bank of Sri Lanka and the Colombo Stock Exchange.

## STATEMENT ON PRUDENTIAL REQUIREMENTS, REGULATIONS, AND LAWS

There was no material non-compliance with prudential requirements, regulations, laws, and internal controls during the financial year. There were no material supervisory concerns on the Company's Risk Management Systems or non-compliance with these directions which led to them being pointed out by the Director of Non-Bank Supervision of the Central Bank of Sri Lanka and which have caused the Monetary Board to give directions that they be disclosed to the public. Since there have been no such lapses or instances of non-compliance and since no such directions have been given by the Monetary Board, the issue of measures to be taken does not arise and there is nothing to disclose in this regard.

By order of the Board



**Rangana Koralage**  
Director



**Chandula Abeywickrama**  
Chairman

Colombo  
31st July 2023

# Auditor's Assurance Report on the Directors' Statement on Internal Control



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
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## TO THE BOARD OF DIRECTORS OF THE PMF FINANCE PLC

Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of PMF Finance PLC ("Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") for the year ended 31<sup>st</sup> March 2023.

### MANAGEMENT'S RESPONSIBILITY FOR THE STATEMENT ON INTERNAL CONTROL

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 10 (2) (e) of the Finance Companies (Corporate Governance) Direction No. 05 of 2021 by the Institute of Chartered Accountants of Sri Lanka.

### OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental

principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The Firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### AUDITORS' RESPONSIBILITIES

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 Companies and Finance Leasing Companies on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that the auditors plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

### SUMMARY OF WORK PERFORMED

Our engagement has been conducted 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 system of internal control of the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- Reviewed the documentation prepared by the Management to support their Statement made.
- Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements

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C.P. Jayatilake FCA	T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA
Ms. S. Joseph FCA	Ms. S.M.B. Jayasekara FCA	W.K.D.C. Abeyrathne FCA
S.T.D.L. Perera FCA	G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA
Ms. B.K.D.T.N. Rodrigo FCA	R.H. Rajan FCA	M.N.M. Shameel FCA
Ms. C.T.K.N. Perera ACA	A.M.R.P. Alahakoon ACA	Ms. P.M.K. Sumanasekara FCA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTI		



# Auditor's Assurance Report on the Directors' Statement on Internal Control



- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (f) Obtained written representations from the Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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 the auditor's judgment, having regard to the auditor's 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.

## AUDITOR'S 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 have adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

Chartered Accountants

31 July 2023  
Colombo.



# DELIVERING STABILITY

Over the years, PMF Finance has delivered a resilient performance. This has served as a bedrock of strength enabling the Company to create value to its investors and stakeholders.

# Independent Auditor's Report



KPMG  
(Chartered Accountants)  
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## TO THE SHAREHOLDERS OF PMF FINANCE PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of PMF Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2023, and statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies set out on pages 12 to 74.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2023 and of their financial performance and their 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 Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of

Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company financial statements and the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the Company financial statements and the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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C.P. Jayatilake FCA	T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA
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Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTII		

## Allowances for Expected Credit losses - loans and lease rental receivable

Refer to note 19 to the Financial Statements and Note 4.17.9 in the accounting policies

Risk Description	Our response
<p>As disclosed in Note 19 to the financial statements, the Group has recorded Rs.8,318 Mn as loan and lease rental receivables as at 31 March 2023. Expected credit loss allowance (ECL) of Rs. 518 Mn is recorded against the loan and lease rental receivable. Higher degree of complexity and judgement are involved in estimating ECL as at the reporting date.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• Assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss (ECL) against the requirement of SLFRS 09.</li> </ul>
<p>Allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables and lease rental receivable balances to the financial statements and the inherent complexity of the Group's ECL models used to measure ECL allowances. These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).</p>	<ul style="list-style-type: none"> <li>• Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL. We assessed the appropriateness of assumptions, particularly in light of extreme volatility in economic scenarios caused by the current economic uncertainty and government responses.</li> </ul>
<p>SLFRS 9 - Financial Instruments requires the Group to measure ECL on a forward-looking basis reflecting a range of economic conditions. Post-model adjustments are made by the Group to address known ECL model limitations or emerging trends in the loan and lease receivable portfolios. We exercise significant judgement when evaluating the economic scenarios used and the judgmental post model adjustments the Group applies to the ECL results.</p>	<ul style="list-style-type: none"> <li>• Recalculating the amount of credit loss allowance for sample of loans and lease rental receivables.</li> </ul>
<p>Additional subjectivity and judgment have been introduced into the Company's measurements of ECL due to the heightened uncertainty associated with the impact of the economic outlook to the Company's customers, increasing our audit effort thereon.</p>	<ul style="list-style-type: none"> <li>• Involving our Financial Risk Management (FRM) specialist to assess the reasonability of the adjustments made by the Company to the forward looking macro-economic factors and assumptions used in the ECL model.</li> </ul>
<p>The disclosures regarding the Group's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.</p>	<ul style="list-style-type: none"> <li>• Involving our FRM specialist to assess the logic and compilation of the overdue information of loans and advances, finance lease receivables and hire purchase receivables.</li> </ul>
<p>The disclosures regarding the Group's application of SLFRS 9 are key to explaining the key judgements and material inputs to the SLFRS 9 ECL results.</p>	<ul style="list-style-type: none"> <li>• Evaluating whether the disclosures on impairment of loans and lease rental receivables meet the disclosure requirements of the prevailing accounting standards.</li> </ul>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the Financial Statements and our Auditor's Report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### 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.

# Independent Auditor's Report



In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of 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 and Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the

Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit we remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated



in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditor's report is 3544.

**CHARTERED ACCOUNTANTS**

Colombo, Sri Lanka  
30 June 2023



# Statement of Profit or Loss

For the year ended 31st March	Note	Company		Group	
		2023	2022	2023	2022
<i>In thousands of rupees</i>					
Gross Income	6	2,095,447	969,469	2,095,447	969,469
Interest income	7.1	2,008,133	794,219	2,008,133	794,219
Interest expense	7.2	(1,280,618)	(300,022)	(1,280,618)	(300,022)
<b>Net interest income</b>	7	<b>727,515</b>	<b>494,197</b>	<b>727,515</b>	<b>494,197</b>
Fee and commission income	8	29,552	19,238	29,552	19,238
Net income from financial assets at FVTPL	9	30,644	28,367	30,644	28,367
Other operating income	10	27,118	127,645	27,118	127,645
<b>Total operating income</b>		<b>814,829</b>	<b>669,447</b>	<b>814,829</b>	<b>669,447</b>
Impairment reversal and other losses	11	(154,029)	40,914	(154,029)	40,914
<b>Net operating income</b>		<b>660,800</b>	<b>710,361</b>	<b>660,800</b>	<b>710,361</b>
<b>Expenses</b>					
Personnel expenses	12	(364,741)	(260,703)	(364,741)	(260,703)
Depreciation of property, plant and equipment	21	(24,962)	(9,731)	(24,962)	(9,731)
Amortisation of intangible assets	22	(2,936)	(501)	(2,936)	(501)
Amortisation of right of use assets	23	(45,685)	(42,897)	(45,685)	(42,897)
Other operating expenses	13	(377,037)	(195,103)	(377,268)	(195,276)
<b>Operating loss before taxes on financial services</b>		<b>(154,561)</b>	<b>201,426</b>	<b>(154,792)</b>	<b>201,253</b>
Taxes on financial services		(33,273)	(61,252)	(33,273)	(61,252)
<b>Loss before income tax</b>		<b>(187,834)</b>	<b>140,174</b>	<b>(188,065)</b>	<b>140,001</b>
Income tax reversal	14	29,810	51,626	29,810	51,626
<b>Loss attributable to the owners of the Company</b>		<b>(158,024)</b>	<b>191,800</b>	<b>(158,255)</b>	<b>191,627</b>
Basic (loss)/earnings per share (Rs.)	15	(0.39)	0.55	(0.39)	0.55
Diluted (loss)/earnings per share (Rs.)	15	(0.39)	0.55	(0.39)	0.55

The notes to the financial statements form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Statement of Profit or Loss and Other Comprehensive Income

		Company		Group	
For the year ended 31st March		2023	2022	2023	2022
<i>In thousands of rupees</i>					
	Note				
(Loss)/profit for the year		(158,024)	191,800	(158,255)	191,627
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Actuarial gain/(loss) on retirement benefit obligation	29	2,194	3,764	2,194	3,764
Deferred tax effect on actuarial (gain)/ loss		(658)	(903)	(658)	(903)
Other comprehensive income/(loss) for the year, net of tax		1,536	2,861	1,536	2,861
Total comprehensive income/(loss) for the year attributable to the owners of the Company		(156,488)	194,661	(156,719)	194,488

The notes to the financial statements form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Statement of Financial Position

As at 31st March <i>In thousands of rupees</i>	Note	Company		Group	
		2023	2022	2023	2022
<b>Assets</b>					
Cash and cash equivalents	16	561,607	660,873	561,846	661,116
Placements with banks and financial institutions	17	1,264,071	410,942	1,264,071	410,942
Financial assets measured at fair value	18	409,936	9,245	409,936	9,245
Financial assets measured at amortised cost - loans and lease rentals receivable	19	8,318,103	6,676,608	8,318,103	6,676,608
Property, plant and equipment	21	169,495	82,027	169,495	82,027
Intangible assets	22	44,239	9,760	44,239	9,760
Right-of-use assets	23.1	173,662	123,822	173,662	123,822
Deferred tax assets	28	79,874	50,722	79,874	50,722
Other assets	24	400,235	255,817	400,235	255,817
<b>Total assets</b>		<b>11,421,222</b>	<b>8,279,816</b>	<b>11,421,461</b>	<b>8,280,059</b>
<b>Liabilities</b>					
Due to banks	25	757,280	1,842,767	757,280	1,842,767
Financial liabilities at amortised cost - Deposits due to customers	26	7,655,746	3,228,866	7,655,746	3,228,866
Debt securities issued	27	17,800	17,200	17,800	17,200
Lease liabilities	23.2	197,581	136,450	197,581	136,450
Employee benefit obligation	29	12,249	13,378	12,249	13,378
Other liabilities	30	103,360	207,460	104,188	208,062
<b>Total liabilities</b>		<b>8,744,016</b>	<b>5,446,121</b>	<b>8,744,844</b>	<b>5,446,723</b>
<b>Equity</b>					
Ordinary share capital	31	3,762,054	3,762,054	3,762,054	3,762,054
Statutory reserve fund	32	20,239	20,239	20,239	20,239
Accumulated losses	33	(1,105,087)	(948,598)	(1,105,676)	(948,957)
<b>Total equity attributable to the owners of the Company</b>		<b>2,677,206</b>	<b>2,833,695</b>	<b>2,676,617</b>	<b>2,833,336</b>
<b>Total liabilities and equity</b>		<b>11,421,222</b>	<b>8,279,816</b>	<b>11,421,461</b>	<b>8,280,059</b>
Commitments and contingencies	34	94,159	131,700	94,159	131,700
<b>Net assets value per share (Rs.)</b>		<b>6.61</b>	<b>6.99</b>	<b>6.60</b>	<b>6.99</b>

The notes to the financial statements form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

We certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.



Janaka Nishantha  
Assistant Manager - Finance



Terrance Kumara  
Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board by;



Chandula Abeywickrema  
Chairman



Rangana Koralage  
Director

June 30, 2023  
Colombo, Sri Lanka

# Statement of Changes in Equity - Company

Company	Ordinary share capital	Reserve fund	Accumulated losses	Total equity
<i>In thousands of rupees</i>				
Balance at 1st April 2021	3,252,159	10,649	(1,131,607)	2,131,201
Total comprehensive income for the year				
Profit for the year	-	-	191,800	191,800
Other comprehensive income				
Remeasurement of defined benefit liability	-	-	3,764	3,764
Tax on other comprehensive income	-	-	(903)	(903)
Total other comprehensive income	-	-	2,861	2,861
Total comprehensive income	-	-	194,661	194,660
Transfers to the reserve fund	-	9,590	(9,590)	-
Transactions with owners of the Company				
Contributions and distributions				
Issue of ordinary shares through right issue	509,895	-	-	509,895
Advance against stated capital	-	-	-	-
Transaction cost related to rights issue	-	-	(2,062)	(2,062)
Total contribution and distribution	509,895	-	(2,062)	507,834
Total transactions with owners of the Company	509,895	-	(2,062)	507,834
Balance at 31st March 2022	3,762,054	20,239	(948,598)	2,833,695
Balance at 1st April 2022	3,762,054	20,239	(948,598)	2,833,695
Total comprehensive income				
Loss for the year	-	-	(158,024)	(158,024)
Other comprehensive income				
Remeasurement of defined benefit liability	-	-	2,194	2,194
Tax on other comprehensive income/ Loss	-	-	(658)	(658)
Total other comprehensive income	-	-	1,536	1,536
Total comprehensive income	-	-	(156,488)	(156,488)
Balance at 31st March 2023	3,762,054	20,239	(1,105,087)	2,677,207

The notes to the financial statements form an integral part of these financial statements.

Figures in brackets indicate deductions.

# Statement of Changes in Equity - Group

Group	Ordinary share capital	Reserve fund	Accumulated losses	Total equity
<i>In thousands of rupees</i>				
Balance at 1st April 2021	3,252,159	10,649	(1,131,793)	2,131,015
Total comprehensive income for the year				
Profit for the year	-	-	191,627	191,627
Other comprehensive income				
Remeasurement of defined benefit liability	-	-	3,764	3,764
Tax on other comprehensive income	-	-	(903)	(903)
Total other comprehensive income	-	-	2,861	2,861
Total comprehensive income	-	-	194,488	194,488
Transfers to the reserve fund	-	9,590	(9,590)	-
Transactions with owners of the Company				
Contributions and distributions				
Issue of ordinary shares through rights issue	509,895	-	-	509,895
Transaction cost related to rights issue	-	-	(2,062)	(2,062)
Total contribution and distribution	509,895	-	(2,062)	507,834
Total transactions with owners of the Company	509,895	-	(2,062)	507,834
Balance at 31 March 2022	3,762,054	20,239	(948,957)	2,833,336
Balance at 31st March 2022	3,762,054	20,239	(948,598)	2,833,695
Balance at 1st April 2022	3,762,054	20,239	(948,957)	2,833,336
Total comprehensive income Profit for the year	-	-	(158,255)	(158,255)
Other comprehensive income Remeasurement of defined benefit liability	-	-	2,194	2,194
Tax on other comprehensive income	-	-	(658)	(658)
Total other comprehensive income	-	-	1,536	1,536
Total comprehensive income	-	-	(156,719)	(156,719)
Transfers to the reserve fund	-	-	-	-
Balance at 31 March 2023	3,762,054	20,239	(1,105,676)	2,676,617

The notes to the financial statements form an integral part of these financial statements.

*Figures in brackets indicate deductions.*

# Statement of Cash Flows

For the year ended 31 March <i>In thousands of rupees</i>	Note	Company		Group	
		2023	2022	2023	2022
<b>Cash flows from operating activities</b>					
Profit/(Loss) before tax		(187,834)	140,174	(188,065)	140,001
<b>Adjustment for:</b>					
- Depreciation and amortisation	21&23	73,579	53,129	73,579	53,129
- Profit on real estate sales	10	(4,000)	(37,729)	(4,000)	(37,729)
- Gain on derecognition of right-of-use assets	23	(1,609)	(1,584)	(1,609)	(1,584)
- Net gain on investment securities at FVPTL	9	(30,644)	(28,367)	(30,644)	(27,973)
- Net impairment loss on loans and advances	11	154,029	(40,914)	154,029	(40,914)
- Interest expense on preference shares	7.2	600	600	600	600
- Interest expense due to banks	7.2	261,857	77,707	261,857	77,707
- Interest expense on leases	23.2	25,138	10,415	25,138	10,415
- Dividend on equity securities at FVPTL	9	(318)	(393)	(318)	(393)
- Interest income	7.1	(233,390)	(16,031)	(233,390)	(16,031)
- Provision for retirement benefit obligation	29	4,038	3,288	4,038	3,288
- Gain on disposal of property, plant and equipment	10	(77)	(690)	(77)	(690)
<b>Net cash used in operating activities</b>		<b>61,369</b>	<b>159,605</b>	<b>61,138</b>	<b>159,824</b>
<b>Changes in</b>					
Financial assets measured at amortised cost - loans and lease rentals receivable		(1,795,525)	(3,479,127)	(1,795,525)	(3,479,127)
Other assets		(140,418)	(131,215)	(140,418)	(131,215)
Due to customers		4,426,880	939,374	4,426,881	939,374
Other liabilities		(104,100)	39,685	(104,054)	39,462
		2,448,206	(2,471,678)	2,448,022	(2,471,682)
Retiring gratuity paid	29	(2,972)	(4,506)	(2,972)	(4,506)
Interest paid due to banks		(283,686)	(49,109)	(283,686)	(49,109)
Income tax paid		-	-	-	-
		2,161,548	(2,525,293)	2,161,364	(2,525,295)
Interest income on short term investment	7.1	233,390	16,031	233,390	16,031
Investment/upliftment of fixed deposits	17	(853,129)	(405,816)	(853,129)	(405,816)
Investments in securities	18	(370,047)	666,961	(370,047)	666,961
Acquisition of property, plant and equipment	21	(112,443)	(66,879)	(112,443)	(66,879)
Acquisition of intangible assets	22	(37,415)	(3,671)	(37,415)	(3,671)
Proceeds from disposal of property, plant and equipment	21	91	690	91	690
Dividends received from investments	9	318	393	318	393
<b>Net cash from investing activities</b>		<b>(1,139,235)</b>	<b>207,709</b>	<b>(1,139,235)</b>	<b>207,709</b>
<b>Cash flows from financing activities</b>					
Proceeds from rights issue of shares	31	(0)	509,895	(0)	509,895
Transaction cost related to rights issue	33	-	(2,062)	-	(2,062)
Proceeds from borrowing from due to banks	25.1	-	1,850,000	-	1,850,000
Repayments of borrowings from due to banks	25.1	(1,063,656)	(35,831)	(1,063,656)	(35,831)
Lease rental payments	23.2	(57,923)	(50,736)	(57,923)	(50,736)
<b>Net cash from financing activities</b>		<b>(1,121,579)</b>	<b>2,271,266</b>	<b>(1,121,579)</b>	<b>2,271,266</b>
Net (decrease)/increase in cash and cash equivalents		(99,266)	(46,317)	(99,450)	(46,321)
Cash and cash equivalents at beginning of the year		660,873	707,190	661,294	707,437
<b>Cash and cash equivalents at the end of the year</b>	16	<b>561,607</b>	<b>660,873</b>	<b>561,846</b>	<b>661,116</b>

The notes to the financial statements form an integral part of these financial statements.

Figures in brackets indicate deductions.



# Notes to the Financial Statements

## 1. CORPORATE AND GROUP INFORMATION

### 1.1 Corporate Information

PMF Finance PLC ("the Company") is a Licensed Finance Company registered under the Finance Business Act No.42 of 2011 and listed on the Colombo Stock Exchange. The Company was incorporated on 26th January 1983 and is domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007. The Company was listed on the main board of Colombo Stock Exchange on 11th July 1994 and transferred to Dirisavi Board with effect from 2nd July 2018.

The Company has obtained a credit rating of B+ Stable by Lanka Rating Agency Limited.

The registered office of the Company and the principal place of the business is situated at No.361,361/1, R A De Mel Mawatha, Colombo 03.

### Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st March 2023 include PMF Finance PLC (Parent Company) and its Subsidiary (together referred to as the "Group" and individually as "Group entities").

### Parent Entity and Ultimate Parent Entity

The Company's parent entity, Sterling Capital Investments (Private) Limited, is incorporated in Sri Lanka and the ultimate parent entity, Rush Japan Corporation, is incorporated in Japan.

### Number of Employees

The staff strength of the Group as at 31st March 2023 was 274 (217 as at 31st March 2022).

### 1.2 Group Information

#### Principal Activities and Nature of Operations

#### 1.2.1 Company

##### PMF Finance PLC

The principal business activities of the Company are providing finance leases, , gold loans, term loans, margin trading, Entrepreneur Loans, short-term investments and mobilisation of public deposits.

There were no significant changes in the nature of the principal business activities of the Company during the financial year under review.

#### 1.2.2 Subsidiary

The Company's only subsidiary is PMB Services Limited (Limited liability company incorporated and domiciled in Sri Lanka under the Companies Act No. 7 of 2007)

##### PMB Services Limited

The principal activity of PMB Services Limited was operation of credit cards and to undertake all ancillary activities in connection there with. However, the subsidiary is not involved in any business operations at present.

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The consolidated financial statements of the Group and separate financial statements of the Company comprising the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows together with notes ("the Financial

Statements"), as at 31st March 2023 and for the year then ended are prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) (hereafter "SLFRS/LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (CASLI). The presentation of the financial statements is also in compliance with the requirements of the Companies Act No.07 of 2007, Finance Business Act No.42 of 2011 and the listing rules of the Colombo Stock Exchange.

### 2.2 Responsibility for the Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 7 of 2007 and SLFRSs and LKASs.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", "Statement of Directors' Responsibilities" and the Certification on the Statement of Financial Position.

These Financial Statements include the following components:

- A Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review.
- A Statement of Financial Position providing the information on the financial position of the Company as at the year-end.

- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company.
- A Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and utilization of those cash flows.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

#### 2.2.1 Approval of the Financial Statements by the Management

The Financial Statements of the Company and the Group for the year ended 31st March 2023 (including comparatives) were approved and authorised for issue by the Management on 30th June 2023.

#### 2.3 Basis of Measurement

The Financial Statements have been prepared on an accrual basis except for cash flow information and under the historical cost basis except for following material items in the statement of financial position:

- Financial Assets measured at Fair Value through Other Comprehensive Income
- Liability for Defined Benefit Obligations is recognized as the present value of the defined benefit obligation

#### 2.4 Presentation of Financial Statements

The assets and liabilities of the Company and the Group in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No

adjustments have been made for inflationary factors affecting the financial statements. Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 realize the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

#### 2.5 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees, which is the Group's functional currency. All financial information presented in Rupees has been rounded to the nearest thousand unless indicated otherwise. The functional currency is the currency of the primary economic environment in which the Group operates.

#### 2.6 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 01 on "Presentation of Financial Statements"..

#### 2.7 Rounding

The amounts in the Financial Statements have been rounded – off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka

Accounting Standard – LKAS 01 on 'Presentation of Financial Statements'.

#### 2.8 Statement of Cash Flows

The statement of cash flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Whereby operating activities, investing activities and financing activities are separately recognized. 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 as referred to in the statement of cash flows comprise of those items as explained in Note 16.

#### 2.9 Use of judgements and estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs and LKASs the management has made judgments, estimates and assumptions which 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 prospectively .

The most significant areas of estimation, uncertainty and critical judgments in applying Accounting Policies that have most significant effect on amounts recognised in the Financial Statements of the Groups are as follows::

# Notes to the Financial Statements

- Fair Value Measurement
- Impairment of Financial Assets
- Useful life of Property, Plant and Equipment
- Impairment of Non-Financial Assets
- Employee Benefit
- Deferred Taxation
- Commitments and Contingencies

## 2.9.1 Judgments

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

- **Note 4.1:** Determination of control over investees.
- **Note 4.17:** Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. In addition to that, establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

## 2.9.2 Assumptions and Estimation Uncertainties preparation of financial statements

The current economic condition has increased the estimation uncertainty in the preparation of these Financial Statements.

The estimation uncertainty is associated with:

- the extent and duration of the disruption to businesses arising from the actions by governments, businesses and consumers.
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and inflation). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, impact of unemployment and decline in consumer discretionary spending.
- the effectiveness of government and The Central Bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 March 2023 is included in the following notes.

- **Note 4.17:** impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Determination of the fair value of financial instruments with significant unobservable inputs.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition of deferred tax assets: availability of future

taxable profit against which carry-forward tax losses can be used.

- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

## 2.10 Going Concern

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

## 3. CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied the Accounting Policies as set out in Notes 4.1 to 4.20 to all periods presented in these Financial Statements, as there had been no changes during the year.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

#### 4.1 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its Subsidiary over which it has control in terms of SLFRS 10 Consolidated Financial Statements.

##### Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce inputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in the profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

#### 4.1.1 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'Controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of the control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

An investment in Subsidiary is treated as long-term investments and is valued at cost less any impairment losses.

The financial statements of the Subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

These consolidated financial statements are prepared to a common financial year end of 31st March. The accounting policy of Subsidiary has been changed when necessary to align them with the policies adopted by the Group. All the assets and liabilities of the Group and the Subsidiary are included in the consolidated statement of financial position.

#### 4.1.2 Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on

the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date of control is lost. Subsequently it is accounted for as an equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

#### 4.1.3 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

#### 4.2 Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupees at the spot exchange rate at the reporting date. Foreign exchange differences arising on the settlement or reporting of the Group's monetary items at rates different from those which were initially recorded are dealt with in the Statement of Comprehensive Income.

# Notes to the Financial Statements

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost at the statement of financial position date are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of initial transaction.

Non-monetary assets and liabilities that are stated at fair value, denominated in foreign currencies are translated to Sri Lanka Rupees at the exchange rate ruling at the dates that the value were determined.

Foreign exchange differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

## 4.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only

when permitted under LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity

## 4.4 Non-Financial Assets

### 4.4.1 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one period.

#### 4.4.1.1 Recognition and measurement

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

### 4.4.1.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

### 4.4.1.3 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost is derecognised.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

### 4.4.1.4 Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.



Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

Category	Rate (per annum)
Computers	25%
Office equipment, furniture, fittings	15%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal Group that is classified as held for sale) and the date that the asset is derecognised.

#### 4.4.2 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rent to others or for administrative purposes.

##### 4.4.2.1 Recognition and Measurement

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

##### 4.4.2.2 Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is four years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

##### 4.4.2.3 Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

##### 4.4.3 Inventory – Real Estate

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

##### Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realizable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

##### Completed properties held for sale

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories is recognised as an increase in



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inventories and recognised as an income in the period in which the reversal occurs.

#### 4.4.4 Deposits from Customers

Deposits include saving deposits, term deposits and deposits payable at call. They are stated in the statement of financial position at amount payable. Interest paid / payable on these deposits based on effective interest rate is charged to the Income Statement.

#### 4.5 Non-Financial Liabilities

##### 4.5.1 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with LKAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

##### 4.5.2 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of

economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

#### 4.6 Interest

##### Effective Interest Rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

##### Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial

asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

##### Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial

recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 36.

### Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash

flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

### 4.7 Fee and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

### 4.8 Profit on Real Estate Sales

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

### 4.9 Other Income

#### 4.9.1 Dividend Income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payments is established.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

#### 4.9.2 Default Interest Income

Interests from overdue rentals have been accounted for on a cash received basis.

### 4.10 Expenditure

All expenditure incurred in running of the business and in

# Notes to the Financial Statements

maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

For the purpose of presentation of income statement, the Directors are of the opinion that function of expense method present fairly the elements of the enterprise's performance, hence such presentation method is adopted. Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and renewals are charged to the income statement in the year in which the expenditure is incurred. The profit earned by the Group is before income tax expense and after making provision for all known liabilities and for the depreciation of property, plant & equipment

## Personnel expenses

Personnel expenses include salaries, bonus, terminal benefit charges, and other related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Employees are eligible for Employees' Provident Fund (EPF) contribution and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations. Retirement benefit obligation is recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability in accordance

with Sri Lanka Accounting Standard – LKAS 19 – “Employee Benefits”.

## 4.11 Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets" and has recognised the related expenses in 'other expenses'.

### 4.11.1 Current Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

### 4.11.2 Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation

purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

#### 4.12 Value Added Tax on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT on Financial Services was charged at 15% from 1 April 2021 to 31 December 2021 and 18% with effect from 1 January 2022.

#### 4.13 Earnings per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

#### 4.14 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including

revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results are reported to the Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on reasonable basis.

For each of the strategic divisions, the Group's management monitors the operating results separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

#### 4.15 Comparative Figures

Wherever necessary, amounts shown for the previous year have been reclassified to facilitate comparison with the current year's presentation.

#### 4.16 Regulatory Provisions

##### 4.16.1 Deposit Insurance Scheme

These Directions shall be cited as the Finance Companies (Insurance of Deposit Liabilities) Direction No. 2 of 2010.

Under Section 27 of the Finance Companies Act, the Central Bank of Sri Lanka may establish,

maintain, manage and control a scheme for the insurance of deposits held by finance companies registered under the Act or require such companies to insure such deposits under any scheme established by any institution as is specified by the Monetary Board.

As such, all Registered Finance Companies shall 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 01 October, 2010.

#### 4.16.2 Reserve Fund

The Company is maintaining a reserve fund in compliance with the Finance Companies (Capital Funds) Direction No 1 of 2003. As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve fund out of the net profits of each year after due provision has been made for Taxation and Bad and Doubtful Debts on following basis.

Capital Funds to Deposit Liabilities	Percentage of transfer to Reserve Fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 10%	50%

#### 4.17 Financial assets and liabilities

##### 4.17.1 Recognition and measurement

The Group initially recognises loans and advances, deposits, debt securities issued and

# Notes to the Financial Statements

subordinated liabilities on the date on which they are originated. All other financial instruments including regular-way purchases and sales of financial assets, are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

## 4.17.2 Classification

### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### Assessment of whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.



In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers":

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

#### **Non-recourse loans**

In some cases, loans made by the Group that are secured by

collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgment:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

#### **Contractually linked instruments**

The Group has investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the

SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

#### **4.17.3 Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

#### **4.17.4 Financial liabilities**

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.



# Notes to the Financial Statements

## 4.17.5 Derecognition

### 4.17.5.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of-

such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated

tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained.

### 4.17.5.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

## 4.17.6 Modifications of financial assets and financial liabilities

### 4.17.6.1 Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the

Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

#### 4.17.6.2 Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this

case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

#### 4.17.7 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a

group of similar transactions such as in the Group's trading activity.

#### 4.17.8 Fair value measurement

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation

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to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## Fair Value Hierarchy

The Group measures the fair values of financial instruments using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

### Level 1

When available, the fair values of financial instruments are determined using quoted market prices (unadjusted) in active markets for identical instruments. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Quoted equities are valued under Level 1 by referring to published market prices.

### Level 2 - Fair value measurement using significant observable inputs

In the absence of an active market for a financial instrument, the fair value is determined using valuation techniques. These include discounted cash flow analysis, effective interest rate calculations and forecasted future cash flow calculations using recent arm's length transactions between knowledgeable and willing parties. These valuation techniques make maximum use of market inputs, incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Investments in unit trusts are valued under level 2 by referring to prices published by the unit trusts managers.

### Level 3 - Fair value measurement using significant unobservable inputs

Financial instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. Fair value of such instruments are determined using a valuation model that has been tested against prices or inputs to actual market transactions and best estimates of the most appropriate model assumptions. Fair value of unquoted equity securities are determined using net assets value as an approximation of its fair value.

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 are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Group measures fair value using the fair value hierarchy that reflects the significance of inputs used in making measurements.

## 4.17.9 Impairment

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.
- Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is exceeding the relevant credit period.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligation to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or

- The financial asset is more than 180 days past due

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

#### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- financial guarantee contracts: the expected payments to reimburse

the holder less any amounts that the Group expects to recover.

#### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

# Notes to the Financial Statements

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or 180 days past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

## Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

## Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at

the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI."

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

## Non-integral financial guarantee contracts

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring



the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

**The key inputs used for measurement of ECL is likely to be the term structures of the following variables:**

#### **Probability of Default (PD)**

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Group forecast PD by incorporating forward looking economic variables (Unemployment, GDP growth, inflation, interest rate and using lag effect of these variables).

#### **Loss Given Default (LGD)**

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

#### **Exposure at default (EAD)**

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential

changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

The Group has used these parameters from internally developed statistical models using historical data. All inputs were adjusted to reflect forward-looking information and future economic scenarios.

#### **Individual or collective assessment**

A facility is considered for impairment under the individual impairment basis when the ageing of the facility exceeds 6 months and the outstanding receivable value is more than Rs. 5Mn.

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the credit risk function.

### **4.17.10 Designation at fair value through profit or loss**

#### **4.17.10.1 Financial assets**

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

#### **4.17.10.2 Financial liabilities**

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

#### **4.18 Hedge accounting**

Hedge accounting guidelines prescribed by SLFRS 9 do not have any impact to the Group as hedge accounting is not applied currently

#### **4.19 Leases**

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and



# Notes to the Financial Statements

- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

## A. As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines the incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right of use assets that do not meet the definition of investment property in right of use asset and lease liabilities in the statement of financial position as a separate line item.

## Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value

assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **B. As a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies SLFRS 15 to allocate the consideration in the contract. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'

#### **5 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)
- Other standards
  - Classification of Liabilities as current or non – current (Amendments to LKAS 1)
  - Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement).
  - Definition of Accounting Estimates (Amendments to LAKS 8)
  - Deferred Tax related to Assets and Liabilities arising from a single Transaction (Amendments to LKAS 12)
  - Lease liability in a Sale and Leaseback (Amendments to SLFRS 16)

# Notes to the Financial Statements

	Company		Group	
For the year ended 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 6 GROSS INCOME

Interest income (Note 7.1)	2,008,133	794,219	2,008,133	794,219
Fee and commission income (Note 8)	29,552	19,238	29,552	19,238
Net income from financial assets at FVTPL (Note 9)	30,644	28,367	30,644	28,367
Other operating income (Note 10)	27,118	127,645	27,118	127,645
	2,095,447	969,469	2,095,447	969,469

	Company		Group	
For the year ended 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 7 NET INTEREST INCOME

### 7.1 Interest income calculated using effective interest method

Loans receivable	946,602	392,357	946,602	392,357
Lease rentals receivable and hire purchase	788,412	351,081	788,412	351,081
<b>Total interest income calculated using the effective interest method</b>	<b>1,735,014</b>	<b>743,439</b>	<b>1,735,014</b>	<b>743,439</b>

### Other interest income

Interest from securities under repurchase agreements	56,634	13,402	56,634	13,402
Placements with banks and financial institutions	176,756	2,629	176,756	2,629
Overdue rentals	39,729	34,749	39,729	34,749
<b>Total other interest income</b>	<b>273,119</b>	<b>50,780</b>	<b>273,119</b>	<b>50,780</b>
<b>Total interest income</b>	<b>2,008,133</b>	<b>794,219</b>	<b>2,008,133</b>	<b>794,219</b>

### 7.2 Interest expense

Interest on overdrafts and borrowings	261,857	77,707	261,857	77,707
Interest on fixed and savings deposits	993,023	211,300	993,023	211,300
Interest on preference shares	600	600	600	600
Interest on lease liabilities	25,138	10,415	25,138	10,415
<b>Total interest expenses</b>	<b>1,280,618</b>	<b>300,022</b>	<b>1,280,618</b>	<b>300,022</b>
<b>Net interest income</b>	<b>727,515</b>	<b>494,197</b>	<b>727,515</b>	<b>494,197</b>

## 8 FEE AND COMMISSION INCOME

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major types of services .

	Company		Group	
	2023	2022	2023	2022
<b>For the year ended 31 March</b>				
<i>In thousands of rupees</i>				
Fee and commission income	29,552	19,238	29,552	19,238
<b>Comprising</b>				
Guarantee fees	48	27	48	27
Insurance commission	18,101	8,898	18,101	8,898
Service charges	11,403	10,313	11,403	10,313
<b>Total fee and commission income from contracts with customers</b>	<b>29,552</b>	<b>19,238</b>	<b>29,552</b>	<b>19,238</b>

	Company		Group	
	2023	2022	2023	2022
<b>For the year ended 31 March</b>				
<i>In thousands of rupees</i>				

## 9 NET INCOME FROM FINANCIAL ASSETS AT FVTPL

<b>Equity investments – Quoted</b>				
Dividend on equity securities measured at FVTPL	318	393	318	393
Fair value gain/(loss) on financial assets at FVTPL (Note 18.1.1)	(915)	(2,357)	(915)	(2,357)
	(597)	(1,964)	(597)	(1,964)
<b>Unit trusts</b>				
Fair value gain on financial assets at FVTPL (Note 18.2)	31,241	30,331	31,241	30,331
<b>Net fair value gains /(losses) from financial assets at FVTPL</b>	<b>30,644</b>	<b>28,367</b>	<b>30,644</b>	<b>28,367</b>

	Company		Group	
	2023	2022	2023	2022
<b>For the year ended 31 March</b>				
<i>In thousands of rupees</i>				

## 10 OTHER OPERATING INCOME

Net gain from foreign exchange	177	560	177	560
Profit on real estate sales	4,000	37,729	4,000	37,729
Staff loan income	-	739	-	739
Recovery of bad debts written off	6,698	59,214	6,698	59,214
Gain on disposal of property, plant and equipment	77	690	77	690
Gain on de-recognition of right-of-use assets	790	1,584	790	1,584
Other operating income	15,376	27,129	15,376	27,129
<b>Total other operating income</b>	<b>27,118</b>	<b>127,645</b>	<b>27,118</b>	<b>127,645</b>

# Notes to the Financial Statements

	Company		Group	
For the year ended 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 11 IMPAIRMENT REVERSAL AND OTHER LOSSES

Lease receivables	87,889	(59,511)	87,889	(59,511)
Loans and advances	(620)	12,410	(620)	12,410
Hire purchase receivables	443	(1,563)	443	(1,563)
Margin trading	20,083	1,636	20,083	1,636
Loss on disposal of collaterals	46,234	6,099	46,234	6,099
Other financial assets		15		15
<b>Net impairment charges and loss on disposal of collaterals</b>	<b>154,029</b>	<b>(40,914)</b>	<b>154,029</b>	<b>(40,914)</b>

The Company recorded a loss on disposal of collaterals amounting to Rs. 46Mn, out of facilities totaling up to an outstanding value of Rs. 129.2 Mn during the year.

	Company		Group	
For the year ended 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 12 PERSONNEL EXPENSES

Salaries and other related expenses	328,997	232,427	328,997	232,427
Employee benefit - Retirement benefit obligation (Note 29)	4,038	3,390	4,038	3,390
Employee benefit - Defined contribution plans (EPF/ETF)	31,706	24,147	31,706	24,147
Amortisation of prepaid staff loans	-	739	-	739
<b>Total personnel expense</b>	<b>364,741</b>	<b>260,703</b>	<b>364,741</b>	<b>260,703</b>

	Company		Group	
For the year ended 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 13 OTHER OPERATING EXPENSES

Directors' fees and emoluments	24,903	15,402	24,903	15,402
Auditor's remunerations				
Statutory audit fees	1,760	1,450	1,910	1,450
Audit related services	250	500	250	590
Non-audit services	345	900	345	900
Professional and legal fees	15,625	8,431	15,625	8,511
Office administrative and establishment expenses	334,154	168,420	334,235	168,423
<b>Total other operating expenses</b>	<b>377,037</b>	<b>195,103</b>	<b>377,268</b>	<b>195,276</b>

	Company		Group	
	2023	2022	2023	2022
<b>For the year ended 31 March</b>				
<i>In thousands of rupees</i>				
<b>14 INCOME TAX EXPENSE/(REVERSAL)</b>				
Current tax expense	-	-	-	-
Deferred tax expense (Note 14.1)	(29,810)	(51,626)	(29,810)	(51,626)
<b>Total tax expenses</b>	<b>(29,810)</b>	<b>(51,626)</b>	<b>(29,810)</b>	<b>(51,626)</b>
<b>14.1 Deferred tax expense</b>				
Deferred tax recognised in other comprehensive income	658	903	658	903
Deferred tax recognised in profit or loss	(29,810)	(51,626)	(29,810)	(51,626)
<b>Total deferred tax ( expense) / reversal</b>	<b>29,152</b>	<b>(50,723)</b>	<b>29,152</b>	<b>(50,723)</b>
<b>14.2 Deferred tax expense</b>				
Arising on during the year movement	13,177	(50,723)	13,177	(50,723)
Due to change in tax rate	15,975	-	15,975	-
<b>Total deferred tax expense</b>	<b>29,152</b>	<b>(50,723)</b>	<b>29,152</b>	<b>(50,723)</b>
<b>14.3 Reconciliation between income tax expenses and the accounting profit</b>				
Profit/(loss) before tax	(187,834)	140,174	(188,065)	140,001
Exempted income	(2,557)	(22)	(2,557)	(22)
Disallowable expenses	429,952	419,386	429,952	419,386
Allowable expenses	(149,844)	(244,017)	(149,844)	(244,017)
<b>Total Statutory Income</b>	<b>89,717</b>	<b>315,521</b>	<b>89,486</b>	<b>315,348</b>
Tax loss utilized during the year	(89,717)	(315,521)	(89,486)	(315,348)
<b>Total Taxable Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Effective tax rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

The income tax rate for the year ended 31 March 2023 was at 30% (2022 - 24%).

	Company	
	2023	2022
<b>For the year ended 31 March</b>		
<i>In thousands of rupees</i>		
<b>Analysis of tax losses</b>		
Balance at 1 April	784,265	1,189,982
Adjustments on over/under provision	-	(90,197)
Loss utilized during the year	(89,717)	(315,521)
<b>Closing tax loss</b>	<b>694,547</b>	<b>784,265</b>

#### 14.4 Income tax assessments

The Company received an Income Tax Assessment for a sum of Rs.9.7 Mn from the Department of Inland Revenue for the Year of Assessment 2017/2018. The Company recorded a tax loss of Rs. 486 Mn for the said year of assessment. The Company lodged an appeal with the Department of Inland Revenue over inconsistencies in the application of the provisions of Inland Revenue Act. As at March 31, 2023, the tax assessment and the appeal thereto is currently under discussion and the matter is yet to be settled.

The Board of Directors of the Company has made an assessment on the implications of IFRIC 23 – Uncertainty over income tax treatments on the above assessment. Accordingly, the Directors of the Company based on the view of the tax consultant is confident that the outcome of the appeal would be positive to the Company once settled and determined that a tax liability on the above mentioned tax assessment will not arise hence no additional provision is made in these financial statements.



# Notes to the Financial Statements

## 15 EARNINGS PER SHARE

Basic earnings per ordinary share has been calculated based on the profit attributable to the ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

There were no potentially dilutive ordinary shares outstanding at any time during the year, hence diluted earnings per share is equal to the basic earnings per share.

	Company		Group	
For the year ended 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				
(Loss)/Profit for the year attributable to ordinary shareholders (Rs.000)	(158,024)	191,800	(158,255)	191,627
Weighted average number of shares at 31 March ('000)	405,302	348,348	405,302	348,348
Basic and diluted (loss)/earnings per share	(0.39)	0.55	(0.39)	0.55

### 15.1 Weighted average number of shares

Brought forward number of shares	405,302	326,856	405,302	326,856
Effect of rights issue	-	21,492	-	21,492
Effect of shares issued during the year	-	-	-	-
Weighted average number of shares	405,302	348,348	405,302	348,348

	Company		Group	
As at 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 16 CASH AND CASH EQUIVALENTS

Cash in hand	88,311	30,403	88,311	30,403
Cash and cash equivalents with other financial institutions	156,596	424,621	156,835	424,865
Securities under repurchase agreements	316,700	205,859	316,700	205,859
Less: Allowance for Impairment	-	(11)	-	(11)
Cash and cash equivalents in the statement of financial position	561,607	660,873	561,846	661,116
Cash and cash equivalents in the statement of cash flows	561,607	660,873	561,846	661,116

There were no cash and cash equivalents held by the company that were not available for use by the company.

	Company		Group	
As at 31 March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 17 PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS

Investment in fixed deposits	1,264,071	410,945	1,264,071	410,945
Less: Allowance for Impairment	-	(3)	-	(3)
	1,264,071	410,942	1,264,071	410,942

As at 31st March	Company		Group	
	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 18 FINANCIAL ASSETS MEASURED AT FAIR VALUE

Financial assets measured at FVTPL - Quoted investments	Note 18.1	5,579	6,698	5,579	6,698
Financial assets measured at FVTPL - Unit trust	Note 18.2	404,334	2,524	404,334	2,524
Financial assets measured at FVOCI - Debt instruments		48	48	48	48
Financial assets measured at FVOCI - Equity instruments	Note 18.3	23	23	23	23
		409,984	9,293	409,984	9,293
Less: Impairment charges on debt securities	Note 18.4	(48)	(48)	(48)	(48)
		409,936	9,245	409,936	9,245

### 18.1 Financial assets measured at FVTPL

Investment in equity securities					
Cost (Note 18.1.2)		9,917	10,121	9,917	10,121
Fair value changes (Note 18.1.1)		(4,338)	(3,423)	(4,338)	(3,423)
<b>Total</b>		<b>5,579</b>	<b>6,698</b>	<b>5,579</b>	<b>6,698</b>

#### 18.1.1 Movements in fair value changes

Balance at 1 April		(3,423)	(1,066)	(3,423)	(1,066)
Gain / (Reversal) during the year		(915)	(2,357)	(915)	(2,357)
Balance at 31 March		(4,338)	(3,423)	(4,338)	(3,423)

#### 18.1.2 Quoted equity securities held by the - Company/ Group

As at 31st March	2023			2022		
Sector	No of Shares	Total cost Rs.000	Market value Rs.000	No of shares	Total cost Rs.000	Market value Rs.000
<i>In thousands of rupees</i>						

45103010 - Application Software						
Hsenid Business Solutions PLC	-	-	-	2,000	24	36
					24	36
<b>Sector Percentage</b>			<b>0%</b>			<b>1%</b>

# Notes to the Financial Statements

## 18 FINANCIAL ASSETS MEASURED AT FAIR VALUE (CONTINUED)

### 18.1.2 Quoted equity securities held by the - Company/ Group

As at 31st March		2023		2022		
Sector	No of Shares	Total cost Rs.000	Market value Rs.000	No of shares	Total cost Rs.000	Market value Rs.000
<i>In thousands of rupees</i>						
<b>Diversified Financials</b>						
Vanik Incorporation PLC	61	3	0	61	3	0
LOLC Holdings PLC	1,700	1,873	638	1,700	1,873	1,016
	1,761	1,876	638	1,761	1,876	1,016
<b>Sector Percentage</b>			11%			18%
<b>Consumer Services</b>						
Galadari Hotels (Lanka) PLC	1,500	21	22	-	-	-
John Keels Hotels PLC	30,000	544	567	-	-	-
		565	589		-	-
<b>Sector Percentage</b>			11%			0%
<b>Capital Goods</b>						
ACL Cables PLC				15,000	1,334	863
Heyleys PLC				8,000	622	615
Royal Ceramics Lanka PLC	15,000	655	414	30,000	1,201	1,221
		655	414		3,157	2,699
<b>Sector Percentage</b>			7%			40%
<b>Consumer Durables and Apparel</b>						
Hela Apparel Holdings PLC	10,000	174	80	10,000	174	129
		174	80		174	129
<b>Sector Percentage</b>			1%			2%
<b>Energy</b>						
Lanka IOC PLC	4,975	1,234	853	-	-	-
		1,234	853		-	-
<b>Sector Percentage</b>			15%			0%

As at 31st March		2023		2022		
Sector	No of Shares	Total cost Rs.000	Market value Rs.000	No of shares	Total cost Rs.000	Market value Rs.000
<i>In thousands of rupees</i>						
<b>Food, Beverage and Tobacco</b>						
Browns Investments PLC	250,000	3,541	1,500	250,000	3,541	1,875
Ceylon Cold Stores PLC	2,500	116	100	-	-	-
		3,658	1,600		3,541	1,875
<b>Sector Percentage</b>			29%			28%
<b>Investment Banking &amp; Brokerage</b>						
First Capital Treasuries PLC	-	-	-	7,000	273	217
	-	-	-	7,000	273	217
<b>Sector Percentage</b>			0%			3%
<b>Materials</b>						
Tokyo Cement Company (Lanka) PLC	20,280	680	923	-	-	-
	20,280	680	923	-	-	-
<b>Sector Percentage</b>			17%			0%
<b>Transportation</b>						
Expolanka Holdings PLC	3,500	1,075	483	3,500	1,075	727
	3,500	1,075	483	3,500	1,075	727
<b>Sector Percentage</b>			9%			11%
<b>Total</b>		9,917	5,579		10,121	6,698

As at 31st March	Company		Group	
	2023	2022	2023	2022
<i>In thousands of rupees</i>				

### 18.2 Financial assets measured at FVTPL - Unit trust

Balance at 1 April	2,524	645,496	2,524	645,496
Purchases	1,007,000	2,774,197	1,007,000	2,774,197
Sales	(636,431)	(3,447,500)	(636,431)	(3,447,500)
Fair value changes	31,241	30,331	31,241	30,331
<b>Balance at 31 March</b>	<b>404,334</b>	<b>2,524</b>	<b>404,334</b>	<b>2,524</b>

# Notes to the Financial Statements

## 18.3 Financial assets measured at FVOCI - Equity instruments

The group designed the investments shown above as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long term strategic purpose. No strategic investments were disposed during 2023, and here were no transfers of any cumulative gain or loss within equity relating to these investments.

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

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## 18.4 Movements in impairment charges during the year

Balance at 1 April	48	48	48	48
Charge/(Write back) to statement of profit or loss	-	-	-	-
Balance at 31 March	48	48	48	48

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 19 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND LEASE RENTALS RECEIVABLE

Loans	4,425,346	3,787,489	4,425,346	3,787,489
Finance leases	4,411,112	3,274,177	4,411,112	3,274,177
Gross loans and receivables	8,836,458	7,061,666	8,836,458	7,061,666
Less: Impairment loss allowance	(518,355)	(385,058)	(518,355)	(385,058)
Net loans and advances	8,318,103	6,676,608	8,318,103	6,676,608

### 19.1 Analysis by product

Finance lease receivable	4,407,739	3,274,177	4,407,739	3,274,177
Hire purchase receivable	3,373	3,337	3,373	3,337
Vehicle loans	711,649	924,603	711,649	924,603
Gold loans	2,099,197	1,164,639	2,099,197	1,164,639
Margin trading receivable	665,889	951,541	665,889	951,541
Loans against fixed deposits	300,519	15,341	300,519	15,341
Other loans	648,092	728,029	648,092	728,029
Gross total	8,836,458	7,061,666	8,836,458	7,061,666
<b>Analysis by currency</b>				
Sri Lankan rupees	8,836,458	7,061,666	8,836,458	7,061,666
Gross total	8,836,458	7,061,666	8,836,458	7,061,666

## 19.2 Impairment loss allowance

As at 31 March		2023			2022		
<i>In thousands of rupees</i>		Gross carrying amount	ECL allowance	Carrying amount	Gross amount	ECL allowance	Carrying amount
Notes							
Hire purchase	19.2.1	3,373	1,368	2,005	3,337	827	2,510
Vehicle loans	19.2.2	711,649	22,574	689,075	924,603	15,397	909,206
Other loans	19.2.3	948,611	106,458	842,153	743,369	109,793	633,577
Margin trading	19.2.4	665,889	170,263	495,626	951,541	129,318	822,223
Gold loans	19.2.5	2,099,197	-	2,099,197	1,164,639	1,902	1,162,737
Lease	19.2.6	4,407,739	217,692	4,190,047	3,274,177	127,822	3,146,355
		8,836,458	518,355	8,318,103	7,061,666	385,058	6,676,608

### 19.2.1 Hire purchase

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
<b>Gross investment in hire purchase</b>		
Less than one year	404	460
Between one and five years	3,172	3,325
More than five years	-	-
	3,576	3,785
Unearned income	(203)	(448)
	3,373	3,337
Impairment allowance for hire purchase - individual	-	-
Impairment allowance for hire purchase - collective	(1,368)	(827)
<b>Net investment in hire purchase</b>	<b>2,005</b>	<b>2,510</b>

### 19.2.2 Vehicle Loans

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
<b>Gross investment in loan receivables</b>		
Less than one year	561,829	18,501
Between one and five years	151,336	923,162
More than five years	-	-
	713,165	941,663
Unearned income	(1,516)	(17,061)
	711,649	924,603
Impairment allowance for loan receivables - individual	(7,207)	(1,586)
Impairment allowance for loan receivables - collective	(15,368)	(13,811)
<b>Net investment in loan receivables</b>	<b>689,074</b>	<b>909,206</b>



# Notes to the Financial Statements

## 19 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND LEASE RENTALS RECEIVABLE (CONTINUED)

### 19.2.3 Other loans

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
<b>Gross investment in loan receivables</b>		
Less than one year	448,608	121,042
Between one and five years	683,713	286,897
More than five years	-	402,974
	<b>1,132,321</b>	<b>810,913</b>
Unearned income	(183,710)	(67,543)
	<b>948,611</b>	<b>743,369</b>
Impairment allowance for loan receivables - individual	(37,376)	(32,543)
Impairment allowance for loan receivables - collective	(69,082)	(77,249)
<b>Net investment in loan receivables</b>	<b>842,153</b>	<b>633,577</b>

### 19.2.4 Margin trading receivables

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
<b>Gross investment in margin trading receivables</b>		
Less than one year	665,889	951,541
Between one and five years	-	-
More than five years	-	-
	<b>665,889</b>	<b>951,541</b>
Unearned income	-	-
	<b>665,889</b>	<b>951,541</b>
Impairment allowance for margin trading receivables - individual	(170,263)	(129,318)
Impairment allowance for margin trading receivables - collective	-	-
<b>Net investment in margin trading receivables</b>	<b>495,626</b>	<b>822,223</b>

### 19.2.5 Gold loans

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
<b>Gross investment in pawning and other receivables</b>		
Less than one year	2,099,197	1,164,639
Between one and five years	-	-
More than five years	-	-
	<b>2,099,197</b>	<b>1,164,639</b>
Unearned income	-	-
	<b>2,099,197</b>	<b>1,164,639</b>
Impairment allowance for pawning and other receivables - individual	-	(1,902)
Impairment allowance for pawning and other receivables - collective	-	-
<b>Net investment in pawning receivables</b>	<b>2,099,197</b>	<b>1,162,737</b>

### 19.2.6 Lease receivables

The following table provides an analysis of finance lease receivables for leases of certain property, plant and equipment in which the Company is the lessor.

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
<b>Gross investment in finance lease receivables</b>		
Less than one year	244,790	239,508
Between one and five years	6,458,050	3,380,593
More than five years	110,418	115,391
	6,813,258	3,735,491
Unearned finance income	(2,405,519)	(461,314)
	4,407,739	3,274,177
Impairment allowance for finance lease receivables - individual	(47,519)	(52,996)
Impairment allowance for finance lease receivables - collective	(170,173)	(74,826)
<b>Net investment in finance lease receivables</b>	<b>4,190,047</b>	<b>3,146,355</b>

### 19.3 The table below shows the ECL charges on the financial instruments recorded in the statements of profit or loss

<i>In thousands of rupees</i>	2023			2022		
	Individual	Collective	Total	Individual	Collective	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised cost - Hire purchase receivables						
Stage 1	-	11	11	-	368	368
Stage 2	-	-	-	-	-	-
Stage 3	-	(454)	(454)	-	(1,931)	(1,931)
<b>Total</b>	<b>-</b>	<b>(443)</b>	<b>(443)</b>	<b>-</b>	<b>(1,563)</b>	<b>(1,563)</b>
Financial assets at amortised cost - Finance lease receivables						
Stage 1	-	(19,568)	(19,568)	-	3,387	3,387
Stage 2	-	(29,596)	(29,596)	-	(4,980)	(4,980)
Stage 3	3,089	(41,814)	(38,725)	(52,454)	(5,465)	(57,918)
<b>Total</b>	<b>3,089</b>	<b>(90,978)</b>	<b>(87,889)</b>	<b>(52,454)</b>	<b>(7,058)</b>	<b>(59,511)</b>
Financial assets at amortised cost - Vehicle loans						
Stage 1	-	8,301	8,301	-	8,699	8,699
Stage 2	-	(1,575)	(1,575)	-	(858)	(858)
Stage 3	(588)	(3,015)	(3,604)	(3,456)	(10,255)	(13,711)
<b>Total</b>	<b>(588)</b>	<b>3,711</b>	<b>3,123</b>	<b>(3,456)</b>	<b>(2,413)</b>	<b>(5,869)</b>

# Notes to the Financial Statements

## 19.3 FINANCIAL ASSETS MEASURED AT AMORTISED COST - LOANS AND LEASE RENTALS RECEIVABLE (CONTINUED)

In thousands of rupees	2023			2022		
	Individual	Collective	Total	Individual	Collective	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised cost - Other loans						
Stage 1		14,290	14,290	-	4,871	4,871
Stage 2		(1,943)	(1,943)	-	(603)	(603)
Stage 3	(6,299)	(8,550)	(14,848)	(2,771)	16,783	14,012
<b>Total</b>	<b>(6,299)</b>	<b>3,797</b>	<b>(2,502)</b>	<b>(2,771)</b>	<b>21,050</b>	<b>18,279</b>
Financial assets at amortised cost - Margin trading						
Stage 1	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	(20,083)	-	(20,083)	1,636	-	1,636
<b>Total</b>	<b>(20,083)</b>	<b>-</b>	<b>(20,083)</b>	<b>1,636</b>	<b>-</b>	<b>1,636</b>
Financial assets at amortised cost - Gold loans						
Stage 1			-	-	1,902	-
Stage 2			-	-	-	-
Stage 3			-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,902</b>	<b>-</b>
Financial assets at amortised cost - Total						
Stage 1	-	3,034	3,034	-	16,701	17,325
Stage 2	-	(33,115)	(33,115)	-	(6,441)	(6,441)
Stage 3	(23,881)	(53,833)	(77,714)	(56,875)	(413)	(57,912)
<b>Total</b>	<b>(23,881)</b>	<b>(83,914)</b>	<b>(107,795)</b>	<b>(56,875)</b>	<b>9,847</b>	<b>(47,028)</b>

#### 19.4 Credit exposure movement by class of financial assets - ECL stage wise

	12-Month ECL	Life time ECL - Not credit impaired	Life time ECL - Credit impaired	Total
<i>In thousands of rupees</i>	(Stage 1)	(Stage 2)	(Stage 3)	
<b>Hire purchase</b>				
Amortised cost as at 01st April 2022	-	-	3,337	3,337
Transfer to stage	-	-	36	36
New assets originated or purchased	-	-	-	-
Financial Assets derecognized and repaid	-	-	-	-
<b>Amortised cost as at 31st March 2023</b>	<b>-</b>	<b>-</b>	<b>3,373</b>	<b>3,373</b>
<b>Vehicle Loans</b>				
Amortised cost as at 01st April 2022	802,800	17,322	104,481	924,603
Transfer to stage	9,754	827	4,027	14,608
New assets originated or purchased	559,653	10,119	3,076	572,848
Financial Assets derecognized and repaid	(721,598)	(6,410)	(72,401)	(800,409)
<b>Amortised cost as at 31st March 2023</b>	<b>650,609</b>	<b>21,858</b>	<b>39,183</b>	<b>711,650</b>
<b>Other Loans</b>				
Amortised cost as at 01st April 2022	217,438	25,314	500,618	743,370
Transfer to stage	8,764	100	12,992	21,856
New assets originated or purchased	22,381	1,754	1,771	25,906
Financial Assets derecognized and repaid	(99,132)	(20,608)	(23,300)	(143,040)
<b>Amortised cost as at 31st March 2023</b>	<b>149,451</b>	<b>6,560</b>	<b>492,081</b>	<b>648,092</b>
<b>Lease receivable</b>				
Amortised cost as at 01st April 2022	2,797,137	287,815	189,224	3,274,177
Transfer to stage	3,044	6,590	21,381	31,014
New assets originated or purchased	1,796,016	112,643	91,841	2,000,499
Financial Assets derecognized and repaid	(935,722)	(76,701)	114,471	(897,952)
<b>Amortised cost as at 31st March 2023</b>	<b>3,660,475</b>	<b>330,347</b>	<b>416,917</b>	<b>4,407,738</b>

#### 19.5 Provision for total impairment (ECL) movement

	2023	2022
<i>In thousands of rupees</i>		
<b>Stage 1</b>		
Opening balance as at 1st April	119,548	102,847
Net impairment charge for the year	(55,262)	16,701
<b>Closing balance as at 31st March</b>	<b>64,286</b>	<b>119,547</b>

# Notes to the Financial Statements

	2023	2022
<i>In thousands of rupees</i>		
<b>Stage 2</b>		
Opening balance as at 1st April	56,238	62,680
Net impairment charge/ (reversal) for the year	(18,923)	(6,441)
<b>Closing balance as at 31st March</b>	<b>37,315</b>	<b>56,239</b>
<b>Stage 3</b>		
Opening balance as at 1st April	190,549	247,836
Net impairment charge/ (reversal) for the year	179,154	(57,287)
Adjustment in recognizing interest income on net basis for credit impaired loans advances	2,826	
<b>Closing balance as at 31st March</b>	<b>372,528</b>	<b>190,549</b>
<b>Total</b>		
Opening balance as at 1st April	366,335	413,362
Net impairment charge/ (reversal) for the year	149,194	(47,028)
Adjustment in recognizing interest income on net basis for credit impaired loans advances	2,826	18,723
<b>Closing balance as at 31st March</b>	<b>518,355</b>	<b>385,058</b>

## 19.6 Provision for impairment (ECL) movement by class of financial assets

	12-Month ECL	Life time ECL - Not credit impaired	Life time ECL - Credit impaired	Total
<i>In thousands of rupees</i>	(Stage 1)	(Stage 2)	(Stage 3)	
<b>Hire Purchase</b>				
Impairment as at 01st April 2022	-	-	(1,562)	(1,562)
Transfer to stage			2,930	2,930
Net remeasurement of impairment and repaid			1,368	1,368
<b>Impairment as at 31st March 2023</b>	<b>-</b>	<b>-</b>	<b>1,368</b>	<b>1,368</b>
<b>Vehicle Loans</b>				
Impairment as at 01st April 2022	12,918	894	1,585	15,397
Transfer to stage	(11,725)	134	11,736	145
New assets originated or purchased	5,047	880	1,105	7,032
Net remeasurement of impairment and repaid	6,240	1,908	14,426	22,574
<b>Impairment as at 31st March 2023</b>	<b>6,240</b>	<b>1,908</b>	<b>14,426</b>	<b>22,574</b>
<b>Other Loans</b>				
Impairment as at 01st April 2022	5,653	2,842	101,298	109,793
Transfer to stage	(3,379)	(1,258)	(1,920)	(6,557)
New assets originated or purchased	1,243	614	1,365	3,223
Net remeasurement of impairment and repaid	3,517	2,198	100,743	106,458
<b>Impairment as at 31st March 2023</b>	<b>3,517</b>	<b>2,198</b>	<b>100,743</b>	<b>106,458</b>

	12-Month ECL	Life time ECL - Not credit impaired	Life time ECL - Credit impaired	Total
<i>In thousands of rupees</i>	(Stage 1)	(Stage 2)	(Stage 3)	
<b>Lease receivable</b>				
Impairment as at 01st April 2022	27,109	7,546	93,166	127,822
Transfer to stage	1,063	12,177	18,126	31,365
New assets originated or purchased	26,357	13,486	18,662	58,505
Net remeasurement of impairment and repaid	54,529	33,209	129,954	217,692
<b>Impairment as at 31st March 2023</b>	<b>54,529</b>	<b>33,209</b>	<b>129,954</b>	<b>217,692</b>

There were no significant changes in the gross carrying amount of the financial assets as a result of modification of contractual cash flows on financial assets that do not result in derecognition of those financial assets.

#### 19.7 Provision for impairment (ECL) movement by class of financial assets

<i>In thousands of rupees</i>	(Stage 1)	(Stage 2)	(Stage 3)	Total
<b>ECL for loans and lease rentals receivables</b>				
Impairment as at 01st April 2022	119,547	56,239	209,272	385,058
Transfer to stage 01	(87,910)	87,910	-	-
Transfer to stage 02	-	(121,813)	121,813	-
Transfer to stage 03	-	-	61,710	61,710
New assets originated or purchased	32,647	14,981	21,132	68,760
Net remeasurement of impairment and repaid	64,285	37,316	413,927	515,528
Unwind of discount	-	-	2,827	2,827
<b>Impairment as at 31st March 2023</b>	<b>64,285</b>	<b>37,316</b>	<b>416,753</b>	<b>518,355</b>

	Company		Group	
<b>As at 31st March</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<i>In thousands of rupees</i>				

#### 20 INVESTMENTS IN SUBSIDIARY

Unquoted equity share (Note 20.1)	175,000	175,000	-	-
Less: Impairment charges	(175,000)	(175,000)	-	-
<b>Net total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### 20.1 Unquoted equity shares

	2023		2022	
<b>As at 31st March</b>	<b>Rs.'000</b>	<b>Holding %</b>	<b>Rs.'000</b>	<b>Holding %</b>
<i>In thousands of rupees</i>				
PMB Services Limited	175,000	100	175,000	100
<b>Closing balance</b>	<b>175,000</b>	<b>100</b>	<b>175,000</b>	<b>100</b>

The investment on equity shares of PMB Services Ltd. was fully impaired due to the continuous losses incurred by the subsidiary. The subsidiary does not have any operations currently.



# Notes to the Financial Statements

## 21 PROPERTY, PLANT AND EQUIPMENT - GROUP/COMPANY

### 21.1 Reconciliation of carrying amounts

Property, plant and equipment	Motor vehicles	Furniture and fittings	Computer	Office equipment	Work-in-progress	Total
<i>In thousands of rupees</i>						

#### Cost

Balance at 1 April 2021	-	28,729	41,882	29,474	270	100,355
Additions	-	46,651	9,871	10,357	-	66,879
Transfers	-	1,835	(4,643)	3,077	(270)	-
Disposals	-	(4,241)	(14,689)	(1,048)	-	(19,979)
Balance at 31 March 2022	-	72,974	32,421	41,860	-	147,255

Balance at 1 April 2022	-	72,974	32,421	41,860	-	147,255
Additions	-	33,874	28,618	47,569	2,382	112,443
Transfers	-	-	-	-	-	-
Disposals	-	(465)	(44)	(90)	-	(599)
Balance as at 31 March 2023	-	106,383	60,995	89,339	2,382	259,100

#### Accumulated depreciation and impairment losses

Balance at 1 April 2021	-	18,367	34,519	22,590	-	75,476
Depreciation for the year	-	4,940	2,713	2,078	-	9,731
Transfers	-	1,565	(3,948)	2,383	-	-
Disposals	-	(4,241)	(14,689)	(1,049)	-	(19,979)
Balance at 31 March 2022	-	20,631	18,595	26,002	-	65,228

Balance at 1 April 2022	-	20,631	18,595	26,002	-	65,228
Depreciation for the year	-	11,845	6,571	6,546	-	24,962
Transfers	-	-	-	-	-	-
Disposals	-	(451)	(44)	(90)	-	(585)
Balance at 31 March 2023	-	32,025	25,122	32,458	-	89,605

#### Carrying amount

Balance at 31 March 2022	-	52,344	13,826	15,858	-	82,027
Balance at 31 March 2023	-	74,358	35,873	56,881	2,382	169,495

Carrying amount of Property, plant and equipment (PPE) of the company and group are the same. PPE assets of PMB services Limited are fully depreciated and the cost of the assets are disclosed in Note 21.4 to the financial statements.

Work-in-progress	Company		Group	
	2023	2022	2023	2022
<i>In thousands of rupees</i>				
Capital Work In Progress (Office Equipments)	348		348	
WIP-new branches	2,034		2,034	
Work-in-progress	2,382	-	2,382	-

The Group/Company has work-in-progress Rs. 2.382 Mn as at 31st March 2023.

**21.2** There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 31 March 2023

**21.3 Title restriction on property, plant and equipment**

There were no restriction existed in the title of the property, plant and equipment of the Group as at reporting date.

**21.4 Fully depreciated property, plant and equipment**

The initial cost of fully depreciated property plant and equipment, which are still in use as at reporting date is as follows.

	Company		Group	
	2023	2022	2023	2022
<i>In thousands of rupees</i>				
Motor vehicle	-	-	-	-
Computers	13,976	13,588	19,916	19,528
Furniture and fitting	17,520	12,787	19,786	15,053
Office equipment	21,879	15,727	26,939	20,787
<b>Total</b>	<b>53,375</b>	<b>42,102</b>	<b>66,641</b>	<b>55,368</b>

**22 INTANGIBLE ASSETS - COMPANY/GROUP**

The Group's intangible assets include the value of computer software.

**22.1 Reconciliation of carrying amount**

	Intangible assets	Work-in-progress	Total
<i>In thousands of rupees</i>			
<b>Cost</b>			
Balance at 1 April 2021	32,799	3,263	36,062
Additions	946	2,725	3,671
Balance at 31 March 2022	33,745	5,988	39,733

# Notes to the Financial Statements

	Intangible assets	Work-in-progress	Total
<i>In thousands of rupees</i>			
Balance at 1 April 2022	33,745	5,988	39,733
Additions	0	37,415	37,415
Balance at 31 March 2023	33,745	43,403	77,148
<b>Accumulated amortization</b>			
Balance at 1 April 2021	29,472	-	29,472
Amortisation	501	-	501
Balance at 31 March 2022	29,973	-	29,973
Balance at 1 April 2022	29,973	-	29,973
Amortisation	2,936	-	2,936
Balance at 31 March 2023	32,909	-	32,909
<b>Carrying amount</b>			
Balance at 31 March 2022	3,772	5,988	9,760
Balance at 31 March 2023	835	43,403	44,239

## 22.2 Fully depreciated intangible assets

Intangible assets include fully amortised software which are still in use as at the reporting date as follows.

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				
Computer software	32,463	20,840	32,463	20,840

## 22.3 Work-in-progress

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				
Software	43,403	5,988	43,403	5,988

Included in the work in progress as at 31st March 2023 is an amount of Rs 43,751,707/- related to the development of the E-Financials system.

**23 RIGHT OF USE ASSETS**

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

**23.1 Right of use assets**

<b>Cost</b>				
Balance as at the beginning of the year	227,716	129,784	227,716	129,784
Additions during the year	98,164	111,287	98,164	111,287
Derecognition of right-of-use assets	(3,405)	(13,356)	(3,405)	(13,356)
Balance as at the end of the year	322,475	227,716	322,475	227,716
<b>Accumulated depreciation</b>				
Balance as at the beginning of the year	103,894	60,997	103,894	60,997
Charge for the year	45,685	42,897	45,685	42,897
Derecognition of right-of-use assets	(766)	-	(766)	-
Balance as at the end of the year	148,813	103,894	148,813	103,894
<b>Carrying value as at the end of the year</b>	<b>173,662</b>	<b>123,822</b>	<b>173,662</b>	<b>123,822</b>

**23.2 Lease liabilities**

Current liabilities	40,605	27,816	40,605	27,816
Non-current liabilities	156,976	108,634	156,976	108,634
<b>Total</b>	<b>197,581</b>	<b>136,450</b>	<b>197,581</b>	<b>136,450</b>
<b>Maturity analysis - Contractual undiscounted cash flows</b>				
Not later than one year	69,140	38,631	69,140	38,631
Later than one year and not later than five years	203,883	125,660	203,883	125,660

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

Balance as at the beginning of the year	136,450	80,424	136,450	80,424
Additions during the year	98,164	111,287	98,164	111,287
Derecognition of lease liability	(4,248)	(14,940)	(4,248)	(14,940)
Interest expense on leases	25,138	10,415	25,138	10,415
Lease rental payments	(57,923)	(50,736)	(57,923)	(50,736)
<b>Lease liability as at the end of the year</b>	<b>197,581</b>	<b>136,450</b>	<b>197,581</b>	<b>136,450</b>

# Notes to the Financial Statements

## 23 RIGHT OF USE ASSETS (CONTINUED)

Amounts recognized in profit or loss	Company		Group	
	2023	2022	2023	2022
As at 31st March				
<i>In thousands of rupees</i>				
Interest on lease liabilities	25,138	10,415	25,138	10,415
Amortization charge for the year	45,685	42,897	45,685	42,897

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Amounts recognized in statement of cash flows	Company		Group	
	2023	2022	2023	2022
As at 31st March				
<i>In thousands of rupees</i>				
Lease rental payments	(57,923)	(50,736)	(57,923)	(50,736)

### 23.3 Derecognition of lease liability

During the year the Company derecognized Three leases at Mathugama / Awissawella and Elpitiya as they moved to different locations.

### 23.4 Details of leases

Leasehold Property	Asset type	Repayment terms	Interest rate	Balance as at 31 March 2023
<i>In thousands of rupees</i>				
Colombo (HO)	Building	60 months	8%	45,449
Colombo (Corporate)	Building	60 months	8%	27,692
Wellawatta	Building	60 months	27%	5,661
Homagama	Building	60 months	12%	10,859
Gampaha	Building	83 months	12%	1,632
Mathugama	Building	60 months	12%	6,570
Kandy	Building	36 months	12%	2,497
Kandy - 1st Floor	Building	36 months	8%	1,156
Kurunegala	Building	72 months	8%	10,797
Elpitiya	Building	60 months	22%	5,987
Matale	Building	60 months	14%	6,043
Negombo	Building	60 months	12%	4,054
Anuradhapura	Building	60 months	10%	9,007
Trincomalee	Building	72 months	8%	3,887
Narahenpita	Building	60 months	27%	56,292
<b>Total</b>				<b>197,581</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

**24 OTHER ASSETS**

<b>Financial assets</b>				
Security deposits	51,218	24,278	51,218	24,278
Advance introducer commission	144,543	45,196	144,543	45,196
Other financial assets	31,740	91,052	31,740	91,052
<b>Total other financial assets</b>	<b>227,501</b>	<b>160,526</b>	<b>227,501</b>	<b>160,526</b>
<b>Non-financial assets</b>				
Advance payments	86,891	69,265	86,891	69,265
Real estate inventories (Note 24.1)	55,859	13,311	55,859	13,311
Prepaid staff cost	9,505	4,070	9,505	4,070
Stationary stock	2,930	1,901	2,930	1,901
ESC recoverable	-	2,457	-	2,457
Other non-financial assets	17,549	4,286	17,549	4,286
<b>Total other non-financial assets</b>	<b>172,734</b>	<b>95,291</b>	<b>172,734</b>	<b>95,291</b>
<b>Total</b>	<b>400,235</b>	<b>255,817</b>	<b>400,235</b>	<b>255,817</b>

**24.1 Real estate inventories**

Balance at 1 April	13,311	11,878	13,311	11,878
Disposals during the year	-	(11,878)	-	(11,878)
Additions during the year	42,548	13,311	42,548	13,311
<b>Balance as at 31 March</b>	<b>55,859</b>	<b>13,311</b>	<b>55,859</b>	<b>13,311</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

**25 DUE TO BANKS**

Due to banks	757,280	1,842,767	757,280	1,842,767
<b>Total</b>	<b>757,280</b>	<b>1,842,767</b>	<b>757,280</b>	<b>1,842,767</b>

**25.1 Due to banks**

Balance at the beginning of the year	1,842,767	-	1,842,767	-
Borrowed during the year	-	1,850,000	-	1,850,000
Capital repayments during the year	(1,093,849)	(35,831)	(1,093,849)	(35,831)
Amortised interest	8,362	28,598	8,362	28,598
<b>Balance at the end of the year</b>	<b>757,280</b>	<b>1,842,767</b>	<b>757,280</b>	<b>1,842,767</b>



# Notes to the Financial Statements

Lending institution	Security	Interest rate	Repayment terms	Maturity	Capital amount
Cargills Bank Term Loan	Lease Receivables	AWPLR+ 2.5%	48 Months	28/07/2025	100,000
NDB-Tranche-01-Loan A	Lease Receivables	AWPLR+ 2%	48 Months	31/07/2025	125,000
NDB-Tranche-01-Loan C	Lease Receivables	8.60%	24 Months	31/07/2023	31,250
NDB-Tranche-01-Loan D	Lease Receivables	9.45%	36 Months	31/07/2024	31,250
NDB-Tranche-01-Loan E	Lease Receivables	9.75%	48 Months	31/07/2025	50,000
NDB-Tranche-02-Loan A	Lease Receivables	AWPLR+ 2%	48 Months	31/08/2025	125,000
NDB-Tranche-02-Loan C	Lease Receivables	0.086	24 Months	31/08/2023	31,250
NDB-Tranche-02-Loan D	Lease Receivables	9.45%	36 Months	31/08/2024	31,250
NDB-Tranche-02-Loan E	Lease Receivables	9.75%	48 Months	31/08/2025	50,000
M-Power Capital Securitization-Tranche-01	Lease & Vehicle Loan Receivables	Not exceed IRR 12.19%	10 Months with grace period at middle	01-05-2023	207,000
M-Power Capital Securitization-Tranche-02	Lease & Vehicle Loan Receivables	Not exceed IRR 12.19%	08 Months with grace period at middle	01-05-2023	123,000
M-Power Capital Securitization-Tranche-03	Lease & Vehicle Loan Receivables	Not exceed IRR 12.19%	06 Months with grace period at middle	01-05-2023	82,000
M-Power Capital Securitization-Tranche-04	Lease & Vehicle Loan Receivables	Not exceed IRR 12.19%	08 Months with grace period at middle	01-05-2023	88,000
Sanasa Development Bank Term Loan	Un-Secured	AWPLR+ 4.25%	24 Months	20/03/2024	50,000
NDB Securitized Term Loan - Gold Loan Backed	Gold Loan Receivables	AWPLR+ 2%	48 Months	31/03/2026	300,000

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

## 26 FINANCIAL LIABILITIES AT AMORTISED COST - DEPOSITS DUE TO CUSTOMERS

Fixed deposits	7,626,700	3,197,961	7,626,700	3,197,961
Savings deposits	29,046	30,905	29,046	30,905
<b>Total</b>	<b>7,655,746</b>	<b>3,228,866</b>	<b>7,655,746</b>	<b>3,228,866</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

### 26.1 Analysis by currency

Sri Lankan rupees	7,655,746	3,228,866	7,655,746	3,228,866
<b>Total</b>	<b>7,655,746</b>	<b>3,228,866</b>	<b>7,655,746</b>	<b>3,228,866</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

**27 DEBT SECURITIES ISSUED**

Cumulative preference shares (Note 27.1)	17,800	17,200	17,800	17,200
<b>Total</b>	<b>17,800</b>	<b>17,200</b>	<b>17,800</b>	<b>17,200</b>
Due within 1 year	-	-	-	-
Due after 1 year	17,800	17,200	17,800	17,200
<b>Total</b>	<b>17,800</b>	<b>17,200</b>	<b>17,800</b>	<b>17,200</b>

**27.1 Details of debt securities issued - Company / Group**

As at 31st March	2023	2022
<i>In thousands of rupees</i>		
	Face value	

**Issued by the Company**

6% cumulative non redeemable preference shares	10,000	10,000	10,000
Interest Payable	-	7,800	7,200
<b>Total</b>	<b>10,000</b>	<b>17,800</b>	<b>17,200</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

**28 DEFERRED TAX**

Deferred tax assets (Note 28.1)	(209,914)	(121,440)	(209,914)	(121,440)
Deferred tax liabilities (Note 28.2)	130,040	70,718	130,040	70,718
<b>Net Deferred Tax Liabilities / (Assets)</b>	<b>(79,874)</b>	<b>(50,722)</b>	<b>(79,874)</b>	<b>(50,722)</b>

**28.1 Deferred tax assets**

Balance at 1st April	121,440	32,856	121,440	32,856
Origination/(reversal) of temporary difference	46,491	88,584	46,491	88,584
Amount recognized due to increase in tax rate - Profit or loss	41,983	-	41,983	-
<b>Balance at 31 March</b>	<b>209,914</b>	<b>121,440</b>	<b>209,914</b>	<b>121,440</b>

	Temporary difference		Company		Group	
As at 31st March	2023	2022	2023	2022	2023	2022
<i>In thousands of rupees</i>						

Retiring gratuity	12,249	13,378	3,675	3,211	3,675	3,211
Impairment on loans and advances	-	12,705	-	3,049	-	3,049
Lease liability	197,581	136,450	59,274	32,748	59,274	32,748
Tax losses	489,887	343,469	146,965	82,433	146,965	82,433
<b>Balance at 31 March</b>	<b>699,717</b>	<b>506,002</b>	<b>209,914</b>	<b>121,440</b>	<b>209,914</b>	<b>121,440</b>

## Notes to the Financial Statements

As at 31st March	Temporary difference		Company		Group	
	2023	2022	2023	2022	2023	2022
<i>In thousands of rupees</i>						
<b>28.2 Deferred tax liabilities</b>						
Balance at 1st April	-	-	70,719	32,856	70,718	32,856
Origination/(reversal) of temporary difference - Profit and loss	-	-	33,972	38,765	33,972	38,765
Amount recognized due to increase in tax rate - Profit or loss	-	-	26,008	-	26,008	-
Origination/(reversal) of temporary difference - Other comprehensive income	-	-	(527)	(903)	(527)	(903)
Amount recognized due to increase in tax rate - OCI	-	-	(132)	-	(132)	-
<b>Balance at 31 March</b>	<b>-</b>	<b>-</b>	<b>130,040</b>	<b>70,718</b>	<b>130,040</b>	<b>70,718</b>

As at 31st March	Temporary difference Company/ Group		Company		Group	
	2023	2022	2023	2022	2023	2022
<i>In thousands of rupees</i>						
Property plant and equipment	17,809	15,761	5,342	3,783	5,342	3,783
Impairment on loans and advances	103,187	-	30,956	-	30,956	-
Intangible assets	835	2,902	251	696	251	696
Leased assets	137,975	152,174	41,392	36,522	41,392	36,522
Right of use assets	173,662	123,822	52,099	29,717	52,099	29,717
<b>Balance at 31 March</b>	<b>433,468</b>	<b>294,658</b>	<b>130,040</b>	<b>70,718</b>	<b>130,040</b>	<b>70,718</b>

### 28.3 Unrecognized deferred tax assets

Deferred tax asset is recognized on the unused tax losses of which, the amount in the opinion of the Directors, will be available to allow the benefit of the loss to be realized in accordance with LKAS 12 and provisions of Inland Revenue Act No. 24 of 2017 and amendments thereto. The Deferred tax have not been recognized in respect of the following items, because it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

Company/Group	Temporary difference		Tax effect	
	2023	2022	2023	2022
For the year ended 31 March				
<i>In thousands of rupees</i>				
Tax losses	204,660	440,796	61,398	105,791

## 29 EMPLOYEE BENEFIT OBLIGATION

Company/Group	Temporary difference		Tax effect	
	2023	2022	2023	2022
For the year ended 31 March				
<i>In thousands of rupees</i>				

### Movement in the present value of defined benefit obligation

Balance at the beginning of the year	13,378	18,360	13,378	18,360
Amount recognized in profit or loss				
- Interest cost	1,940	1,285	1,940	1,285
- Current service cost	2,098	2,210	2,098	2,210
- Past service cost	-	(207)		(207)
	4,038	3,288	4,038	3,288
Amount recognized in the other comprehensive income				
- Actuarial gain	(2,194)	(3,764)	(2,194)	(3,764)
Payment made during the year	(2,972)	(4,506)	(2,972)	(4,506)
Balance at the end of the year	12,249	13,378	12,250	13,378

Company provides gratuity benefits to its employees in compliance with Payment of Gratuity Act no 12 of 1983 by setting up an unfunded defined benefit scheme. The unfunded defined benefit scheme has been valued in accordance with Sri Lanka Accounting Standards ( LKAS 19). Minimum funding requirement does not apply as the Company operates an unfunded defined benefit scheme.

The Company carried out an actuarial valuation of the gratuity liability as at 31 March 2023 by Mr. Pushpakumar Gunasekera (Actuary/ Associate of the Institute of Actuaries of Australia (AIAA)), for and on behalf of Messrs. Smiles Global (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method", the method recommended by the LKAS 19.

# Notes to the Financial Statements

Company/ Group	2023	2022
<b>Actuarial assumption</b>		
Discount rate	20.00%	14.50%
Future salary increment rate	10.00%	10.00%
Staff turn over	37.00%	23.00%
Retirement age	60 Years	60 Years
Weighted average duration	3.62 Years	4.21 Years

As per the guidelines issued by the institute of Chartered Accountants of Sri Lanka, the discount rates have been adjusted to convert the coupon bearing yield to a zero-coupon yield to match the characteristics of the gratuity payment liability and the resulting yield to maturity for the purpose of valuing employee benefit obligations as per LKAS No.19 "Employee Benefits".

The Group/Company continue in business as going concern. Assumptions regarding future mortality are based on published statistic and mortality tables.

### Demographic assumptions

In addition to the above, demographic assumptions such as mortality, withdrawal and disability and retirement age were considered for the actuarial valuations.

During the year ended 2022, the gratuity arrangement for employees was adjusted to reflect new legal requirements as per the minimum retirement age of Workers Act No. 28 of 2021 regarding the retirement age. As a result of the plan amendment, the Company's defined benefit obligation Balance is Nil (2022-decreased of Rs. 206,860/-). The corresponding past service cost was recognized in profit or loss.

### 29.1 Sensitivity analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Discount rate	Salary escalation rate	Present value of defined benefit obligation (Rs'000)
1% point Increase	10.0%	12,488
1% point Decrease	10.0%	11,722
20.0%	1% point Increase	11,776
20.0%	1% point Decrease	12,435

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

### 30 OTHER LIABILITIES

Financial liabilities				
Amounts payable to suppliers	32,443	132,156	32,443	132,156
Insurance payables	20,737	14,103	20,737	14,103
Accruals and other payables	7,622	20,020	8,450	20,622
<b>Total other financial liabilities</b>	<b>60,802</b>	<b>166,279</b>	<b>61,630</b>	<b>166,881</b>
Non-financial liabilities				
Real estate advance	3	-	3	-
Overpayments	17,674	15,935	17,674	15,935
Other non-financial liabilities	18,908	25,246	18,908	25,246
Financial VAT Payable	5,973	-	5,973	-
<b>Total other non-financial liabilities</b>	<b>42,558</b>	<b>41,181</b>	<b>42,558</b>	<b>41,181</b>
<b>Total</b>	<b>103,360</b>	<b>207,460</b>	<b>104,188</b>	<b>208,062</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees      Number of shares (thousands)</i>				

### 31 ORDINARY SHARE CAPITAL

Issued and fully paid ordinary shares	405,302	3,762,054	3,252,159	3,762,054	3,252,159
Rights issue - shares	-	-	509,895	-	509,895
<b>Total</b>	<b>405,302</b>	<b>3,762,054</b>	<b>3,762,054</b>	<b>3,762,054</b>	<b>3,762,054</b>

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

Ordinary shares	3,762,054	3,762,054	3,762,054	3,762,054
Cumulative preference shares	10,000	17,200	10,000	17,200
<b>Stated capital as per Co. Act No. 07 of 2007</b>	<b>3,772,054</b>	<b>3,779,254</b>	<b>3,772,054</b>	<b>3,779,254</b>
Less: Cumulative preference shares	(10,000)	(17,200)	(10,000)	(17,200)
Add: Other reserves	(1,084,848)	(928,359)	(1,084,848)	(928,718)
<b>Total Equity</b>	<b>2,677,206</b>	<b>2,833,695</b>	<b>2,677,206</b>	<b>2,833,336</b>



# Notes to the Financial Statements

## 32 RESERVES

### Statutory reserve fund

The Reserve Fund is maintained in compliance with the Finance Companies (Capital Funds) Direction No 1 of 2003. As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve fund out of the net profits of the each year after due provision has been made for Taxation and Bad and Doubtful Debts on following basis.

Capital Funds to Deposit Liabilities	% of transfer to Reserve Fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 10%	50%

	Company		Group	
	2023	2022	2023	2022
<b>As at 31st March</b>				
<i>In thousands of rupees</i>				
Balance as at the beginning of the year	20,239	10,649	20,239	10,649
Transfer during the year	-	9,590	-	9,590
<b>Balance as at the end of the year</b>	<b>20,239</b>	<b>20,239</b>	<b>20,239</b>	<b>20,239</b>

## 33 ACCUMULATED LOSSES

Balance as at the beginning of the year	(948,598)	(1,131,607)	(948,957)	(1,131,793)
(Loss)/Profit for the year	(158,024)	191,800	(158,255)	191,627
Other comprehensive income	1,536	2,861	1,536	2,861
Transfers to reserve fund	-	(9,590)	-	(9,590)
Transaction cost related to rights issue	-	(2,062)	-	(2,062)
<b>Balance as at the end of the year</b>	<b>(1,105,087)</b>	<b>(948,598)</b>	<b>(1,105,676)</b>	<b>(948,957)</b>

## 34 CONTINGENT LIABILITIES AND COMMITMENTS

There are no contingent liabilities and commitments as at the end of the financial period except for the following.

	Company		Group	
	2023	2022	2023	2022
<b>As at 31st March</b>				
<i>In thousands of rupees</i>				

### 34.1 Composition of contingent liabilities and commitments

Contingent liabilities	1,098	1,098	1,098	1,098
Commitments	93,061	130,602	93,061	130,602
<b>Total</b>	<b>94,159</b>	<b>131,700</b>	<b>94,159</b>	<b>131,700</b>
<b>Contingent liabilities</b>				
- Guarantees	1,098	1,098	1,098	1,098
<b>Commitments</b>				
- Un-utilized facilities (Margin trading)	93,061	130,602	93,061	130,602
	<b>94,159</b>	<b>131,700</b>	<b>94,159</b>	<b>131,700</b>

### 34.2 Income tax assessments

The Company received an Income Tax Assessment from the Department of Inland Revenue for the Year of Assessment 2017/2018. The details of the assessment are given under Note 14.4.

### 34.3 Litigation and claims

The Group has contingent liabilities arising in the ordinary course of business and in respect of litigation filed by former employees of the Group. Based on the information currently available, the Directors are of the opinion that the ultimate resolution of the litigation would not likely to have a material impact on the results of operations and financial position of the Group.

## 35 RELATED PARTY DISCLOSURES

### 35.1 Parent and ultimate controlling party

The Company's immediate parent and ultimate controlling party is Sterling Capital Investments (Private) Limited (SCIL) and the ultimate parent company is Rush Japan Corporation. At the end of Financial year 2022/23, SCIL have a holding of 81.6%

### 35.2 Transactions with key management personnel and their close family members

As per the Sri Lanka Accounting Standard (LKAS -24 ) -“Related Party Disclosures”, the key management personnel (KMP) and their family members include those who are having authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly, the Board of Directors of the Group, the parent Company - Sterling Capital Investments (Private) Limited and its affiliate Companies, Sterling Automobiles Lanka (Pvt) Limited and the Sterling Holdings (Private) Limited have been identified as KMPs of the Group.

The Group carried out transactions in the ordinary course of its business with KMPs and their close family members on the arms length basis at commercial rates.

	Company		Group	
As at 31st March	2023	2022	2023	2022
<i>In thousands of rupees</i>				

#### 35.2.1 Remuneration to Board of Directors

Short-term Employee Benefits	24,903	15,402	24,903	15,402
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#### 35.2.2 Share transactions with KMP

No. of Ordinary Shares held at the end of the financial period;				
The Parent Company (Sterling Capital Investments (Pvt) Ltd)	330,714	330,714	330,714	330,714
People's Bank	33,856	33,856	33,856	33,856
People's Leasing & Finance PLC	25,014	25,014	25,014	25,014
Board of Directors	-	1	-	1

# Notes to the Financial Statements

## 35 RELATED PARTY DISCLOSURES (CONTINUED)

### 35.3 Transactions with related entities

The Group carried out transactions in the ordinary course of its business with the related entities on the arms length basis at commercial rates.

#### Transactions with the Government of Sri Lanka and the government related entities.

People's bank, which is a government owned entity, holds 8.35% shares of the shares of PMF Finance PLC. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. There were no individual significant transactions with the Government of Sri Lanka and Government related entities during the year, other than on normal day-to-day business operations.

Further, transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities.

- Investments in treasury bills, treasury bonds
- Payments of statutory rates, taxes and other regulatory fees
- Payments for utilities mainly comprising of telephone, electricity and water
- Payments for employment defined contribution plans - EPF / ETF
- Payment of incidentals such as RMV charges and CRIB fees that are paid based on standard rates.

#### 35.3.1 Company

The Company had the under mentioned financial dealings during the financial year with the following related entities.

	Sterling Capital Investments (Private) Limited (Parent Company)		Sterling Holdings (Private) Limited (Affiliate Company)		Sterling Automobiles Lanka (Private) Limited (Affiliate Company)		People's Bank (Common directors)		PMB Services Limited (Subsidiary of PMF Finance PLC)	
As at 31st March	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of rupees</i>										
(a) Items in statement of profit or loss										
Interest income	-	-	38,366	12,121	1,621	3,542	29,018	14,211	-	-
Interest expense	-	-	-	-	-	-	-	225	-	-
Other operating expenses	-	-	12,800	8,000	13,685	92	-	26,058	4	-
Expenses incurred on behalf	-	-	-	-	-	-	-	-	-	170
Provisions made during the year	-	-	-	-	-	-	-	-	-	(170)
(b) Items in statement of financial position										
<b>Assets</b>										
Cash and cash equivalents	-	-	-	-	-	-	115,667	60,076	239	-
Investments in Fixed Deposits/Repos	-	-	-	-	-	-	29,018	542,627	-	-

	Sterling Capital Investments (Private) Limited (Parent Company)		Sterling Holdings (Private) Limited (Affiliate Company)		Sterling Automobiles Lanka (Private) Limited (Affiliate Company)		People's Bank (Common directors)		PMB Services Limited (Subsidiary of PMF Finance PLC)	
As at 31st March	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of rupees</i>										
Investments in subsidiaries / affiliates	-	-	-	-	-	-	-	-	-	175,000
loans and lease rentals receivable			334,010	300,000	-	104,376			-	-
Other assets	-	-	-	6,000	-	-	-	-	-	19,362
Provisions made	-	-	-	-	-	-	-	-	-	(194,362)

### 35 RELATED PARTY DISCLOSURES (CONTINUED)

	Sterling Capital Investments (Private) Limited (Parent Company)		Sterling Holdings (Private) Limited (Affiliate Company)		Sterling Automobiles Lanka (Private) Limited (Affiliate Company)		People's Bank (Common directors)		PMB Services Limited (Subsidiary of PMF Finance PLC)	
As at 31st March	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<i>In thousands of rupees</i>										

#### (b) Items in statement of financial position (continued)

Liabilities										
Due to banks	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	10,000	10,000	-	-
Preference shares dividend payable	-	-	-	-	-	-	7,800	7,200	-	-

#### (c) Transactions

Advances in lieu of rights issue of shares	-	-	-	-	-	-	-	-	-	-
Transfers to stated capital from advances in lieu of right issue of shares	-	-	-	-	-	-	-	-	-	-
Utilization of fund raised in right issue	-	509,895	-	-	-	-	-	-	-	-
Excess funds received from right issue	-	(131)	-	-	-	-	-	-	-	-

The above related party balances does not require any security or guarantee to be given or received.



## 36 FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT

### 36.1 Fair values of financial instruments

The Group/Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1 :** Quoted (unadjusted) prices in active markets for identical assets or liabilities

**Level 2 :** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

**Level 3 :** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy :

As at 31st March	Carrying amount		Fair value					
	Rs' 000		Rs' 000					
	Company	Group	Company			Group		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>								
Investment securities measured at FVTPL (Note a)	409,913	409,913	5,579	404,334	-	5,579	404,334	-
Investment securities measured at FVOCI (Note b)	23	23	-	-	23	-	-	23
	<b>409,936</b>	<b>409,936</b>	<b>5,579</b>	<b>404,334</b>	<b>23</b>	<b>5,579</b>	<b>404,334</b>	<b>23</b>
<b>Financial assets not measured at fair value</b>								
Loans and advances to customers (Note c)	8,318,103	8,318,103	-	-	-	-	-	-
Cash and cash equivalents (Note d)	561,607	561,846	-	-	-	-	-	-
Placements with banks and financial institutions (Note e)	1,264,071	1,264,071	-	-	-	-	-	-
Other financial assets	227,501	227,501	-	-	-	-	-	-
	<b>10,371,282</b>	<b>10,371,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>10,781,218</b>	<b>10,781,457</b>	<b>5,579</b>	<b>404,334</b>	<b>23</b>	<b>5,579</b>	<b>404,334</b>	<b>23</b>
<b>Financial liabilities not measured at fair value</b>								
Deposits from customers (Note g)	7,655,746	7,655,746	-	-	-	-	-	-
Debt securities issued (Note h)	17,800	17,800	-	-	-	-	-	-
Financial liabilities (Note i)	60,802	60,802	-	-	-	-	-	-
Lease liabilities (Note j)	197,581	197,581	-	-	-	-	-	-
Due to banks (Note f)	757,280	757,280	-	-	-	-	-	-
	<b>8,689,209</b>	<b>8,689,209</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



# Notes to the Financial Statements

The methodologies and assumptions used to estimate the fair values of the financial instruments, which are not carried at fair value are as follows:

- a) Investment securities measured at FVTPL – The carrying amount of these investments reflect last traded price at stock exchange and the daily reports of the unit trust funds.
- b) Investment securities measured at FVOCI– The carrying amount of these shows investments in the Credit Information Bureau of Sri Lanka. Investment in government securities are reflect last trades prices. As CRIB is a Private Company unable to find market values. It is assumed that the carrying amounts approximate their fair values.
- c) Loans and advances to customers – The carrying amount reflects amortised value of loan and advances. Thus its carrying amount approximates to the fair value.
- d) Cash and cash equivalents – The carrying amount of cash and cash equivalents approximate its fair value due to the relatively short maturity of the financial instruments.
- e) Placements with with banks and financial institutions – The carrying amount of investment in fixed deposits approximate its fair value due to the relatively short maturity of the financial instruments.
- f) Due to banks - Fair value of these financial instruments with remaining maturity of less than 1 year approximate their carrying amounts due to the relatively short maturity of such instruments.
- g) Deposits due to customers – The carrying amount reflecting amortised cost of deposits from customers. Thus its carrying amount approximates to the fair value.
- h) Debt securities issued - Fair value of preference shares reflect market value with the consideration of 6% interest rate.
- i) Financial liabilities - The carrying value is approximately its fair value of the financial instrument
- j) Lease liabilities - The carrying amount reflecting amortised cost of lease liabilities

There were no transfer between Level 1 and Level 2 during the year 2022 and 2023.

## 36.1 Risk management

### Introduction and overview

The forecasting and evaluation of financial risk together with the identification of procedures to eliminate or minimize the business impact to the Company is the key objective of the Financial Risk Management Framework of the Group.

### Structure of the risk management framework

#### The Board of Directors

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors hold the risk retentiveness for the establishment and guardianship for the Group's frame work and manage the risk through Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC). The main role of the Board of Directors in Risk Management is,

- Increasing scrutiny over risk.
- Identification of potential loss areas.
- Finding the balance between taking and managing risk.
- Development of policies, procedures and awareness.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

### 36 FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT - CONTINUED Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC)

The IRMC has the overall responsibility for developing and monitoring the risk management strategy and implementing principal frame work, policies and limits, managing risk related decisions and monitoring risk levels and report to the Board of Directors with the support of Assets and Liability Committee (ALCO).

#### Assets and Liability Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and consists of Deputy General Managers (Legal & HR, Business Development and Assets & Credit Finance) with the Heads of Finance, Fixed Deposits, Treasury and Pawning divisions. The committee will meet at least quarterly to manage the Assets and Liabilities of the Group and to keep the liquidity levels under satisfying requirements. The Group has exposure to following risk from financial instruments.

- A. Credit Risk
- B. Liquidity Risk.
- C. Market Risk.
- D. Operational Risk

#### A. Credit Risk

The credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meets its contractual obligations and arises principally from default on a debt that may arise from a borrower failing to make required payments, in the first resort; the risk is that of the lender and includes cost principals and interest, disruption to cash flows and increased collection flows. Company Credit Management process includes,

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Reviewing and assessing credit risk including business feasibility, verifying CRIB status of clients
- Establishing the authorisation structure for the approval and renewal of credit facilities by Deputy General Managers, the CEO and The Board of Directors depending on the quantum of the financial facilities.
- Reviewing and setting up individual customer and credit exposure levels. (Adherence to the Single Borrower Limits)

#### Loan to Value Ratio

Loan to Value Ratio	Company	
	As at 31/03/2023	As at 31/03/2022
<i>In thousands of rupees</i>		

LTV Ratio		
Less than 50%	1,513,309	692,054
51%-70%	6,785,832	5,072,548
71%-90%	300,519	1,180,522
91%-100%	21,655	39,813
More than 100%	215,143	76,730
	8,836,458	7,061,666

# Notes to the Financial Statements

## Type of credit exposure

As at 31st March	Percentage of exposure that is subject to collateral requirements		Group
	As at 31/03/2023	As at 31/03/2022	Principal type of collateral held
<i>In thousands of rupees</i>			
Finance lease receivable	100	100	Marketable securities
Hire purchase receivable	100	100	Marketable securities
Vehicle loans	100	100	Marketable securities
Gold loans	100	100	Marketable securities
Margin trading receivable	32 - 100	88 - 100	Listed Equities
Loans against fixed deposits	100	100	Fixed deposits
Other loans	0 - 100	0 - 100	Marketable securities, Personal guarantees

**Note:** Principal type of collaterals of the Financial assets measured at amortised cost - loans and lease rentals receivable are listed above

With the adoption of SLFRS 9 – Financial Instruments, the Group manages credit quality using a three stage approach which is in-line with the new standard requirements as well. SLFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition.

**Stage 1:** A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

**Stage 2:** If significant increases in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

**Stage 3:** If a financial asset is credit-impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL.

### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows :

## 36 FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### 36.1 Risk management (continued)

	Company	
	As at 31/03/2023	As at 31/03/2022
<b>Loan to Value Ratio</b>		
<i>In thousands of rupees</i>		
Cash and cash equivalents	561,607	630,469
Placements with banks and financial institutions	1,264,071	410,942
Investment securities measured at FVTPL	409,913	9,222
Loans and advances to customers	8,318,103	6,676,608
Investment securities measured at FVOCI	23	23
Security Deposits	51,218	24,278
Other financial assets	31,740	-
	<b>10,636,675</b>	<b>7,751,543</b>

#### Loans and lease rentals to customers

Under SLFRS 9, impairment of loans and advances are assessed based on Expected Credit Loss model. The approach is to classify loans into individually significant exposures and other loans into homogenous portfolios by segment / product for impairment assessment.

	Company	
	As at 31/03/2023	As at 31/03/2022
<b>Loan to Value Ratio</b>		
<i>In thousands of rupees</i>		
Gross carrying amount at amortised cost	3,622,164	2,746,474
Individually significant portfolio	5,214,294	4,315,192
Individually non significant portfolio	8,836,458	7,061,666

#### Amounts arising from ECL

##### Inputs, assumptions and techniques used for estimating impairment

##### Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit assessment and including forward-looking information.

The Company considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 60 days past due. At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

# Notes to the Financial Statements

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

PD estimates are estimates at a certain date, which are calculated, based on statistical models, and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. Where the modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics which includes; instrument type, credit risk type and collateral type.

### Determining Whether Credit Risk has Increased Significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – Financial instruments. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

### Definition of default

The Company considers a financial asset to be in default when ;

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the assessment of the external rating agencies indicates a default grading of the borrower; or

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Company for regulatory capital purposes and management decision.

### Impact on Credit risk due to the current uncertain economic condition

The impact of current uncertain economic condition on the credit risk of loans and advances customers are given under Note 40.

### Movement between the stages

Financial assets can be transferred between the different categories depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment.

### Incorporation of forward-looking Information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information. The Company formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses. The economic variables used by the Company based on the statistical significance include the followings.

Unemployment Rate	5.00%	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)
Interest Rate	25.93%	
GDP Growth Rate	-3.05%	
Inflation Rate	28.51%	

### Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

1. Probability of default (PD);
2. Loss given default (LGD);
3. Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD

The methodology of estimating PD is discussed above under the “Generating the term structure of PD”. LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, type of product and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The increase in the gross carrying value for impairment in the Group is not inline with the change in the impairment in the current year. This was mainly due to the settlements of the non-performing assets, improved rates of probability defaults and loss given defaults based on collection improvements and staging assets improvements during the year backed by the increased collections.



# Notes to the Financial Statements

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Individually significant impairment	Company	
	As at 31/03/2023	As at 31/03/2022
<i>In thousands of rupees</i>		
Gross receivable	3,622,164	2,746,474
Less: Allowance for impairment	262,364	218,345
	3,359,800	2,528,129

Individually not significant portfolio include loans that are individually significant but not impaired. These loans are assessed for impairment collectively.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over properties and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

Collective impairment	Company	
	As at 31/03/2023	As at 31/03/2022
<i>In thousands of rupees</i>		
Gross receivable	5,214,294	4,315,192
Less: Allowance for impairment	255,991	166,713
	4,958,303	4,148,479

### Write- off policy

The Company writes off a loan or an investment debt/equity security balance, and any related allowances for impairment losses, when it determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

### Credit concentration risk

The Company constantly monitors credit concentration risk. The management determines this by referring to the degree of credit exposure by product types, various sectors and geographical area.

### Product concentration

Product category	As at 31/03/2023		As at 31/03/2022	
	Rs.000	%	Rs.000	%
Leasing and hire purchase	4,411,112	50%	3,277,514	46%
Vehicle Loans	711,649	8%	924,603	13%
Other loans	948,611	11%	743,369	11%
Margin trading receivable	665,889	8%	951,541	13%
Gold loans	2,099,197	23%	1,164,639	16%
	8,836,458	100%	7,061,666	100%

## 36 FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### 36.1 Risk management (continued)

#### Sector wise concentration

Sector	As at 31/03/2023		As at 31/03/2022	
	Rs.000	%	Rs.000	%
Agriculture, Forestry & Fishing	550,057	6%	383,316	5%
Construction & Infrastructure Development	318,460	4%	306,811	4%
Consumption	550,395	6%	742,301	11%
Financial Services	3,158,360	36%	2,226,240	32%
Health Care, Social Services & Support Services	1,328,348	15%	930,933	13%
Information Technology And Communication	88,017	1%	95,031	1%
Manufacturing	1,203,170	14%	936,772	13%
Tourism	173,929	2%	142,727	2%
Transportation & Storage	826,969	9%	669,817	9%
Wholesale & Retail Trade	638,753	7%	627,718	9%
	8,836,458	100%	7,061,666	100%

#### Geographical area concentration

Province	As at 31/03/2023	
	Rs.000	%
Central	1,579,581	18%
Eastern	546,294	6%
North Central	618,410	7%
North Western	852,113	10%
Southern	1,115,528	13%
Western	4,124,532	47%
	8,836,458	100%

#### Securities against loans and lease rentals

Given below is a summary of the outstanding balances of loans and advances based on the securities held in respect of the loan.

Category	As at 31/03/2023	As at 31/03/2022
Immovable Assets	523,991	685,099
Movable Assets	5,106,912	4,198,780
Corporate guarantor/Personal guarantor	139,950	46,268
Fixed deposit securities	300,519	15,341
Market securities	665,889	951,541
Gold securities	2,099,197	1,164,639
	8,836,458	7,061,666

# Notes to the Financial Statements

The company has policies and procedures to valuing both movable and immovable collaterals and assess the adequacy on periodical basis. Further all valuers are panel valuers who are possessing required qualification & experience set out in the Finance Business Act (Amendments to the valuation of immovable properties) Direction No. 01 of 2021 and none of valuer in the panel is a related party of the company to avoid any conflict of interest that may arise from such engagement. Additionally when credit facilities are enhanced fresh valuations are obtained.

## Reconciliation of credit impaired financial assets

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) of leases, vehicle loans and other loans are detailed below.

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Company/Group	Hire purchase loans	Vehicle loans	Other loans	Lease receivable	Total
<i>In thousands of rupees</i>					
Amortized cost as at 1st April 2022	3,337	104,481	500,618	189,224	794,322
Transfer to stage	36	4,027	12,992	21,381	38,400
New assets originated or purchased	-	3,076	1,771	91,841	96,688
Financial Assets derecognized and repaid	-	(72,401)	(23,300)	114,471	18,770
<b>Amortised cost as at 31st March 2023</b>	<b>3,373</b>	<b>39,183</b>	<b>492,081</b>	<b>416,917</b>	<b>948,181</b>

## Credit Quality by Class of Financial Assets

Credit quality categorisation has been done based on the class of financial assets. The table below sets out information about the maximum exposure to credit risk, measured at amortised cost, and Fair Value through Other Comprehensive Income (FVOCI) as at the end of the financial year 2022/23.

Financial Assets	Not subject to ECL	12-Month ECL	Life time ECL - Not credit impaired	Life time ECL - Credit impaired	Total
<i>In thousands of rupees</i>					
		(Stage 1)	(Stage 2)	(Stage 3)	
Cash and cash equivalents	561,607	-	-	-	561,607
Placements with banks and financial institutions	1,264,071	-	-	-	1,264,071
Financial assets measured at fair value	409,936	-	-	-	409,936
Vehicle loan receivable	-	650,609	21,858	39,183	711,650
Other loan receivable	-	149,451	6,560	492,081	648,092
Lease receivable	-	3,660,475	330,347	416,917	4,407,739
Hire purchase	-	-	-	3,373	3,373
<b>Total</b>	<b>2,235,614</b>	<b>4,460,535</b>	<b>358,765</b>	<b>951,554</b>	<b>8,006,468</b>

### Sensitivity of impairment provision on loans and lease rentals receivable

The impairment provision on loans and lease rental receivable as at 31st March 2023 is subject to various assumptions. The below table demonstrates the sensitivity of the impairment provision of the Company as at 31st March 2023 to a reasonably possible change in PDs, LGDs and forward looking information.

Assumption <i>In thousands of rupees</i>	(Stage 1)	(Stage 2)	(Stage 3)	Total	Sensitivity Effect from income statement
PD 1% increase	(28,693)	33,362	-	4,669	4,669
PD 1% decrease	(35,152)	30,483	-	(4,669)	(4,669)
LGD 5% increase	(20,483)	55,233	14,623	49,372	49,372
LGD 5% decrease	(43,286)	8,717	(14,612)	(49,181)	(49,181)

Cash at bank <i>In thousands of rupees</i>		As at 31/03/2023	As at 31/03/2022
<b>Institution</b>	<b>Credit Rating</b>		
Peoples' Bank	A	117,663	61,877
HNB Bank	A	(16,623)	3,325
Pan Asia Bank	BBB-	0.21	759
SDB Bank	BB+	938	
Cargills Bank	A	23,598	15,358
NDB Bank	A-	20,511	343,303
Commercial Bank	A	10,507	-
		156,596	424,621

Placements with banks and financial institutions <i>In thousands of rupees</i>		As at 31/03/2023	As at 31/03/2022
<b>Institution</b>	<b>Credit Rating</b>		
Cargills Bank	A	215,517	5,227
NDB Bank	A-	619,536	360,552
LOLC Holdings PLC	A	250,000	45,167
Peoples' Bank	A	179,018	
		1,264,071	410,946

# Notes to the Financial Statements

## B. Liquidity risk

Liquidity risk is the risk, that for a certain period of time, a given financial asset, security or commodity cannot be traded quickly enough in the market without impacting the market price thereby the company will encounter difficulties in meeting obligations associated with its financial liabilities, which are settled by delivering cash or other financial assets.

The Board of directors sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation to ALCO. Group ensures that sufficient liquidity to meet its liabilities when due, under normal and stressed conditions and maintains company reputation. The treasury division manages the liquidity of the Company by obtaining information from other divisions with regard to their liquidity situation of the financial operations on regular basis and with estimated cash flows from business activities based on the recommendation of the ALCO. Company liquidity strategy is as follows,

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate).
- Carrying a portfolio of highly liquid assets diversified by maturity.
- Monitoring maturity mismatches, behavioral characteristics of the Company's financial assets and liabilities.

Exposure to liquidity risk	As at 31/03/2023	As at 31/03/2022
<i>In thousands of rupees</i>	Rs.000	Rs.000
Net loans/ Total assets	0.73	0.81
Gross Loans/ Customer deposits	0.32	2.19

Following are the remaining maturities of financial liabilities as at the reporting date.

Company/Group	Carrying value	Up to 3 Months	03-12 Months	Over 1 year	Total as at 31.03.2023
<i>In thousands of rupees</i>	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Due to banks	757,280	114,180	199,742	434,996	748,918
Financial liabilities at amortised cost - Deposits due to customers	7,655,746	4,189,515	2,008,514	1,457,717	7,655,746
Debt securities issued	17,800	-	-	17,800	17,800
Financial liabilities	60,802	61,908	3,530	3,727	69,165
Lease liabilities	197,581	9,634	30,971	156,976	197,581
Un-utilized facilities (Margin Trading)	93,061	130,602			130,602
Guarantees	1,098	1,098	-	-	1,098
	8,783,368	4,506,937	2,242,757	2,071,216	8,820,910

## 36 FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### 36.2 Risk management (continued)

#### C. Market risk

Market risk is the risk of losses in positions arising from movements in market prices. There is no unique classification as each classification may refer to different aspects of market risk. Interest rate, Exchange rate, equity prices will affect the Group's income or the value of the holdings of financial instruments.

#### Interest rate risk,

The risk that interest rates or their implied volatility will fluctuate will resulting in adverse impact to the future cash flows or the fair values of financial instruments of the Company. The Company holds interest bearing assets and Liabilities such as Investments in Fixed Deposits, loans and advances to customers, due to banks, deposits from customers and debt security issued. The Company's exposure to interest rate risk with instruments which have variable interest rates and reprising of interest rates of liabilities which have shorter maturities. Interest risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO of the Company regularly reviews the current interest structure with the market rates, and responsible for setting the overall interest risk management strategy of the Company which is implemented by the treasury unit. The Company's main sources of funding lines are deposits and other debt instruments bearing fixed interest rates for various durations ranging from one month to five (05) years and bank borrowing bearing both fixed and variable interest rates.

#### Sensitivity Analysis of Lease Liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the company as at 31 March 2023.

As at 31st March	Company/ Group 2023	
	Sensitivity effect on Lease Liability - Increase / (Reduction) in the Liability Rs.000	Sensitivity effect on Interest Expense Increase / (Reduction) in profit for the year
<i>In thousands of rupees</i>		
7bp Up	(21,461)	(7,725)
7bp Down	25,590	10,472

#### Currency risk (Foreign Exchange Risk)

The Company has a minimum exposure to foreign currency transactions and hence, fluctuations in the currency doesn't have significant direct impact on the operations.

#### Equity price risk

This risk is subject to regular monitoring by group market risk, but is not currently significant in relation to the Group's overall results and financial position.

# Notes to the Financial Statements

## Interest rate risk exposure on financial assets and liabilities

Company	Up to 3 Months	03-12 Months	01-05 Years	Non interest bearing	Total as at 31.03.2023
<i>In thousands of rupees</i>	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Cash and cash equivalents	561,607	-	-	-	561,607
Placements with banks and financial institutions	1,264,071	-	-	-	1,264,071
Financial assets measured at amortised cost - loans and lease rentals receivable	2,394,895	760,498	5,162,710	-	8,318,103
Financial assets measured at FVTPL - Quoted investments	-	-	5,579	-	5,579
Financial assets measured at FVTPL - Unit trust	404,334	-	-	-	404,334
Financial assets measured at FVOCI - Equity instruments	-	-	23	-	23
	<b>4,624,907</b>	<b>760,498</b>	<b>5,168,312</b>	<b>-</b>	<b>10,553,717</b>
<b>Liabilities</b>					
Due to banks	122,543	199,742	434,996	-	757,281
Financial liabilities at amortised cost - Deposits due to customers	4,189,515	2,008,514	1,457,717	-	7,655,746
Debt securities issued	-	-	17,800	-	17,800
Financial Liabilities	53,546	3,529	3,727	-	60,802
Lease liabilities	9,633	30,972	156,976	-	197,581
	<b>4,375,237</b>	<b>2,242,757</b>	<b>2,071,216</b>	<b>-</b>	<b>8,689,210</b>



## 36 FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### 36.2 Risk management (continued)

Group	Up to 3 Months	03-12 Months	01-05 Years	Non interest bearing	Total as at 31.03.2022
<i>In thousands of rupees</i>	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Cash and cash equivalents	561,846	-	-	-	561,846
Placements with banks and financial institutions	1,264,071	-	-	-	1,264,071
Financial assets measured at amortised cost - loans and lease rentals receivable	2,394,895	760,499	5,162,709	-	8,318,103
Financial assets measured at FVTPL - Quoted investments	-	-	5,579	-	5,579
Financial assets measured at FVTPL - Unit trust	404,334	-	-	-	404,334
Financial assets measured at FVOCI - Equity instruments	-	-	23	-	23
	<b>4,625,145</b>	<b>760,499</b>	<b>5,168,311</b>	<b>-</b>	<b>10,553,955</b>
<b>Liabilities</b>					
Due to banks	122,543	199,742	434,996	-	757,281
Financial liabilities at amortised cost - Deposits due to customers	4,189,515	2,008,514	1,457,717	-	7,655,746
Debt securities issued	-	-	17,800	-	17,800
Financial Liabilities	54,375	3,528	3,727	-	61,630
Lease liabilities	9,633	30,971	156,977	-	197,581
	<b>4,376,066</b>	<b>2,242,755</b>	<b>2,071,216</b>	<b>-</b>	<b>8,690,038</b>

#### D. Operational risk

Operational risk" is the prospect of indirect or direct losses resulting from wide variety of causes associated with the Company's inadequate or failed procedures, systems or policies and also human errors, systems/technology failures, fraud or other criminal activity which includes any external event that disrupts business processes other than market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk in a cost effective manner for avoiding/ minimizing financial losses and damages to the Group and without imposing restrictions on initiative and creativity. The Board of Directors delegates the responsibility to the Corporate Management, heads of Operational divisions and to the branch management through Board sub Committees and CEO for the development and implementation of control to address operational risk related to each division and branch. This responsibility is supported by the continuous improvement of overall Group standards for the management of operational risk including;

# Notes to the Financial Statements

- Appropriate segregation of duties on requirements, including the independent authorization of transactions;
- Reconciliation and monitoring of transactions on requirements;
- Compliance with regulatory and other legal requirements and keeping up to date with changes;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Documentation of control and procedures;
- Requirements for the reporting of operational losses and proposed remedial action;
- Training and professional developments;
- Ethical and business standards;
- Risk mitigation, including insurance where this is cost effective.

Compliance with group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Board Audit Committee and Corporate Management of the Company.

## 37 CAPITAL MANAGEMENT

The Company's capital management is performed primarily considering regulatory capital.

The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

Capital consist of ordinary shares and retained earnings of the Company. The Board of directors monitor the return on capital as well as the level of dividends to ordinary shareholders.

The Company's main objective is when managing capital are:

- 01) to safeguarded the Company's ability to continue as going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- 02) to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and

Further, the Board seeks to maintain a balance between higher targeted returns that might be possible with higher level of borrowing, and the advantages and security afforded by the strong capital position of the Company.

The Company's net debt to adjusted equity ratio at the reporting date as follows.

Category	As at 31/03/2023	As at 31/03/2022
<i>In thousands of rupees</i>	Rs.000	Rs.000
Total liabilities	8,744,016	5,446,121
Less: Cash and cash equivalents	561,607	660,873
Net debt	8,182,409	4,785,248
Total equity	2,677,206	2,833,695
Net debt to adjusted equity ratio at 31 March	3.06	1.69

## 37 CAPITAL MANAGEMENT (CONTINUED)

### 37.1 Capital adequacy

The details of the computation of risk weighted assets, capital and the ratios of the Company are given below:

#### Total risk weighted assets computation

As at 31st March <i>In thousands of rupees</i>	2023			2022		
	Amount	Risk Weight Factor %	Risk Weighted Balance	Amount	Risk Weight Factor %	Risk Weighted Balance
Claims on Government of Sri Lanka, Public Sector Entities and Central Bank of Sri Lanka						
Outright purchase	47,605	0%	-	-	0%	-
<b>Claims on financial institutions</b>						
<b>Banks</b>						
AAA to BBB-	879,331	20%	175,866	643,972	20%	128,794
Financial Institutions	-	-	-	-	0%	-
AAA to AA-	201,648	20%	40,330	-	20%	-
A+ to A-	213,536	50%	106,768	205,859	50%	102,929
Unrated	202,147	100%	202,147	2,524	100%	2,524
<b>Claims on Corporates</b>						
A+ to A-	250,000	50%	125,000			
<b>Retail claims</b>						
Retail claims in respect of motor vehicles and machinery	4,684,667	100%	4,684,667	4,070,382	100%	4,070,382
<b>Claims Secured by Gold</b>						
Outstanding claim portion up to 70% of the market value	1,211,272	0%	-	1,068,853	-	-
Remaining Outstanding claim portion over 70% of the market value	724,279	100%	724,279	107,991	100%	107,991
<b>Retail claims secured by immovable property</b>						
Retail claims that do not qualify for regulatory capital purposes	440,758	100%	440,758	509,919	100%	509,919
Other retail claims	594,443	125%	743,053	927,898	125%	1,159,873
<b>Non-performing retail claims secured by immovable property</b>						
Specific provisions are equal or more than 20%	203	50%	102	22,635	50%	11,317

# Notes to the Financial Statements

As at 31st March <i>In thousands of rupees</i>	2023			2022		
	Amount	Risk Weight Factor %	Risk Weighted Balance	Amount	Risk Weight Factor %	Risk Weighted Balance
Specific provisions are less than 20%	40,546	100%	40,546	622	100%	622
<b>Other Non-Performing Assets</b>						
Specific provisions are equal or more than 20%	68,374	100%	68,374	19,336	100%	19,336
Specific provisions are less than 20%	409,143	150%	613,714	1,790	150%	2,685
<b>Other claims(assets)</b>						
Notes and Coins	88,312	0%	-	30,403	0%	-
Cash Items in the Process of collection	-	20%	-	-	20%	-
Fixed Assets	212,898	100%	212,898	82,027	100%	82,027
Other Assets/Exposures	1,052,778	100%	1,052,778	763,005	100%	763,005
<b>Risk Weighted Amount for Operational Risk</b>			771,665			524,538
<b>Total Risk Weighted Amount</b>			10,002,943			7,485,942

## 37.2 Total Capital Base Computation

As at 31st March <i>In thousands of rupees</i>	2023 Amount	2022 Amount
<b>Tier I capital</b>		
Stated capital	3,762,054	3,762,054
Reserve fund	20,239	20,239
Audited retained earnings/(losses)	(948,598)	(1,131,607)
Transaction cost related to rights issue	-	(2,062)
Other comprehensive income	1,536	2,861
Transfers to reserve fund	-	(9,590)
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit(losses)	(158,024)	191,800
<b>Tier I capital</b>	<b>2,677,208</b>	<b>2,833,695</b>
<b>Adjustments to Tier I capital</b>		
Other intangible assets (net)	-	(9,760)
50% of investment in other banking and financial institutions	-	(616)
<b>Tier I Capital (after adjustments)</b>	<b>2,677,208</b>	<b>2,823,319</b>

As at 31st March	2023	2022
<i>In thousands of rupees</i>	Amount	Amount
Tier 2 Capital	-	-
Instruments qualified as Tier 2 capital	-	-
Revaluation gains (50% of eligible revaluation gains)	-	-
Eligible Tier 2 Capital	-	-
Total Adjustments to eligible Tier 2 Capital	-	616
Eligible Tier 2 Capital after adjustments	-	(616)
Total Capital	2,677,208	2,822,703

As at 31st March	2023	2022
	Amount	Amount
	Rs. '000	Rs. '000
Core Capital Ratio (Minimum 8.0%) =	$\frac{\text{Core Capital} \times 100}{\text{Risk Weighted Assets}}$	
Core Capital Ratio	26.76%	37.71%
Total Risk Weighted Capital Ratio (Minimum 12.5%) =	$\frac{\text{Capital Base} \times 100}{\text{Risk Weighted Assets}}$	
Total Risk Weighted Capital Ratio	26.76%	37.71%

### 37.3 Computation of Capital Adequacy Ratios

The previous capital adequacy directions was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking Supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements for other risks such as Market and operational risks. The new capital adequacy framework covers both credit risk and operational risk.

		Based on Direction No. 03 of 2018	
As at 31st March		2023	2022
Core Capital Ratio	Based on Direction No. 03 of 2018	26.76%	37.71%
Total Capital Ratio	Based on Direction No. 03 of 2018	26.76%	37.71%

# Notes to the Financial Statements

## 38 MATURITY PROFILE OF ASSETS AND LIABILITIES

### Allocation of Amounts

Amounts were allocated to respective maturity groupings based on instalments falling due as per contract. The amounts therefore represent total amount receivable or payable in each maturity grouping.

### 38.1 (a) Group

As at 31st March	2023			2022		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
<b>Interest bearing assets</b>						
Cash and cash equivalents	561,846	-	561,846	661,116	-	661,116
Investment in fixed deposits	1,264,071	-	1,264,071	410,942	-	410,942
Financial assets measured at fair value	409,913	23	409,936	9,222	23	9,245
Financial assets measured at ammortized cost - loans and lease rental receivables	3,155,392	5,162,711	8,318,103	2,758,424	3,918,184	6,676,608
<b>Total Interest bearing assets</b>	<b>5,391,221</b>	<b>5,162,734</b>	<b>10,553,955</b>	<b>3,839,703</b>	<b>3,918,207</b>	<b>7,757,911</b>
Total Non - Interest bearing assets	158,666	708,838	867,504	251,507	218,198	469,705
<b>Total assets</b>	<b>5,549,887</b>	<b>5,871,572</b>	<b>11,421,461</b>	<b>4,091,210</b>	<b>4,136,405</b>	<b>8,227,616</b>
<b>Percentage</b>	<b>48.59%</b>	<b>51.41%</b>	<b>100.00%</b>	<b>49.73%</b>	<b>50.27%</b>	<b>100.00%</b>
<b>Interest bearing liabilities</b>						
Due to Banks	322,284	434,996	757,280	1,518,470	324,296	1,842,766
Financial liabilities at amortised cost - Deposits due to customers	6,198,041	1,457,705	7,655,746	2,956,275	272,590	3,228,866
Debt securities issued	-	17,800	17,800	-	17,200	17,200
Lease liabilities	40,605	156,976	197,581	27,816	108,634	136,450
<b>Total interest bearing liabilities</b>	<b>6,560,931</b>	<b>2,067,477</b>	<b>8,628,408</b>	<b>4,502,562</b>	<b>722,720</b>	<b>5,225,282</b>
Total Non- Interest bearing Liabilities	93,410	23,027	116,437	147,624	73,442	221,066
Equity	-	2,676,617	2,676,617	-	2,833,336	2,833,336
<b>Total liabilities &amp; equity</b>	<b>6,654,341</b>	<b>4,767,121</b>	<b>11,421,461</b>	<b>4,650,186</b>	<b>3,629,499</b>	<b>8,279,685</b>
<b>Percentage</b>	<b>58.26%</b>	<b>41.74%</b>	<b>100.00%</b>	<b>56.16%</b>	<b>43.84%</b>	<b>100.00%</b>

## 38.2 (b) Company

As at 31st March	2023			2022		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
<b>Interest bearing assets</b>						
Cash and cash equivalents	561,607	-	561,607	660,873	-	660,873
Investment in fixed deposits	1,264,071	-	1,264,071	410,942	-	410,942
Financial assets measured at fair value	409,913	23	409,936	9,245	23	9,245
Financial assets measured at amortized cost - loans and lease rental receivables	3,155,392	5,162,711	8,318,103	2,758,424	3,918,184	6,676,608
<b>Total Interest bearing assets</b>	<b>5,390,983</b>	<b>5,162,734</b>	<b>10,553,717</b>	<b>3,839,460</b>	<b>3,918,207</b>	<b>7,757,667</b>
Total Non - Interest bearing assets	158,666	708,838	867,504	251,507	218,198	469,705
<b>Total assets</b>	<b>5,549,649</b>	<b>5,871,572</b>	<b>11,421,222</b>	<b>4,090,967</b>	<b>4,136,405</b>	<b>8,227,372</b>
Percentage	48.59%	51.41%	100.00%	49.72%	50.28%	100.00%
<b>Interest bearing liabilities</b>						
Due to Banks	322,284	434,996	757,280	1,518,470	324,296	1,842,766
Financial liabilities at amortised cost - Deposits due to customers	6,198,041	1,457,705	7,655,746	2,956,275	272,590	3,228,866
Debt securities issued	-	17,800	17,800	-	17,200	17,200
Lease liabilities	40,605	156,976	197,581	27,816	108,634	136,450
<b>Total interest bearing liabilities</b>	<b>6,560,931</b>	<b>2,067,477</b>	<b>8,628,408</b>	<b>4,502,562</b>	<b>722,720</b>	<b>5,225,282</b>
Total Non- Interest bearing Liabilities	92,581	23,028	115,609	147,624	72,838	220,462
Equity	-	2,677,206	2,677,206	-	2,833,695	2,833,695
<b>Total liabilities &amp; equity</b>	<b>6,653,512</b>	<b>4,767,712</b>	<b>11,421,221</b>	<b>4,650,186</b>	<b>3,629,253</b>	<b>8,279,439</b>
Percentage	58.26%	41.74%	100.00%	56.17%	43.83%	100.00%



# Notes to the Financial Statements

## 39 SEGMENTAL ANALYSIS - GROUP

As per the SLFRS 8 'Operating Segments', Company is required to disclose information to enable users of its Financial Statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Accordingly, below information gives the segmental information on performance of the Company's main business line.

For the year ended 31 March 2023	Leasing & hire purchases	Trade Bills, loans and pawning	Margin trading	Other	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest income	791,731	965,314	161,823	89,265	2,008,133
Fee and commission income	29,552				29,552
Net income from other financial instruments at FVTPL				30,644	30,644
Other operating income	11,465	6,356		9,297	27,118
<b>Gross revenue</b>	<b>832,748</b>	<b>971,670</b>	<b>161,823</b>	<b>129,206</b>	<b>2,095,447</b>
Interest expenses	(471,330)	(414,463)	(55,726)	(339,100)	(1,280,619)
<b>Total operating income</b>	<b>361,418</b>	<b>557,207</b>	<b>106,097</b>	<b>(209,893)</b>	<b>814,829</b>
Impairment charges for loans, advances and other receivables	(134,567)	620	(20,083)	-	(154,029)
<b>Net operating income</b>	<b>226,851</b>	<b>557,827</b>	<b>86,014</b>	<b>(209,893)</b>	<b>660,800</b>
Depreciation and amortisation	(10,268)	(9,029)	(1,214)	(7,387)	(27,898)
Amortization of right of use assets	(16,814)	(14,786)	(1,988)	(12,097)	(45,685)
Staff and other expenses	(274,630)	(239,361)	(32,182)	(195,836)	(742,009)
<b>Segment results</b>	<b>(74,861)</b>	<b>294,651</b>	<b>50,630</b>	<b>(425,213)</b>	<b>(154,792)</b>
Taxes on financial services					(33,273)
<b>Net tax expense</b>					<b>29,810</b>
<b>Loss for the year</b>					<b>(158,254)</b>
<b>As at 31 March</b>					
<b>Segment assets</b>	<b>4,192,290</b>	<b>3,686,284</b>	<b>495,626</b>	<b>3,047,261</b>	<b>11,421,461</b>
<b>Segment liabilities</b>	<b>3,221,410</b>	<b>2,828,736</b>	<b>380,328</b>	<b>2,314,370</b>	<b>8,744,844</b>

### Basis of allocation

Expenses that are not specifically allocated to each segment are allocated to based on the respective assets base of each segment under consideration.

### 39 SEGMENTAL ANALYSIS - GROUP (CONTINUED)

As per the SLFRS 8 'Operating Segments', Company is required to disclose information to enable users of its Financial Statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Accordingly, below information gives the segmental information on performance of the Company's main business line.

For the Year ended 31st March 2022	Leasing & hire purchases	Trade Bills, loans and pawning	Margin trading	Other	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest Income	382,376	290,023	105,755	16,065	794,219
Fee and commission income	19,235	3	-	-	19,238
Net income from other financial instruments at FVTPL	-	-	-	28,367	28,367
Other operating income	20,164	55,763	-	51,717	127,645
<b>Gross revenue</b>	<b>421,775</b>	<b>345,789</b>	<b>105,755</b>	<b>96,149</b>	<b>969,469</b>
Interest Expenses	(113,596)	(97,602)	(29,662)	(59,162)	(300,022)
<b>Total operating income</b>	<b>308,179</b>	<b>248,187</b>	<b>76,094</b>	<b>36,987</b>	<b>669,447</b>
Impairment charges for loans, advances and other receivables	54,975	(13,853)	(193)	(15)	40,914
<b>Net operating income</b>	<b>363,154</b>	<b>234,334</b>	<b>75,901</b>	<b>36,972</b>	<b>710,361</b>
Depreciation and Amortization	(4,070)	(3,526)	(1,175)	(1,461)	(10,232)
Amortization of right of use assets	(17,061)	(14,785)	(4,925)	(6,125)	(42,896)
Staff and other expenses	(173,407)	(148,992)	(45,279)	(88,301)	(455,979)
<b>Segment Results</b>	<b>64,401</b>	<b>(22,697)</b>	<b>(12,688)</b>	<b>(12,146)</b>	<b>201,254</b>
Taxes on financial services					(61,252)
<b>Net tax expense</b>					<b>51,626</b>
<b>Loss for the year</b>					<b>191,627</b>
<b>As at 31 March</b>					
<b>Segment assets</b>	<b>3,148,865</b>	<b>2,705,520</b>	<b>822,223</b>	<b>1,603,451</b>	<b>8,280,059</b>
<b>Segment liabilities</b>	<b>2,071,362</b>	<b>1,779,724</b>	<b>540,868</b>	<b>1,054,769</b>	<b>5,446,723</b>

#### Basis of allocation

Expenses that are not specifically allocated to each segment are allocated to based on the respective assets base of each segment under consideration.

# Notes to the Financial Statements

## 40 IMPACT OF MACRO ECONOMIC CONDITIONS IN THE COUNTRY

The ongoing uncertain economic conditions in Sri Lanka have impacted the operations of the Company and the Group. However, the Company has taken necessary steps to minimize the adverse effects. One major issue faced was the sharp increase in the cost of deposits, which rose from 8% - 9% to 25% per annum in May and June. This affected the deposit base, consisting mainly of short-term deposits, leading to a repricing of deposits to double-digit levels within three months. On the other hand, the lending portfolio primarily comprised fixed-rate loans that did not reprice to match the rising deposit rates. As a result, the cost of borrowing increased while income from fixed-rate loans remained unchanged, creating a mismatch that impacted profitability.

High interest rates and restrictions on vehicle imports have created unfavorable conditions for lending and business opportunities in the market. As a strategic approach, the Company reduced its lending activities from June 2022 to December 2022. During this period, the focus shifted to managing Non-Performing Loans (NPLs) through recovery efforts and building up liquidity buffers. By prioritizing NPL management and maintaining healthy liquidity buffers, the Company aimed to minimize credit risks and ensure financial stability. However, the curtailment of lending activities negatively affected profitability due to reduced interest income.

Additionally, changes in regulations required the Company to change the NPL classification from 180 days to 120 days, resulting in additional loan loss provisions to comply with guidelines. This further impacted profitability.

Despite these challenges, the Company demonstrated resilience and effective risk management practices during this unpredictable time. It increased its deposit base by Rs.4.4 billion, maintained affordable borrowing costs, reduced the NPL ratio, and managed working capital efficiently. These accomplishments positioned the Company favorably in terms of portfolio quality and financial stability.

Looking ahead, the Company has developed a well-articulated business plan for the financial year 2023/24 to regain profitability. Both borrowers and lenders have shown no intention of withdrawing their financial support, and the Company has unutilized credit facilities and ample liquid assets. Prudent investments have been made in high-yielding short-term instruments to maximize returns. With the resumption of lending activities and a low gearing ratio, the Company is well-positioned to attract further funding for expanding its lending book.

## 41 DIRECTORS RESPONSIBILITY STATEMENT

The Board of Directors are responsible for the preparation and presentation of the financial statements.

## 42 EVENTS AFTER REPORTING DATE

Subsequent to the statement of financial position date, no circumstances have arisen which would require adjustment to or disclosure in the financial statements.

# Supplementary Information

# Summary of Quarterly Financials

	1st Quarter April - June		2nd Quarter July - September		3rd Quarter October - December		4th Quarter January - March		Total For the Year ended 31 March	
	2022	2021	2022	2021	2022	2021	2023	2022	2023	2022
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Gross Income	368,637	183,559	492,125	199,229	570,988	264,068	663,697	322,764	2,095,447	969,469
Interest income	357,434	135,568	480,351	163,378	549,132	223,597	621,216	278,722	2,008,133	794,219
Interest expense	(193,310)	(52,674)	(303,013)	(55,045)	(355,727)	(77,422)	(428,568)	(114,881)	(1,280,618)	(300,022)
Net interest income	164,124	82,894	177,338	108,333	193,405	146,175	192,648	163,841	727,515	494,197
Fee and commission income	5,314	2,281	5,861	3,921	7,377	6,746	11,000	6,290	29,552	19,238
Net fair value gain from financial assets at FVTPL	(2,131)	15,436	2,637	9,560	2,904	6,542	27,234	(4,095)	30,644	28,367
Other operating income	8,020	30,274	3,277	22,371	11,575	27,183	4,246	41,847	27,118	127,645
<b>Total operating income</b>	<b>175,327</b>	<b>130,885</b>	<b>189,112</b>	<b>144,185</b>	<b>215,261</b>	<b>186,646</b>	<b>235,129</b>	<b>207,883</b>	<b>814,829</b>	<b>669,447</b>
Impairment charges for loans and receivables and other losses	(67,517)	(16,753)	(10,122)	2,456	(31,898)	(11,360)	(44,492)	66,587	(154,029)	40,914
<b>Net operating income</b>	<b>107,810</b>	<b>114,132</b>	<b>178,990</b>	<b>146,641</b>	<b>183,363</b>	<b>175,286</b>	<b>190,637</b>	<b>274,469</b>	<b>660,800</b>	<b>710,361</b>
Personnel Expenses	(82,137)	(64,421)	(88,753)	(64,741)	(96,203)	(65,830)	(97,648)	(66,381)	(364,741)	(260,703)
Depreciation of property, plant and equipment	(4,498)	(1,524)	(5,568)	(1,282)	(6,755)	(3,217)	(8,141)	(3,707)	(24,962)	(9,731)
Amortisation of intangible assets	(132)	(109)	(935)	(128)	(935)	(166)	(934)	(99)	(2,936)	(501)
Amortisation of right of use assets	(9,159)	(10,699)	(10,046)	(12,670)	(13,572)	(10,347)	(12,908)	(9,180)	(45,685)	(42,897)
Other expenses	(72,532)	(31,054)	(81,125)	(51,440)	(77,702)	(49,096)	(145,678)	(63,515)	(377,037)	(195,103)
<b>Operating profit before tax on financial services</b>	<b>(60,648)</b>	<b>6,325</b>	<b>(7,437)</b>	<b>16,380</b>	<b>(11,804)</b>	<b>46,632</b>	<b>(74,672)</b>	<b>131,588</b>	<b>(154,561)</b>	<b>201,426</b>
Tax on financial services	(4,038)	(9,272)	(13,716)	(10,435)	(10,418)	(14,920)	(5,101)	(26,248)	(33,273)	(61,252)
<b>Profit before income tax</b>	<b>(64,686)</b>	<b>(2,947)</b>	<b>(21,153)</b>	<b>5,945</b>	<b>(22,223)</b>	<b>31,712</b>	<b>(79,772)</b>	<b>105,340</b>	<b>(187,834)</b>	<b>140,174</b>
Income tax expense	(2,123)	-	-	-	-	-	31,933	-	29,810	51,626
<b>Profit for the period</b>	<b>(66,809)</b>	<b>(2,947)</b>	<b>(21,153)</b>	<b>5,945</b>	<b>(22,223)</b>	<b>31,712</b>	<b>(47,839)</b>	<b>105,340</b>	<b>(158,024)</b>	<b>191,800</b>
Basic earnings per share - (Rs)	(0.16)	(0.01)	(0.05)	0.02	(0.05)	0.09	(0.22)	0.26	(0.39)	0.55

Figures in brackets indicate deductions.

# Ten Year Summary

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>FINANCIAL CAPITAL</b>										
<b>Operating results (Rs.'000)</b>										
Income	2,095,447	969,469	629,491	629,527	616,671	467,004	375,535	381,358	664,827	757,861
Interest income	2,008,133	794,219	470,977	563,581	546,759	431,790	365,433	377,193	659,707	750,661
Interest expenses	1,280,618	300,022	237,591	292,067	357,067	339,682	342,347	281,622	475,897	591,995
Net interest income	727,515	494,197	233,386	271,514	189,692	92,108	23,086	95,571	183,810	158,666
Impairment charges/ (reversal) for loans and receivables and other losses	154,029	(40,914)	(41,803)	122,535	85,389	94,900	40,428	68,842	264,238	229,171
Other operating expenses	377,037	195,103	119,297	116,999	122,794	79,364	88,189	74,451	149,702	104,757
Profit/Loss before tax	(187,834)	140,174	67,402	(79,954)	(91,942)	(148,525)	(203,034)	(129,895)	(308,354)	(216,891)
Profit/Loss for the year	(158,024)	191,800	67,799	(80,086)	(93,684)	(148,312)	(199,352)	(86,874)	(337,486)	(254,827)
Return on assets (ROA)	-1.61%	2.95%	3.68%	-2.39%	-3.22%	-4.64%	-5.65%	-2.19%	-6.99%	-5.14%
Cost to income ratio (%)	97%	83%	91%	86%	100%	111%	143%	118%	108%	106%
<b>Financial position (Rs.'000)</b>										
Cash ,balance with banks & reverse repo	2,235,614	1,081,059	1,081,303	291,440	226,281	289,945	313,065	477,313	399,141	231,787
Loans and Receivables	8,318,103	6,676,608	3,156,568	1,658,310	2,504,264	2,488,467	2,005,094	1,692,502	2,105,619	3,433,408
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Total assets	11,421,222	8,279,816	4,703,852	3,814,942	2,893,383	2,927,939	3,462,512	3,595,887	4,352,441	5,310,101
Borrowings	757,280	1,842,767	-	-	-	-	350,000	-	24,940	49,960
Deposits from customers	7,655,746	3,228,866	2,289,491	2,100,936	2,434,733	2,455,586	2,396,177	2,841,104	3,546,680	4,237,340
Total equity	2,677,206	2,833,695	2,131,201	1,552,501	142,959	215,691	363,454	553,339	642,894	880,008
Total liabilities and shareholder's funds	11,421,222	8,279,816	4,703,852	3,814,942	2,893,383	2,927,939	3,462,512	3,595,887	4,352,441	5,310,101
<b>Financial cash flows (Rs.'000)</b>										
Cash flows from operating activities	61,369	159,605	(83,698)	319,178	(351,023)	(621,006)	(977,734)	(386,341)	289,680	899,854
Cash flows from investing activities	(1,139,235)	207,709	1,164,851	(1,498,614)	4,697	1,063,789	290,362	457,008	(96,929)	(317,793)
Cash flows from financing activities	(1,121,579)	2,271,266	462,688	1,462,024	160,075	(354,465)	354,465	(24,940)	(25,020)	(177,183)
Total net cash inflows/ outflows	(99,266)	(46,317)	417,465	282,588	(186,252)	88,318	(332,907)	45,726	167,730	404,878
<b>Statutory ratio</b>										
<b>Capital adequacy ratio</b>										
Core capital ratio (required min -7%)(%)	26.76%	37.71%	44.39%	49.09%	4.85%	8.69%	-6.84%	-0.73%	2.26%	9.54%
Total risk weighted capital ratio (required min -11%)(%)	26.76%	37.71%	44.38%	49.07%	4.82%	8.68%	-6.85%	-0.74%	2.25%	9.53%

# Ten Year Summary

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>HUMAN CAPITAL</b>										
Number of employees	274	217	168	118	123	124	118	110	96	117
Profit before tax per employee (Rs.'000)	(686)	928.23	598.51	(677.58)	(747.50)	(1,198)	(1,721)	(1,181)	(3,212)	(1,854)
Employees'salaries & benefits (Rs.'000)	364,741	260,703	174,111	129,607	127,248	96,543	92,499	79,487	79,135	88,926
<b>RELATIONSHIP CAPITAL</b>										
Number of branches	13	11	11	10	10	10	10	10	10	10
Number of shareholders	10,102	10,102	9,993	9,911	10,086	10,133	10,182	10,345	10,530	11,335
Number of ordinary shares (Rs.'000)	405,302	405,302	326,856	210,875	84,350	67,500	67,500	67,500	67,500	67,500
Earnings per share -Company (Rs.)	(0.39)	0.55	0.32	(0.41)	(1.38)	(2.20)	(2.95)	(1.29)	(5.00)	(3.78)
Net assets value per share (Rs.)	6.60	6.99	6.52	7.36	1.69	3.20	5.38	8.22	9.52	13.03
<b>Market price per share (Rs.)</b>										
Highest	6.00	10.20	10.70	11.40	13.50	21.00	24.0	30	29.3	17.1
Lowest	3.30	5.10	6.90	7.40	8.20	11.00	9.4	11.4	16	10.4
Closing	5.20	5.40	7.20	8.70	9.20	11.00	13.9	12	23.9	16.9
Market capitalisation (Rs.'000)	2,107,570	2,188,629	2,353,365	1,834,613	776,020	742,500	938,250	810,000	1,613,250	1,140,750
Price earning ratio (PE) (Times)	(13.32)	9.81	22.79	(21.22)	(6.67)	(5.00)	(4.71)	(9.30)	(4.78)	(4.47)
Dividend per share (DPS) (Rs.'000)	-	-	-	-	-	-	-	-	-	-
Dividend paid (Rs.'000)	-	-	-	-	-	-	-	-	-	-
Gross ordinary dividend (Rs.'000)	-	-	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-	-	-
Dividend cover (Times)	-	-	-	-	-	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-	-	-	-	-	-
Debt equity (Times)	3.15	1.82	1.08	1.36	19.24	12.57	8.53	5.50	5.77	5.03
Return on equity (ROE) (%)	-5.91%	7.73%	3.68%	-9.45%	-52.24%	-51.22%	-43.49%	-14.52%	-44.32%	-23.73%



# Share Information

## DISTRIBUTION OF SHAREHOLDINGS AS AT 31 MARCH 2023

Shareholdings	Residents			Non-residents			Total		
	Number of Share-holders	Number of shares	Percentage of share-holding	Number of share-holders	Number of shares	Percentage of share-holding	Number of share-holders	Number of shares	Percentage of share-holding
1 to 1000 Shares	9,184	1,344,595	0.35%	9	1,810	0%	9,193	1,346,405	0.35%
1001 to 10,000 Shares	700	2,274,485	0.56%	6	19,500	0%	706	2,293,985	0.56%
10,001 to 100,000 Shares	183	5,572,750	1.37%	1	16,500	0%	184	5,589,250	1.37%
100,001 to 1000,000 Shares	24	6,363,810	1.57%	1	124,000	0.03%	25	6,487,810	1.60%
Over 1,000,000 Shares	3	389,584,300	96%	-	-	0%	3	389,584,300	96.12%
<b>Total</b>	<b>10,094</b>	<b>405,139,940</b>	<b>100%</b>	<b>17</b>	<b>161,810</b>	<b>0.03%</b>	<b>10,111</b>	<b>405,301,750</b>	<b>100%</b>

## CATEGORIES OF SHAREHOLDINGS - INDIVIDUALS/INSTITUTIONS

Range of shareholding	31-Mar-23			31-Mar-22		
	Number of share holders	Number of shares	Percentage of share holding	Number of share holders	Number of shares	Percentage of share holding
Individual	9,971	13,723,738	3.2	9,954	12,961,847	3.2
Institutions	140	391,578,012	96.8	148	392,339,903	96.8
<b>Total</b>	<b>10,111</b>	<b>405,301,750</b>	<b>100</b>	<b>10,102</b>	<b>405,301,750</b>	<b>100</b>

## CATEGORIES OF SHAREHOLDINGS - RESIDENT/NON-RESIDENT

Range of shareholding	31-Mar-23			31-Mar-22		
	Number of share holders	Number of shares	Percentage of share holding	Number of share holders	Number of shares	Percentage of share holding
Resident	10,094	405,139,940	99.96	10,087	405,145,090	99.96
Non-resident	17	161,810	0.04	15	156,660	0.04
<b>Total</b>	<b>10,102</b>	<b>405,301,750</b>	<b>100</b>	<b>10,102</b>	<b>405,301,750</b>	<b>100</b>

## SHARE INFORMATION

Financial year ended 31 March	2023	2022	2021	2020	2019	2018	2017
<b>Market value of shares</b>							
Highest price during the year (LKR)	6.00	10.2	10.7	11.4	13.5	21	24
Lowest price during the year (LKR)	3.30	5.10	6.90	7.40	8.20	11.00	9.40
Closing price (LKR)	5.20	5.40	7.20	8.70	9.20	11.00	13.90
<b>Investor ratios</b>							
Price earnings ratio	-13.32	9.82	22.5	-	-	-	-
Net asset value per share (LKR)	6.6	6.99	6.52	7.36	1.69	3.2	5.38
<b>Share trading</b>							
Number of transactions	835	7,002	853	611	1,105	1,411	1,645
Number of shares traded	3,287,951	17,484,833	640,499	258,972	658,569	1,136,896	1,659,566
Value of shares traded (LKR '000)	16,217	146,940	5,849	2,583	7,108	18,254	32,798
Market capitalisation (LKR '000)	2,107,570	2,188,629	2,353,363	1,834,613	776,020	742,500	938,250

## TWENTY LARGEST ORDINARY SHAREHOLDERS

Twenty largest ordinary shareholders of the Company as at 31 March were as follows:

Name of the shareholder	Number of shares 31st March 2023	Percentage
STERLING CAPITAL INVESTMENTS (PRIVATE) LIMITED	330,714,052	81.6
PEOPLES BANK	33,856,246	8.35
PEOPLE'S LEASING & FINANCE PLC	25,014,002	6.17
MR. L. DE FONSEKA	1,000,000	0.25
MR. Z.G. CARIMJEE	600,000	0.15
PEOPLE'S LEASING & FINANCE PLC/DR.H.S.D.SOYSA & MRS.G.SOYSA	599,064	0.15
MR. H.V. PAKIANATHAN	370,143	0.09
DR. H.S.D. SOYSA	348,000	0.09
MR. H. BERUWALAGE	344,088	0.08
MR. A.N. HANDUNPATHIRANA	297,703	0.07
MR. D. SELVARAJ	290,244	0.07
MR. D.T. BERUWALAGE	202,480	0.05
MRS P.D.A.S.K. BERUWALAGE	200,348	0.05
MR. M.J.C. AMARASURIYA	200,000	0.05
MR. D. RAMACHANDRAN	200,000	0.05
MR. D.C. THANTRIMUDALI	195,000	0.05
MR. T.A.S. DILSHAN	187,500	0.05
MR. D.P. NADARAJA	184,774	0.05
LOLC FINANCE PLC/A.D.M. DHARMASENA	177,200	0.04
DIALOG FINANCE PLC/W.G.HERATH	166,353	0.04
<b>Total</b>	<b>395,147,197</b>	<b>97.50</b>

## PUBLIC HOLDING

The percentage of ordinary shares held by the public as at 31 March 2023 was 18.40% and number of shareholders representing the public holding was 10,110. The float adjusted market capitalisation as at 31 March 2022 was LKR 387,792,714/-

The Company is compliant with the minimum public holding requirement stipulated in CSE Rule 7.14.1 (b).

# Glossary

## A \_\_\_\_\_

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

### Asset and Liability Committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

### Associate company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### Available-for-Sale financial Asset

non-derivative financial assets

designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss

## C \_\_\_\_\_

### Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

### Commercial Paper

An unsecured short term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

### Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

### Consolidated Financial Statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

### Contingencies

A condition or situation existing on the statement of financial position where

the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Cost to Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

$$\frac{\text{Total Operating cost Without VAT on Financial Services}}{\text{Net Operating Income}} \times 100$$

### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### Credit Risk

Credit risk or default risk is the potential that a borrower or counterparty failing to meet its obligations in accordance with agreed terms and conditions.

### Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

# Glossary

## D \_\_\_\_\_

### Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

### Dividend Per Share (Rs:)

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

$$\frac{\text{Profit / Loss Attributable to Ordinary Share}}{\text{Number of Ordinary Share}}$$

### Dividend Yield

Dividend per share as a percentage of its market value.

$$\frac{\text{Dividend Per Ordinary Share}}{\text{Market Price Per Share}} \times 100$$

## E \_\_\_\_\_

### Earning Yield (EY)

The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of a company's earnings per share.

$$\frac{\text{Earning Per Share}}{\text{Market Price Per Share}} \times 100$$

### Earnings per Ordinary share (EPS) (EPS - Rs:)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

$$\frac{\text{Profit / Loss Attributable to ordinary shareholders}}{\text{Average Number of Share}}$$

### Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

### Employee Turnover (%)

Employee turnover refers to the workers leaving an organization over a period as a percentage of average employees during the period.

$$\frac{\text{Number of attritions during the year}}{\text{Average number of employees during the year}} \times 100$$

### Exposure

A claim, contingent claim or position which carries a risk of financial loss.

## F \_\_\_\_\_

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified

financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

### Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

### Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

## G \_\_\_\_\_

### Gearing

Long term borrowings divided by the total funds available for shareholders.

### Group

A group is a parent and all its subsidiaries.

**Guarantees**

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

**H****Held-to-Maturity (HTM) Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

**I****Impaired Loans**

Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impairment Allowances**

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

**Individually Assessed Impairment**

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

**Intangible Asset**

An intangible asset is an identifiable non-monetary asset without physical substance.

**Interest cover**

A ratio showing the number of times interest charges are covered by earnings before interest and tax.

Profit Before Interest & Tax
Interest Expenses

**Interest in Suspense**

Interest suspended on non-performing leases, hire purchases and other advances.

**Interest Margin**

Net interest income expressed as a percentage of average interest earnings assets.

**Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

**Interest Spread**

Represents the difference between the average interest rate earned on interest earnings assets and the average interest rate paid on interest-bearing liabilities.

**International Financial Reporting Standards (IFRS)**

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

**Investment properties**

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use or sale.

**K****Key Management Personnel (KMP)**

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

**L****Lending portfolio**

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with Banks, bills of exchange and Treasury Bills and Bonds.

**Liquidity Risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**Loan to Value Ratio (LTV)**

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

**Loan to value ratio (LTV)**

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

**Loans and Receivables**

Conventional loan assets that are unquoted (originated or acquired).

**M****Market Capitalisation**

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

Market price per share x Number of shares

**Market Risk**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

**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.

# Glossary

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## N

### Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

$$\frac{\text{Total Shareholders Equity}}{\text{Number of Share}}$$

### Net Interest Income (NII)

The difference between income earned from interest bearing assets and cost incurred on financial instrument/facilities used for funding the interest bearing assets.

### Net Interest Margin (NIM - %)

Net interest income expressed as a percentage of average interest earning assets.

$$\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}} \times 100$$

### Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

$$\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}} \times 100$$

### Non-performing ratio

Total non-performing leases, hire purchase loans and other advances divided by total advances portfolio.

$$\frac{\text{Gross non- performing portfolio}}{\text{Gross loans and receivables}} \times 100$$

## O

### Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

## Offsetting of 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 settled the liability simultaneously.

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## P

### Parent Company

A Parent is an entity which has one or more subsidiaries.

### Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

### Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

$$\frac{\text{Market price per share}}{\text{Earnings per share}}$$

### Price to Book Value (PBV - Times)

$$\frac{\text{Market Price Per Share}}{\text{Net Assets Per Share}}$$

### Probability of Default (PD)

The probability that an obligor will default within a one-year time horizon.

### 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.

## R

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Return on Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

$$\frac{\text{Profit After tax}}{\text{Total Assets}} \times 100$$

### Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

### Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of risk mitigants such as collateral, guarantee and credit protection

### Risk weighted assets

On statement of financial position assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.



## S \_\_\_\_\_

### Segment analysis

Analysis of financial information by segments of an entity specifically the different business in which it operates.

### Shareholders' Funds

Total of stated capital and reserves.

### Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company.

### Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

### Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise which is known as the parent.

### Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## T \_\_\_\_\_

### Tier I Capital

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

$$\frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}} \times 100$$

### Tier II Capital

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

$$\frac{\text{Tier II Capital}}{\text{Total Risk Weighted Amount}} \times 100$$

### Total Return of Share (%)

Total shareholder return is the financial gain that results from a change in the stock's price plus any dividends paid by the company during the measured interval divided by the initial purchase price of the stock.

$$\frac{(\text{Closing Market Price} - \text{Opening Market Price}) + \text{Dividend Per Share}}{\text{Opening Market Price}} \times 100$$

### Transaction costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

## V \_\_\_\_\_

### Value Added

Value of wealth created by providing financial and other-related services less the cost of providing such services.

## Y \_\_\_\_\_

### Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

### Yield to Maturity

Discount rate at which the present value of future cash flows would equal the security's current price.



# Branch Network

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## 05. HOMAGAMA

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## 06. MATUGAMA

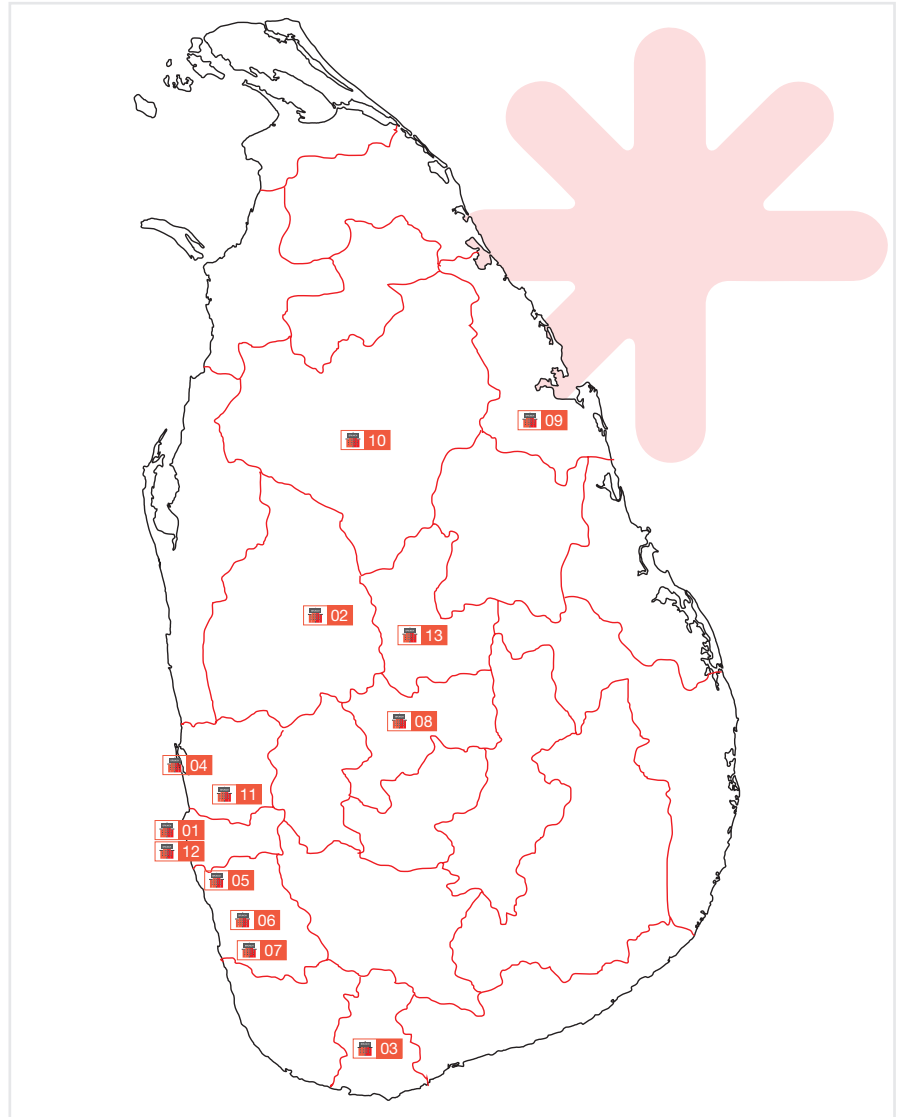
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# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty-Ninth (39th) Annual General Meeting (“AGM”) of PMF FINANCE PLC (the “Company”) will be held on Tuesday, the 26th day of September 2023 at 9.00 a.m. online via a virtual platform for the following purposes:

1. To receive and consider the annual report of the Board of Directors on the affairs of the Company and the financial statements for the year ended 31st March 2023 together with the report of the auditors thereon.
2. To appoint Messrs Ernst & Young (Chartered Accountants) as the Auditors of the Company in place of Messrs KPMG (Chartered Accountants) for the ensuing year and authorize the Directors to determine their remuneration.
4. To authorise the Directors to determine contributions to charities for the ensuing year.

By order of the Board,



**CORPORATE SERVICES (PRIVATE) LIMITED**  
Secretaries

**PMF FINANCE PLC**  
Colombo, on this 29th August 2023

**Note:** Any shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote/speak in his/her stead and a form of proxy is sent herewith for this purpose. A proxy need not be a shareholder of the Company. A completed form of proxy must be deposited at the Head office of the Company, No.361, 361/1 R. A. De Mel Mawatha, Colombo 3, or forwarded to pmfagm@pmf.lk not less than 48 hours before the time appointed for the holding of the meeting.

# Notice of Meeting

## Meeting Guidelines –

- (A) The meeting is to be held in line with the guidelines given by the Colombo Stock Exchange and the health authorities and as per the applicable laws.
- (B) In the interest of protecting public health and facilitating social distancing in line with the guidelines issued by the Ministry of Health, Nutrition and Indigenous Medicine, the Annual General Meeting will be held in the manner set out below:
- (i) The shareholders who wish to participate at the meeting will be able to join the meeting through audio or audio and visual means via virtual platform. In order for us to forward the access information necessary for participation at the meeting, which shall include the meeting identification number, access password, and access telephone number, please forward the duly completed registration form including your e-mail address and contact telephone number to the registered address of the Company not less than 48 hours before the time appointed for the holding of the meeting, so that the login information could be forwarded to the e-mail addresses so provided. These measures have been adopted to observe social distancing regulations/ requirements to mitigate the dangers of the spread of the virus.
- (ii) If the Company is unable to post this Notice due to any situation beyond its control, then this Notice will be published in one issue of a daily newspaper in the Sinhala, Tamil, and English languages and if the circumstances permit, in one issue of the Gazette. The Annual Report, Notice of Meeting, Form of Proxy, and Registration Form will also be published on the website of the Colombo Stock Exchange (<https://www.cse.lk/pages/company-profile/company-profile.component.html?symbol=PMB.N0000>) and the website of the Company (<https://pmf.lk/>).
- (iii) Proxy forms are forwarded to the shareholders together with the Notice of Meeting and Registration form. Proxy forms have been uploaded to the Company's website (<https://pmf.lk/>) and should be duly completed as per the instructions given therein and sent to the registered address of the Company or e-mailed to [pmfagm@pmf.lk](mailto:pmfagm@pmf.lk) not less than 48 hours before the time appointed for the holding of the meeting and the proxy so appointed shall participate at the meeting through audio or audio visual means only.
- (a) The shareholders who are unable to participate at the Annual General Meeting via Virtual platform could send their queries, if any, to the email address [pmfagm@pmf.lk](mailto:pmfagm@pmf.lk) at any time before the meeting time and the responses to the same will be included in the minutes of the meeting.
- (b) Voting in respect of the items specified in the agenda to be passed will be registered by using the audio or audio and visual means, Zoom or a designated ancillary online application. All of such procedures will be explained to the shareholders prior to the commencement of the meeting.
- (c) Shareholders can use the "Q & A Forum" to communicate their questions/concerns as and when required.
- (d) For any questions please contact Ms. Diana Weligamage, Executive Secretary of PMF Finance PLC on +94 0117 666 333 (ext. 352 or Mrs. Sarah Dissanayake, Executive Legal of Corporate Services (Pvt) Ltd on +94 0114 605 182) during office hours.

# Form of Proxy

I/We ..... of  
..... being \*a shareholder/shareholders of PMF  
Finance PLC, hereby appoint Mr./Mrs./Miss ..... (Holder of  
N.I.C. /PP No ..... of ..... or  
failing him/her,

1. Mr. Chandula Abeywickrema or failing him
2. Mr. Rangana Koralage or failing him
3. Mr. Travis Waas or failing him
4. Dr. Nirmal De Silva or failing him
5. Mrs. Krystle Wijesuriya

as my/our proxy to attend and vote/speak at the Thirty-Ninth Annual General Meeting of the Company to be held on the 26th day of September 2023 at 9.00 a.m. online via the virtual platform and at any adjournment thereof and at every poll which may be taken in consequence thereof to vote.

		For	Against
(1)	To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Financial Statements for the year ended 31st March 2023 together with report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2)	To appoint Messrs. Ernst & Young (Chartered Accounts) as the Auditors of the Company in Place of Messrs KPMG (Chartered Accountants) for the ensuing year and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
(3)	To authorize the Directors to determine contributions to charities for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... Two Thousand and Twenty Three

.....  
Signatures/s

.....  
Shareholder's N.I.C./P.P/Co.Reg.No

Instruction as to the completion of this Form of Proxy is given overleaf  
Proxy need not be a member of the Company

**INSTRUCTIONS AS TO COMPLETION**

1. As provided for in Article 17(3) of the Articles of Association of the Company the instrument appointing the proxy should be in writing.
2. The full name and the address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and duly signed and dated.
3. The Proxy shall –
  - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of that company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.
  - (c) In the case of joint-holders, be signed by the joint holder whose name appears first in the Register of Members.
  - (d) The completed Form of Proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority must be deposited at the Registered office of the Company, PMF Finance PLC, No.361, 361/1, R.A. De Mel Mawatha, Colombo 03 or email to pmfagm@pmf.lk not less than forty-eight (48) hours before the time appointed for the holding of the meeting.
  - (e) Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy.

# Corporate Information

## NAME OF COMPANY

PMF Finance PLC

## LEGAL FORM

Public Limited Liability Company  
(Incorporated and domiciled in Sri Lanka)

## DATE OF INCORPORATION

26th January 1983

## COMPANY REGISTRATION NUMBER

PQ 200

## STOCK EXCHANGE LISTING

The ordinary shares of the Company were quoted on the Colombo Stock Exchange (CSE) on 11th July 1994. Ordinary Shares has been transferred to Diri Savi Board with effect from July 02,2018.

## ACCOUNTING YEAR-END

March 31st

## REGISTERED OFFICE & PRINCIPLE PLACE OF BUSINESS

No. 361, 361/1, R.A.De Mel Mawatha, Colombo 03, Sri Lanka.

## TELEPHONE

+94 11 7 666 333/ 4

## FAX

+94 11 2 300 190

## EMAIL

info@pmf.lk

## WEB

www.pmf.lk

## REGISTRARS

SSP Corporate Services (Pvt) Ltd,  
No. 101, Inner Flower Road,  
Colombo 03, Sri Lanka  
Telephone; +94112573894,  
+94112576871  
Fax: +94112573609  
Email: sspsec@sltnet.lk

## AUDITORS

M/s. KPMG Chartered Accountants  
32A, Sir Mohamed Macan Maker  
Mawatha, Colombo 03.

## BRANCH OFFICES

Anuradhapura  
Colombo  
Elpitiya  
Gampaha  
Homagama  
Kandy  
Kurunegala  
Matale  
Matara  
Matugama  
Negombo  
Trincomalee  
Wellawatta

## BOARD OF DIRECTORS

Mr. C.P.Abeywickrama - Chairman  
Mr. K.R.P.Madusanka  
Mr. T. Waas  
Mrs. K. R. Wijesuriya  
Dr. N. De Silva

## BANKERS

People's Bank  
National Development Bank  
Hatton National Bank  
Commercial Bank  
Cargills Bank

## SUBSIDIARY COMPANY

PMB Services Limited

## VEHICLE YARDS

No. 49, Hiripitiya Road,  
Wellawa, Kurunagala,  
Sri Lanka

## TAX PAYER IDENTITY NUMBER (TIN)

134000228

## VAT REGISTRATION NUMBER

Not Registered

## CENTRAL BANK REGISTRATION NUMBER

LFC/043 (Under the Finance Business Act No. 42 of 2011)

## CREDIT AGENCY STATUS

An approved Credit Agency under the Mortgage Act No.6 of 1949 and the Trust Receipt Ordinance No.12 of 1947 by the department of Commerce.

## CREDIT RATING

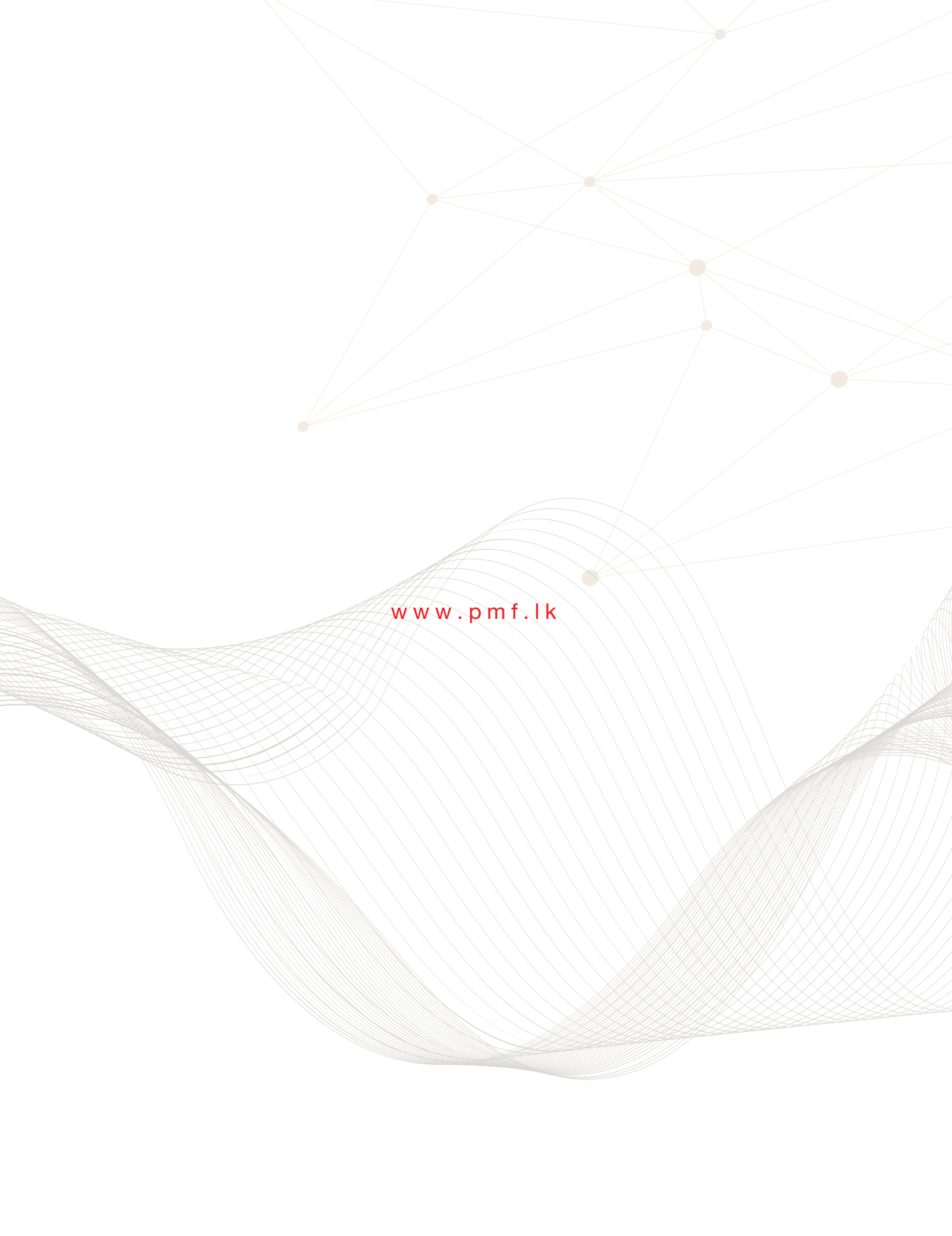
B+ (Stable) by Lanka Rating Agency

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[www.pmf.lk](http://www.pmf.lk)