UNITED IN STRENGTH

LCB Finance PLC / Annual Report 2023/24

UNITED IN STRENGTH

In the true spirit of our enterprise, we have persevered, recording a successful year of growth and united progression. This accomplishment is not just a testament to our collective effort but also to our unwavering commitment to support and enhance the grassroots initiatives of Sri Lanka. By working together diligently, we have not only enhanced our products and services but also contributed to the larger vision of strengthening our nation's economic and social fabric.
Bolstered by a strong and professional team, and guided by inspirational leadership, we at LCB Finance have been able to navigate through the complexities of this year through our collective resolve and unity.

In striving for excellence, we are not just building a business; we are helping to grow a nation and we continue to build on this momentum, fostering a culture of unity and progression, and setting new benchmarks in our mission of nation-building as we remain united in strength.

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About Us

Lanka Credit and Business Finance PLC, known as LCB Finance is a fully fledged emerging financial institution in Non-Banking Financial Institution (NBFI) Sector which is established with the approval of Central Bank of Sri Lanka. The Company serves over 35,000 customers across the country leveraging the extensive branch network distributed through 19 key locations.

VISION

To be the most popular Financial Service Provider in Sri Lanka.

MISSION

To excel in providing Financial Services to the rural communities and small and medium entrepreneurs by developing products and services which are designed, to meet the specific financial requirements relating to the ongoing economic activities in the respective catchment areas of our existing and expanded branch network and be the financier to the growth of the rural economy, whilst continuing to develop our business relationships with corporate clients.

VALUES

LCB Finance is committed to honesty, transparency, and accountability. We strive to maintain the highest ethical standards in all business aspects and build trust with our clients and partners. We are committed to continuously improving our products and services and staying ahead of industry trends and regulatory changes. We are also dedicated to promoting sustainability and social responsibility. We actively seek opportunities to support our communities and contribute to a better future for all. Our values and objectives are at the heart of everything we do, and we are committed to delivering excellence in all aspects of our business.

Financial Highlights

Performance Indicators	2023/2024	2022/2023	Change
Operating Results (Rs.)			
Income	1,368,715,429	1,104,019,440	24%
Interest Income	1,202,448,835	1,031,981,246	17%
Profit Before Taxation	137,557,883	212,553,791	-35%
Profit After Taxation	111,093,673	162,770,755	-32%
Financial Position (Rs.)			
Total Assets	7,013,430,881	5,877,500,382	19%
Loans & Advances, Leases and Hire Purchase	4,508,662,546	4,180,232,444	8%
Customer Deposits	3,270,214,658	2,380,339,395	37%
Borrowing	604,675,532	566,941,929	7%
Shareholders Fund	2,919,497,811	2,796,190,433	4%
Investor Information (Rs.)			
Net Asset Value per share	3.69	3.54	4%
Earning Per Share	0.14	0.21	-32%
Dividend Per Share	-	0.06	-100%
Market Value Per Share (Closing)	2.20	2.50	-12%
Statutory Ratios (%)			
Tier 1 Capital Adequacy Ratio (Minimum Requirment 8.50%)	42.07%	45.15%	-7%
Total Capital Adequacy Ratio (Minimum Requirment 12.50%)	42.07%	45.15%	-7%
Capital Funds to Deposits Liability Ratio (Minimum Requirment 10.00%)	85.08%	119.75%	-29%
Liquid Asset Ratio	16.76%	22.53%	-26%
Other Ratios (%)			
Return on Assets (Before Tax)	2.13%	4.15%	-49%
Return on Equity(After Tax)	3.89%	5.94%	-35%
Net Interest Margin (NIM)	10.75%	12.12%	-11%
Loan to Customer Deposits	137.87%	175.61%	-21%
Net Non-Performing Loans Ratio (Net NPL)	11.57%	8.97%	29%

Income

1,369 MN
2023/2024

24%

1,104 MN
2022/2023

Total Assets

7,013 MN
2023/2024

19%

5,877 MN
2022/2023

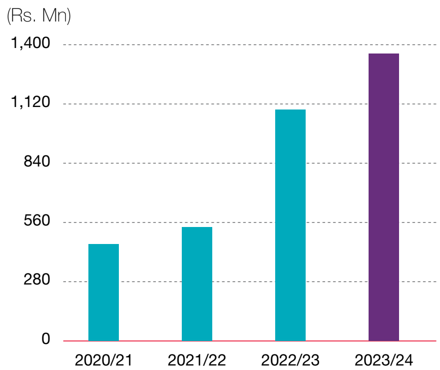
Deposits

3,270 MN
2023/2024

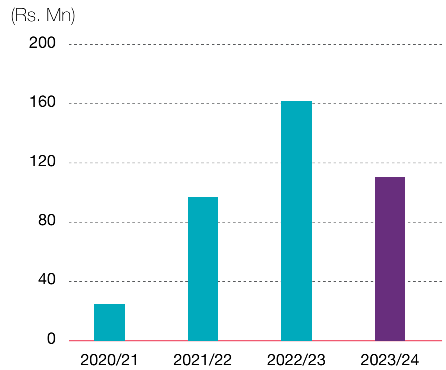
37%

2,380 MN
2022/2023

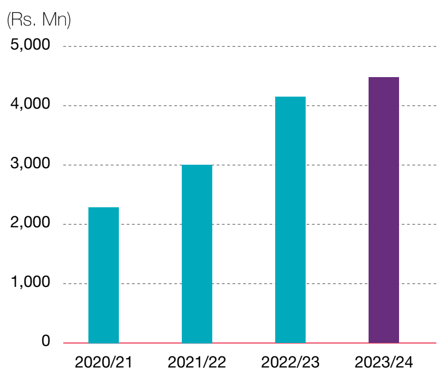
Income



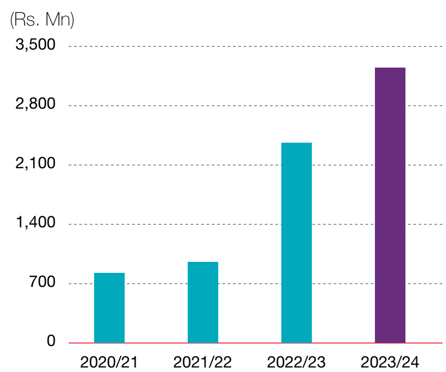
Profit for the Year



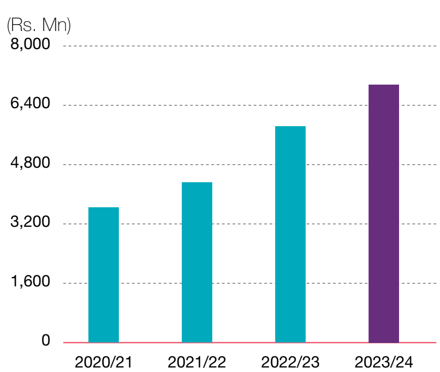
Loans and Advances



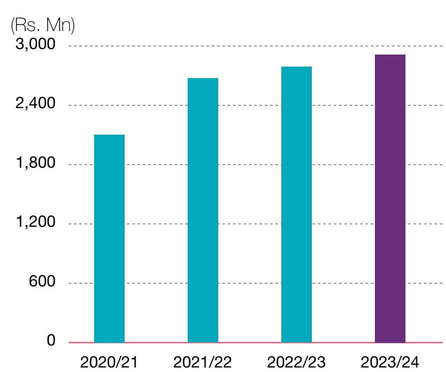
Customer Deposits



Total Assets



Total Equity



Non Financial Highlights

	2023/2024	2022/2023
Intellectual Capital		
Credit rating (LRA/ICRA)	B+ (POSITIVE)	B+ (STABLE)
Human Capital		
Total employees (N)	135	158
New Recruitment (N)	104	70
Staff Remunerations (Rs ‘000’)	193,798	145,811
Investment In training and development (Rs ‘000’)	1,500	1500
Social and relationship capital		
Interest to depositors (Rs ‘000’)	478,931	295,865
Employees (Rs ‘000’)	168,636	125,105
Community development program (N)	3	3
Access points (branches)	19	15
Manufactured Capital		
Branches (N)	19	15
New branch opening (N)	4	3
Fixed assets (Rs ‘000’)	177,519	132,131
Depreciation and amortization (Rs ‘000’)	76,799	61,957
Fixed asset addition (Rs ‘000’)	93,500	49,208
Investment in technology (Rs ‘000’)	10,818	1,284
Economic Value Distributed to		
Deposit (Rs ‘000’)	478,931	295,865
Employment (Rs ‘000’)	168,636	125,105
Government (Rs ‘000’)	98,788	97,661

About this Report

Lanka Credit and Business Finance PLC (LCB Finance) is pleased to present its 5th integrated annual report which provides an analysis of the financial and non-financial performance for the financial year ending 31 March 2024 in accordance with the reporting requirement of the integrated reporting framework which considers six-capital management reporting structure providing our stakeholders with an inclusive representation of the Company and its performance during the year under review.

SCOPE AND BOUNDARY

This report covers the operations of LCB Finance from 1st April 2023 to 31st March 2024 and presents information on the operating environment, financial and operations performance, and an overview of governance and risk management while offering an assessment of LCB's sustainable value creation process over the short-, medium- and long-term period.

The most recent past report for the Financial Year 2023/24 is available to our valued shareholders in only digital form to provide a comprehensive understanding of the business activities and performance of shareholder investments.

STANDARDS AND PRINCIPLES OF PREPARATION

The financial statements presented in this Report are developed and presented in compliance with the Sri Lanka Financial Reporting Standards, the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No.42 of 2011. The Management and the Board of Directors undertake the responsibility for the information included in this report as such adhering to governance practices.

INQUIRIES

Queries and clarifications, if any, on this annual report are to be directed to:
Name: G Ratnayake
Address: LCB Finance PLC
Tel: 0112825404
E-mail: ratnayake@lcbfinance.lk

Our Milestones

2016

- Incorporation of Lanka Credit & Business Limited under the Companies Act No.07 of 2007 (Reg. No. PB5329)
- Commenced business operations in the Galle branch

2017

- Branch network expanded to 03 new Branches at Karandeniya, Mirissa and Pelawatta

2018

- Lanka Credit and Business Limited acquired City Finance Corporation Limited with the approval of the Monetary Board of Central Bank of Sri Lanka
- Lanka Credit and Business Finance Limited was incorporated by changing the name of City Finance Corporation Limited Branch
- Addition of two branches to the branch network – Kohuwala and Rathgama

2019

- Relocation of the Galle branch from Pettigalawatta to Wackwella
- Addition of one more branch at Karapitiya
- Appointed as the CBSL authorised money dealer for currency exchange

2020

- Receipt of the South Asian Excellence Award 2019 as the Emerging Finance Company of the year
- Addition of a branch in Negombo and relocation of the Mirissa branch to Matara
- Procured e-Finance, the new core banking system with a revamping of Company's IT infrastructure

2024

- Tags award for Compliance certificate - 2023
- Increased the branches network to 19 branches
- Increased the deposit base to 3.3 bn
- Asset base was increased to 7 bn

2023

- Compliance Award in the category of "Emerging Listed Companies" at TAGS Awards Ceremony 2022
- Awarded the "Sustainable Finance Institute of the Year 2022" by the South Asian Business Excellence Awards 2022
- Expansion of branch network from 12 to 15
- Achieved a profit before tax of Rs. 212 Mn for the year ended 31st March 2023
- Achieved a total asset base of Rs. 5.8 Bn

2022

- The Company listed it's shares on CSE during the year and become a Public Listed entity
- Award received - The Most Committed Finance Company to the Rural Development By South Asian Business Awards 2021
- Increased share capital to 2.5 Bn incompliance with CBSL guidelines.
- Achieved profit before tax of 238.5 Mn for the year ended 31st March 2022
- Achieved a total asset base of 4.3 Bn within a very short period
- Expansion of Branch network from 8 to 12

2021

- Successful implementation of e-finance system
- Award received - Global Economics Awards 2021, Fastest Growing Financial Firm in Sri Lanka 2020/21
- Obtain SLIP system for direct customer transactions
- Increased share capital to 2 Bn in compliance with CBSL guidelines
- Improving ICRA rating from [SL]B stable outlook to [SL] B+ Stable outlook
- Achieved profit before tax of 100 Mn as at 31/03/2021
- Achieved a total asset base of 3.6 Bn within a very short period

Chairman's Message

"Our dedication to serve our customers goes beyond providing financial support as we see ourselves as partners in their journey towards growth and success."

As we glance back at the journey through 2023 /24 I am pleased to report our successful journey through many challenges with determination. The challenges we faced also served as opportunities for growth and we emerged stronger maintaining a sustainable growth.

At the heart of our success lies our mission to make a difference, to the communities we serve through our branch network.

In 2023/24 all businesses establishments and individuals encountered challenges amidst efforts of the state to stabilize the economy. Although a degree of macroeconomic stability was achieved through the IMF programs, concerns over debt servicing and energy pricing persisted and businesses continued to navigate through uncertainties as we have functioned as an intermediator in helping enterprises and individuals to overcome their financial challenges.

Steering the company along a growth trajectory was our goal. By utilizing emerging opportunities, we have sustained our momentum of growth and positioned ourselves for sustained growth in the years to come, due to the dedication and hard work of our team.

Our dedication to serve our customers goes beyond providing financial support as we see ourselves as partners in their journey towards growth and success. As we went through uncertain times, our commitment to standing by our customers remained, supporting them on the way towards achieving their aspirations.

Moreover, our core values and objectives served as a guiding light, enabling us to stay focused on our long-term goals and objectives amidst the challenges we faced, we are now positioned to face the future opportunities for growth.

Throughout the year, financial performance stands as a testament to our resilience and enduring dedication to serving our customers.

I am delighted to report that the company has once again delivered impressive results despite the challenging economic environment.

The company achieved during the year a total asset base of Rs. 7,013 Mn . and deposits surpassed Rs. 3,270 Mn.

Looking ahead, we remain committed to building on our achievements and further strengthening our position as a financial institution. Through continued improvements in technology, staff knowledge building and customer-centric initiatives. We will develop our ability to deliver sustained growth. and value creation for shareholders, customers and will continue to innovate, adapt, setting standards of excellence in the finance sector.

We will priorities enhancing and fostering lasting relationships with our customers and stake holders built on trust and through continuous review of products, services and delivery processes, staying true to our core values and by adopting changes, we are confident in our ability to thrive and create sustainable value for all stakeholders. To achieve this, we have implemented robust risk management framework, addressing various risks such as credit, market, operational, IT and compliance risks. Through a proactive approach, we anticipate and mitigate potential threats, ensuring financial stability and resilience of the company.

As we reflect on the past and look towards the future, I am infused with a sense of confidence for company's journey into the future,

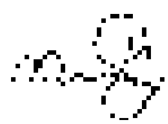
Our dedicated corporate Management and the team has been the cornerstone of our success and will be our driving force as we last to serve our customers, shareholders and other stakeholders with unwavering commitment.

I am grateful for the guidance of our esteemed Board of Directors. I extend my appreciation to Mr Emeritus Professor Mr Abeyratna Bandara former chairman who retired in July 2023, for his invaluable contribution during his tenure towards the growth of the company. Special thanks are due to Mr K G Leelananda Executive Director/ Chief Executive Officer for his leadership and guidance in navigating the complex financial landscape and in fostering a culture of team spirit within our company. Our gratitude extends to the Governor, the governing Board and officials of the Central Bank of Sri Lanka whose guidance and support has been crucial in maintaining a stable and conducive regulatory environment across our company.

I am grateful to our investors' confidence and our stakeholders' loyalty, including our customers who are essential part to our enduring success. Your trust in us has empowered us to reach where we are today.

We will continue to work hand in hand, united by our shared values and aspirations, to build a future where opportunities abound, and dreams are realized. I urge you to stay engaged, support our endeavors and collaborate with us as we embark on this path forward as there is no limit to what we can achieve together.

Thank you for your trust and your dedication



Mr. Dushmantha Thotawatta
Chairman

Chief Executive Officer's review

"Our loan book expanded 8% Deposits base also saw a healthy growth 37% Consequently, total assets expanded by 19.40% as of March 31, 2024."

As we stand self-assured for 2024 /25, amidst the challenges, I take this opportunity to recall the journey we have embarked upon and the vision that propelled us forward.

Our narrative is one of resilience in the face of adversity, of innovation amidst uncertainty and of unwavering commitment in an ever-changing environment. I take pride in our ability to emerge stronger, and steadfastly securing and expanding our market share, with our strategic business development and expansion plans.

Our ongoing investment efforts are directed towards enhancing our IT infrastructure and retaining IT talent, reflecting our unwavering commitment to comply with the relevant regulatory directives relating to Data security and resilience.

Despite the challenges stemming from Sri Lanka's economic revival and reform, we displayed unwavering resilience and adaptability during 2023/24. This resilience, is due to our dedicated team, our customers and stakeholders for their enduring support and trust placed on us.

Despite socio-economic hurdles, our teams demonstrated resilience, delivering tailored products and services to support our customers. Our dedication to customer service, talent development and succession planning initiatives, remained steadfast.

Looking forward, our focus is on SME support with special focus on women entrepreneurs, renewable energy investments, to positions us for sustainable growth.

Despite the challenges posed by macroeconomic factors, the company exhibited vigorous operational performance, showcasing resilience and the enduring strength of our long-term strategy.

Despite the challenges posed by the Rupee appreciation , our loan book expanded 8% Deposits base also saw a healthy growth 37% Consequently, total assets expanded by 19.40% as of March 31, 2024, compared to the previous financial year end.

After fn impairment provision for the year (covering both loans and advances and investments and operating expenses) our operating profit before taxes Rs. 137 Mn.

Amidst macro-economic challenges surrounding impairment provisioning impacting profitability, maintaining a robust capital base is imperative for sustained growth and resilience. Throughout the year, we remained steadfast in upholding prudent capital management practices, ensuring that our capital adequacy ratios consistently exceeded regulatory thresholds. We adopted a proactive approach, emphasizing capital management through frequent Assets and Liabilities Committee (ALCO) meetings.

Automation has been a focal point, optimizing processes across the board, from centralized credit evaluation to real-time monitoring of branch operations.

Our dedication is to empowering women and SMEs providing financial products and services specifically tailored to their need.

Through targeted resource allocation and succession planning, we foster an internal environment conducive to the advancement of women into middle and senior management positions.

Despite facing challenges, we maintain a strong focus on the quality of our portfolio while actively engaging in credit supervision activities

We acknowledge climate change as a shared responsibility and is committed to setup environmentally conscious corporate practices.

Looking forward to 2024/25, we acknowledge the persistent economic hurdles and reaffirm our dedication to resilience and preparedness for the future.

Backed by the courage and conviction of our skilled team and the unwavering trust of our customers , we approach the future with confidence and continued emphasis on supporting SMEs, advancing renewable energy endeavors and adopting embracing technological solutions as appropriate.

Concluding my review, I wish to extend my heartfelt gratitude to our esteemed customers and shareholders for their unwavering support throughout the years. I am deeply appreciative of the dedication and hard work demonstrated by our Corporate Management, Senior Management, and staff members

I am thankful for the invaluable guidance provided by the Chairman and the Board of Directors and the former Chairman Emeritus Professor Mr Abeyratna Bandara who retired in July 2023, in navigating unprecedented challenges faced by the company and positioning the company to what it is today.

I also wish to express my sincere appreciation to the Governor, members of the Governing Board and officials of the Central Bank of Sri Lanka for their guidance and support in maintaining a stable regulatory environment.

Special thanks are extended to our External Auditors, M/s Ernst & Young, for their professionalism and timely completion of the audit.

As we embark on our the journey to the unknown future let us resolve to serve our customers embracing changes, upholding our core values, and to make 2024/25 a year of unparalleled achievements, and shape a brighter, more inclusive future for all stakeholders and our dedicated team.

With focus on the power of unity in achieving great heights I quote "Alone we can do so little together we can do so much"

K G Leelananda
Executive Director/Chief Executive Officer

Value Creation Model

Input

Financial Capital
- Equity – **2.9 Bn**
- Debt – **604 Mn**
- Deposits – **3.3 Bn**

Manufactured Capital
- Branch Network – **19** branches
- Information and Communication Technology

Human Capital
- Healthy Work force
- Remuneration and performance-based rewards
- Training and development

Intellectual Capital
- Brand strength
- Investment in ICT

Social Capital
- Customer Base Social sustainability initiatives

Natural Capital
- Energy Consumption
- Water Consumption
- Paper Recycled

Process

Vision

Mission

Goal

Value creation

Funding
- Deposit Mobilization
- Bank Borrowings

Financing
- Loan
- Lease
- Gold Loan

Supporting
- Credit Department
- Recovery
- Finance Department
- Internal Audit
- IT
- HR
- Risk Department
- Marketing
- Legal
- Admin Department

Output	Value Created
Financial Capital ◉ PAT - **111Mn** ◉ ROE - **3.89%**	**Shareholder** ◉ Net Asset Per Value – **3.69** ◉ EPS – **0.14**
Manufactured Capital ◉ Branch Network – **19**	**Customers** ◉ Enhance operational capabilities, customer service, and security protocols ◉ Mitigating cyber threats and protecting customer data
Human Capital ◉ Employee Satisfaction ◉ Enhancing morale ◉ Productivity of Employees ◉ Training and Development	**Employees** ◉ Ensure gender representation and equal treatment across all levels of operations ◉ Career progression ◉ Work -Life balanced and Health Benefits ◉ Health and Safety practises to protect employees
Intellectual Capital ◉ Increase of productivity ◉ Credit Rating **B+**	**Regulator** ◉ Tax Paid – **Rs. 100 Mn** ◉ ensuring compliance with laws governing financial operations **Business Partners** ◉ Strong Supplier relationship ◉ Transparency
Social Capital ◉ Customer base - **35,000** ◉ Community development projects - **3**	**Local Communities** ◉ Supporting local development projects ◉ Contributes to community welfare and sustainable development
Natural Capital ◉ Monitoring and controlling the energy costs ◉ Reduced paper wastage costs	**Environment** ◉ Environmental considerations into its decision-making processes ◉ Focuses on green financing

Materiality Analysis

For a finance company involved in business leasing, business loans, and pawning, several material issues are relevant to both the company's operations and its stakeholders. These issues are crucial as they impact the company's sustainability, reputation, and overall success. Below is a breakdown of the key material issues:

1. IDENTIFICATION OF MATERIAL ISSUES

1.1 Credit Risk Management

The possibility that the other party or borrower won't fulfill its responsibilities, resulting in losses, is known as credit risk. This is especially important for finance organizations that offer credit facilities, loans, or leases.

High non-performing loan (NPL) levels, defaults, or insufficient provisioning can have a big effect on capital adequacy and profitability. Because it immediately impacts the company's risk profile and financial stability, this issue is significant.

1.2 Regulatory Compliance

For a finance company, adherence to financial regulations—such as capital adequacy, anti-money laundering (AML), and customer protection laws—is essential.

Significant penalties, license revocation, and reputational damage are all possible outcomes of noncompliance. Because it has an impact on the company's operational continuity and legal standing, this issue is significant.

1.3 Interest Rate Risk Management

Interest rate risk results from the possibility that shifts in interest rates will have an effect on the earnings of the organization, especially when it comes to lending and borrowing.

The value of interest-sensitive assets and liabilities, net interest income, and overall profitability are all susceptible to large fluctuations in interest rates. This matters because it affects the company's risk management plans and financial results.

1.4 Asset Quality and Valuation

The possibility of loan payback and the borrowers' creditworthiness are referred to as loan quality. Loans or advances that are past due or in default are considered non-performing assets.

A company's financial health can be seriously distorted by high levels of non-performing assets (NPAs), which can result in overvalued assets, underestimated provisions, and deceptive profitability. This is significant since it has an impact on the accuracy of the reported earnings and the balance sheet of the business.

Inaccurate fair value calculation may result in material misstatements in financial reporting, which may have an impact on regulatory compliance and investor choices. This matters since it affects how trustworthy the company's financial statements are.

Collateral overvaluation can result in inadequate provisioning and a delusion of security about the recoverability of loans. This matters because it affects how the business manages risk and accounts for losses.

1.5 Liquidity Management

The danger that a company's lack of liquid assets will prevent it from meeting its short-term financial obligations is known as liquidity risk.

Being unable to meet regulatory liquidity needs, fund operations, or avoid financial trouble can all result from inadequate liquidity. This is important since it has the potential to seriously impair the business's capacity to operate profitably.

1.6 Environmental, Social, and Governance (ESG) Risks

ESG risks are associated with a company's social responsibility, environmental impact, and governance standards. Stakeholders are becoming more and more concerned about these challenges.

ESG concerns are significant because they have an impact on stakeholder views and long-term sustainability. They can also have an impact on the company's reputation, capacity to obtain financing, and regulatory compliance.

1.7 Market Risk and Strategic Risk

Market risk is the possibility of suffering losses as a result of shifts in market values, including interest rates, currency exchange rates, and stock prices.

The risk connected to the company's business plan, known as strategic risk, includes the dangers of breaking into new markets, introducing novel products, or altering the competitive landscape.

Significant financial losses can result from market volatility, especially if the organization has a high exposure to assets that are subject to fluctuations in the market. This is significant since it may have an effect on the risk exposure and financial performance of the business.

Inadequate strategic choices may result in monetary losses, dwindling market share, or even company collapse. Because it affects the company's long-term health and growth prospects, this is significant.

1.8 Technology and Innovation

Cybersecurity is defending against online attacks on the company's digital assets, which includes customer data. Data protection guarantees the safe processing, storing, and transmission of client and business data.

Significant financial losses, legal ramifications, regulatory fines, and reputational harm can result from a data breach or cyberattack. Because it directly affects stakeholders' trust in the organization and its capacity to function securely, this issue is significant.

System failures or outages can cause operational disruptions for businesses, which can result in lost sales, irate clients, and legal problems. Because it affects operational effectiveness and service continuity, this issue is significant.

2. MATERIALITY ASSESSMENT PROCESS:

- **Identify Stakeholders**
- Description: Begin by determining the important parties whose decisions may have an impact on the business or who are affected by its activities. Typically, stakeholders consist of members of the community, suppliers, employees, investors, and regulators.
- Relevance: Determining what matters to stakeholders requires an understanding of their expectations.

Actions:

- Organize stakeholders according to their power and level of interest in the business.
- Consult with them via questionnaires, interviews, or focus groups to learn about their priorities.

- **Determine Potential Material Issues**
- Description: Make a list of possible material difficulties by taking into account both external and internal variables. These problems may involve market trends, ESG considerations, legal constraints, financial hazards, and more.
- Relevance: makes sure that any potential concern that can be important to the business and its stakeholders is taken into account.

Actions:

- Examine industry standards, including those issued by the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB).
- To identify possible problems, hold internal workshops with important departments (such as risk management, finance, and compliance).
- Look for pertinent issues in the company's past reports, risk assessments, and business strategy.

- **Engage with Stakeholders**
- Description: Directly communicate with stakeholders to ascertain their priorities and concerns and to confirm the list of possible material issues.
- Relevance: Input from stakeholders is essential in determining which issues are, from an external standpoint, actually material.

Actions:

- Use surveys or interviews to get input on the issues that stakeholders believe are most important.
- To get deeper into particular issues, host roundtable discussions or stakeholder forums.

- **Prioritize Material Issues**
- Description: Sort the issues into priority lists according to how important they are to the company and its stakeholders. Many times, a materiality matrix is used for this.
- Relevance: Helps in concentrating resources on the most important problems that might have the biggest effects on stakeholder relations and the success of the business.

Actions:

- To plot issues according to two dimensions—importance to stakeholders and influence on the business—use a materiality matrix.
- Prioritize issues based on their overall significance, taking into account elements including stakeholder interest, legal requirements, and financial impact.

- ***Example of Key Material Issues:***
- *High Priority: Credit risk management, regulatory compliance, data privacy, and responsible lending.*
- *Medium Priority: Employee development, market competition, and asset quality.*
- *Low Priority: Minor environmental impacts or less critical operational processes.*

- **Integrate Material Issues into Reporting and Strategy**
- Description: Align the identified material issues with the company's strategic initiatives and incorporate them into the company's non-financial reporting, such as the annual report or sustainability report.
- Relevance: Ensuring that the company's strategy matches these values and that the material challenges are handled transparently.

Actions:

- Create measurements and disclosures for any significant issue that will be included in the company's reports.
- Include significant challenges in the company's risk management and strategic planning procedures.
- Establish objectives, monitor developments, and provide regular updates on important material issues.

- **Monitor and Review Materiality Regularly**
- Description: The materiality evaluation should be evaluated frequently to take into account modifications to the business environment, stakeholder expectations, and company strategy. It should not be done only once.
- Relevance: guarantees that the business continues to be adaptable to new possibilities and challenges.

Actions:

- Establish a routine review procedure to examine the materiality assessment, maybe once a year or twice a year.
- Modify the materiality matrix and priority in light of fresh information, input from stakeholders, or changes in the marketplace.
- Update stakeholders on any noteworthy modifications to the pertinent concerns.

Materiality Analysis *Contd.*

3. IMPACT AND RELEVANCE

3.1 Credit Risk Management

- **Relevance to Operations:** In lending and leasing, it is essential to manage the risk of borrower default. To guarantee that only creditworthy customers receive loans and leases, the business needs to have strong credit evaluation procedures in place.
- **Stakeholder Impact:** The management of credit risk by the company is a matter of concern for investors, regulators, and customers alike, since it has a direct impact on financial stability and profitability.

3.2 Regulatory Compliance

- **Relevance to Operations:** Avoiding penalties and keeping a license to operate require adherence to financial regulations, which include lending laws, consumer protection legislation, and anti-money laundering (AML) standards.
- **Stakeholder Impact:** Due of the potential for penalties, damage to a company's reputation, and interruptions to operations, regulators and investors are especially concerned about compliance.

3.3 Interest Rate Risk Management

- **Relevance to Operations:** Interest rate fluctuations may have an impact on how profitable loans and leases are. To keep the company's margins safe, interest rate risk must be effectively managed.
- **Stakeholder Impact:** Since interest rate risks have an impact on returns and financial stability, investors are very interested in how well the company manages these risks.

3.4 Asset Quality and Valuation

- **Relevance to Operations:** The quality and precise assessment of underlying assets are crucial for corporate leasing and Gold Loan. Deteriorating asset quality or overvaluation may result in large losses in value.
- **Stakeholder Impact:** Because it affects the financial statements and risk profile, how the company values its assets worries investors and auditors.

3.5 Liquidity Management

- **Relevance to Operations:** Sustaining sufficient liquidity is imperative for fulfilling immediate obligations, especially for a company whose loan and lease revenue is subject to fluctuations.
- **Stakeholder Impact:** Since liquidity is a crucial sign of a company's financial stability and ability to continue operations in the event of an economic crisis, investors and rating agencies keep a careful eye on it.

3.6 Environmental, Social, and Governance (ESG) Considerations

- **Relevance to Operations:** The business must address concerns including the environmental effect of its operations, social duties, and governance standards as ESG considerations gain importance.
- **Stakeholder Impact:** Companies are being evaluated more and more by the public, investors, and consumers based on their environmental, social, and governance (ESG) performance. This evaluation can affect consumer loyalty and investment choices.

3.7 Market Competition and Strategy

- **Relevance to Operations:** Maintaining market share and profitability in the financial services industry requires an understanding of and capacity to react to demands from competitors.
- **Stakeholder Impact:** The competitive strategy of the corporation and its flexibility in responding to market shifts are of significance to analysts and investors.

3.8 Technology and Innovation

- **Relevance to Operations:** Efficiency and customer satisfaction can be increased by implementing new technology in risk management, process automation, and customer service.
- **Stakeholder Impact:** Investors and customers seek for businesses that use technology to cut costs and enhance services since it can result in improved financial performance and Customer experiences.

4. STRATEGIC RESPONSE

Regulatory Compliance and Risk Management

- **Adherence to Regulations:** Develop policies and internal controls
- **Risk Assessment:** Implementing robust risk assessment frameworks to identify and manage financial, operational, and reputational risks. This includes stress testing, scenario analysis, and maintaining a strong risk management infrastructure

Environmental, Social, and Governance (ESG) Considerations

- Sustainable Financing
- Diversity and Inclusion

Digital Transformation and Innovation

- Investing in advanced cybersecurity measures to protect sensitive financial data from breaches and fraud. This involves regular updates to security protocols and staff training on best practices.
- Improving customer service and engagement through digital platforms, offering personalized financial products and services, and ensuring transparency and accessibility in financial dealings.
- Adopting and integrating financial technologies (fintech) to enhance operational efficiency, improve customer experience, and stay competitive

5. INTEGRATION WITH BUSINESS STRATEGY

- Identify how material issues align with the company's strategic priorities
- Develop specific, measurable goals related to material issues that support the broader business strategy.
- Ensure that the top management is actively involved in overseeing material issues
- Assign senior leaders specific responsibilities for addressing material issues. For instance, having a Chief Risk Officer (CRO)
- Create and update policies that reflect material issues and integrate them into everyday business operations
- Ensure that operational procedures and practices are designed to address material issues effectively.
- Develop Key Performance Indicators (KPIs) and metrics that measure progress on material issues.
- Incorporate material issues into regular business reporting, such as annual reports or sustainability disclosures. This ensures transparency and demonstrates how material issues are being managed in relation to the overall strategy
- Identify key stakeholders affected by or interested in material issues. Engage with them to understand their concerns and expectations, and integrate their feedback into strategic planning.
- Develop a communication strategy to address material issues transparently.

6. PERFORMANCE METRICS

Compliance Rate: Percentage of regulatory requirements met or exceeded. This can be tracked through internal audits and compliance checks.

Incident Reports: Number of regulatory breaches or non-compliance incidents reported. A reduction in incidents indicates improved compliance.

Fines and Penalties: Total amount of fines or penalties incurred due to non-compliance. Lower amounts suggest better adherence to regulations.

Risk Mitigation Effectiveness: Percentage of identified risks that have mitigation plans in place and are actively managed. This reflects the robustness of risk management strategies.

Loss Event Frequency: Number of significant loss events (e.g., financial losses due to fraud, errors, or market fluctuations) over a specific period. Fewer events indicate more effective risk management.

Stress Test Results: Performance in stress tests and scenario analyses, including how well the company withstands extreme but plausible scenarios.

Incident Response Time: Average time taken to detect, respond to, and resolve cybersecurity incidents. Shorter times suggest more effective cybersecurity measures.

Data Breach Frequency: Number of data breaches or security incidents reported. Fewer breaches indicate stronger data protection practices.

Compliance with Data Protection Regulations: Percentage of compliance with data protection laws and standards.

Customer Satisfaction Score (CSAT): Average score given by customers regarding their experience with the company.

Return on Equity (ROE): Ratio of net income to shareholders' equity. Higher ROE indicates effective use of equity to generate profits.

Capital Adequacy Ratio (CAR): Ratio of a company's capital to its risk-weighted assets, indicating financial stability and ability to absorb losses.

7. STAKEHOLDER ENGAGEMENT

- **Identify Key Stakeholders**

Internal Stakeholders: Employees, management, and board members. Internal stakeholders are crucial as they are directly involved in implementing and supporting strategies related to material issues.

- **External Stakeholders:**

Customers: Their preferences and concerns can influence product development and service offerings.

Investors and Shareholders: They focus on financial performance, risk management, sustainability and return on investment.

Regulators and Policy Makers: They enforce compliance and regulatory standards.

Suppliers and Partners: They impact the company's supply chain and operational practices.

Community and Advocacy Groups: They can provide insights into social and environmental impacts.

Media: They play a role in shaping public perception and can amplify stakeholder concerns.

- **Develop an Engagement Plan**

Engagement Objectives: Define what the company aims to achieve through stakeholder engagement. This could include gathering feedback, building relationships, or informing stakeholders about material issues and responses.

Methods and Channels: Choose appropriate methods for engagement based on stakeholder preferences and the nature of the issue. This could include surveys, focus groups, interviews, public forums, or digital communication channels.

Frequency: Determine how often engagement activities will take place. This could be ongoing or at specific intervals depending on the issue and stakeholder needs.

Materiality Analysis *Contd.*

Conduct Meaningful Dialogue

Transparency: Share information openly about material issues, the company's strategies, and performance. Transparency builds trust and ensures stakeholders are well-informed.

Active Listening: Engage in two-way communication by actively listening to stakeholders' concerns, suggestions, and feedback. This shows respect and helps identify key issues that may not have been previously considered.

Responsiveness: Address stakeholder concerns in a timely manner. Acknowledge receipt of feedback and provide updates on how it is being addressed.

Incorporate Feedback into Strategy

Issue Identification: Use stakeholder feedback to identify and prioritize material issues. For example, if investors express concerns about environmental impact, it may lead to a greater focus on sustainability.

Strategy Adjustment: Adjust strategies and policies based on stakeholder input. This could involve refining risk management practices, enhancing customer service, or improving compliance measures.

Reporting and Accountability: Include stakeholder feedback and responses in reports and disclosures. Highlight how stakeholder engagement has influenced decision-making and strategy.

Measure and Report Engagement Outcomes

Engagement Metrics: Track metrics such as the number of engagement activities conducted, stakeholder participation rates, and types of feedback received. This helps in evaluating the effectiveness of engagement efforts.

Impact Assessment: Assess the impact of stakeholder engagement on the company's strategies and performance. This includes evaluating whether stakeholder concerns have been addressed and how it has influenced outcomes.

Reporting: Include stakeholder engagement activities and outcomes in sustainability reports or other public disclosures. This demonstrates commitment to transparency and accountability.

Build Long-Term Relationships

Continuous Engagement: Foster ongoing relationships with stakeholders rather than viewing engagement as a one-time activity. Regular interactions help build trust and facilitate better collaboration.

Partnerships and Collaborations: Engage in partnerships or collaborations with stakeholders to address material issues. This can lead to more effective solutions and shared benefits.

Recognition and Acknowledgment: Recognize and acknowledge stakeholder contributions and feedback. This can include public recognition, rewards, or inclusion in company initiatives.

Address Emerging Issues

Proactive Engagement: Stay ahead of emerging issues by proactively engaging with stakeholders on potential future concerns. This can help in anticipating and preparing for new material issues.

Adaptation: Be flexible and ready to adapt engagement strategies based on evolving stakeholder expectations and the changing business environment.

SWOT Analysis

S

1. **Strong Market Position:**
   - Established presence and brand recognition in the financial sector.
   - Broad customer base across diverse regions, particularly in rural areas.
2. **Innovative Financial Solutions:**
   - Diverse product offerings tailored to customer needs, including digital banking services.
   - Focus on financial literacy and support for self-employment through cooperative societies.
3. **Commitment to Compliance:**
   - Adherence to regulatory requirements by the Central Bank of Sri Lanka (CBSL) and stock market standards.
   - Robust governance and risk management frameworks.
4. **Technological Advancements:**
   - Strong IT infrastructure and digital platforms.
   - Continuous investment in cybersecurity and data analytics.
5. **Skilled Workforce:**
   - Talented and dedicated employees with strong leadership

W

1. **Limited Geographic Reach:**
   - Focus on rural and agricultural areas though cooperate socialites may limit urban market penetration.
2. **Resource Constraints:**
   - Potential limitations in capital for large-scale investments.
   - Need for continuous investment in technology and infrastructure.
3. **Operational Challenges:**
   - Complexities in managing diverse product lines and services.
   - Potential inefficiencies in manual processes and legacy systems.
4. **Economic Dependence:**
   - Vulnerability to fluctuations in the agricultural sector and rural economies.
   - Dependence on local economic conditions and regulatory changes.

O

1. **Market Expansion:**
   - Opportunity to expand into urban markets and diversify customer base.
   - Potential to enhance product offerings and enter new financial segments.
2. **Digital Transformation:**
   - Increasing demand for digital banking and mobile solutions.
   - Opportunities to leverage technology for operational efficiency and customer engagement.
3. **Partnerships and Collaborations:**
   - Potential collaborations with fintech companies and technology providers.
   - Strategic alliances to support SMEs and women entrepreneurs.
4. **Sustainability Initiatives:**
   - Growing interest in renewable energy and green finance.
   - Opportunities to develop environmentally sustainable products and services.
5. **Economic Growth:**
   - Positive economic reforms and development in Sri Lanka.
   - Potential to support infrastructure and development projects.

T

1. **Economic Volatility:**
   - Impact of macroeconomic fluctuations and currency devaluations.
   - Potential downturns in the agricultural sector affecting loan repayments.
2. **Regulatory Changes:**
   - Changes in Finance Company regulations and compliance requirements.
   - Increased scrutiny and reporting obligations from regulatory bodies.
3. **Intense Competition:**
   - Growing competition from local and international financial institutions.
   - Pressure to innovate and offer competitive pricing and services.
4. **Technological Risks:**
   - Cybersecurity threats and data breaches.
   - Rapid technological changes requiring continuous adaptation.
5. **Social and Environmental Challenges:**
   - Potential adverse impacts of climate change on agricultural communities.
   - Social unrest or political instability affecting operations and growth.

Conclusion

LCB's SWOT analysis highlights its strong market position and innovative financial solutions, while also identifying areas for improvement and potential risks. By leveraging its strengths and addressing weaknesses, LCB can capitalize on opportunities for growth and navigate the challenges posed by the dynamic financial landscape.

UNITED IN TEAMWORK

Management Discussion and Analysis

GLOBAL ECONOMIC OUTLOOK

In 2023, the global economy demonstrated resilience despite encountering several challenges, including the ongoing recovery from the COVID-19 pandemic, international conflicts, and significant cost-of-living pressures. The positive effects of global monetary policy tightening have gradually brought both headline and core inflation under control.

However, the global economy continued to face substantial headwinds throughout the year, primarily driven by geopolitical tensions in Eastern Europe and developments in the Middle East. These factors had a direct impact on inflation levels, which remained elevated, resulting in increased cost-of-living pressures worldwide.

Looking ahead, global economic growth is projected to reach 3.1% in 2024. Asia is expected to be the fastest-growing region, continuing to drive global growth with an impressive expansion rate of 5.4%. This robust performance underscores Asia's pivotal role in sustaining global economic momentum.

Global headline inflation is anticipated to decline from 6.8% in 2023 to 5.2% in 2024. Nevertheless, price pressures remain elevated in many countries, and any further escalation of geopolitical conflicts in the Middle East could pose a threat to these inflation control efforts.

He disruptions in energy and food markets caused by ongoing conflicts, coupled with the unprecedented tightening of global monetary conditions to combat decades-high inflation, are expected to slow global economic growth from 3.5% in 2022 to 3.0% in 2023. This projected growth rate is significantly below the historical average of 3.8%, reflecting the substantial impact of current economic challenges.

Despite these obstacles, global inflation is on a downward trend. It is expected to decrease from 8.7% in 2022 to 6.9% in 2023 on a year-on-year basis. This deceleration indicates that measures taken to manage inflation are beginning to yield results, contributing to a more stable economic environment.

Central banks play a crucial role in managing economic fluctuations and achieving price stability. Many advanced economies have set explicit inflation targets, and an increasing number of developing countries are adopting inflation targeting as a strategy to ensure low and stable inflation.

(Source: IMF World Economic Outlook – October 2023)

LOCAL ECONOMIC OUTLOOK

According to the National Accounts Estimates published by the Department of Census and Statistics, the Sri Lankan economy recorded an annual contraction of 2.3% in 2023, primarily due to significant contractions reported in Q1 and Q2. However, there were notable signs of stabilization and recovery in the latter half of the year. The Colombo Consumer Price Index (CCPI) reached single digits in July 2023 after peaking at 69.8% in September 2022 and remained relatively stable due to tight monetary policy, appreciation of the domestic currency, and falling global commodity prices.

Sri Lanka's official reserves stood at USD 3.7 billion in November 2023 and exceeded USD 4.3 billion in December, marking the highest level since the economic crisis began. This improvement was supported by net inflows into the government securities market, net purchases by the Central Bank of Sri Lanka (CBSL), and budget support from international financial institutions. The CBSL began relaxing its monetary policy stance in June 2023, ending the most stringent monetary policy tightening measures. This policy easing, amounting to a cumulative 650 basis points, was facilitated by a sharp deceleration in inflation from 69.8% year-on-year in September 2022 to 4.0% in December 2023, driven by disinflation in food prices.

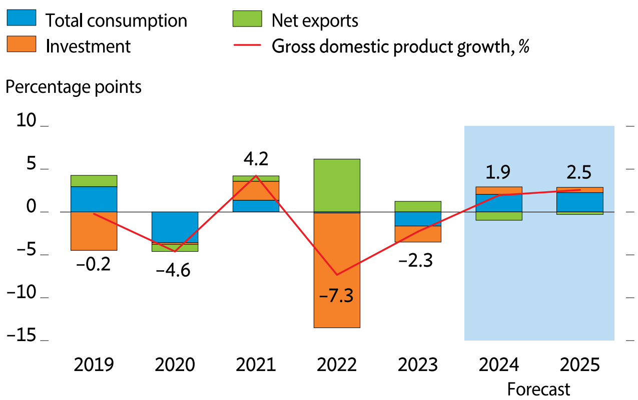
The exchange rate, which had depreciated sharply in 2022, witnessed notable appreciation and stabilization during 2023 due to IMF fund facilities, worker remittances, and tourist earnings. With the removal of the guidance peg in March 2023, the currency appreciated against the United States dollar due to weak demand.

The Sri Lankan economy contracted in the first half of 2023 but grew by 3.0% in the second half. The agriculture and services sectors grew by 2.5% and 7.0%, respectively, compared to the first half of 2023, while the industry sector contracted by 0.1%. Despite inclement weather dampening performance, agriculture grew by 2.6% in 2023, supported by improved harvests of rice, fruit, vegetables, and spices. The industry sector shrank by 9.2%, with manufacturing contracting by 3.2% and construction by 20.8%, constrained by higher taxes and low demand. The services sector declined by 0.2%, despite a 26.0% increase in accommodation and food and beverage services due to improved tourist arrivals, impacted by higher direct and indirect taxes and dampened consumer and investor sentiment.

Weak domestic demand dragged down overall economic performance. Consumption fell by 2.2% in 2023, with private consumption declining by 1.6% due to higher prices, and government consumption declining by 5.4% due to tight fiscal space. Gross capital formation also declined by 7.9%, with gross fixed capital formation down by 9.3%. However, growth in net exports of goods and services remained positive due to import restrictions in the first half of 2023.

Figure 2.21.4 Demand-Side Contributions to Growth

Domestic demand contracted in 2023 as total consumption declined.



Sources: Department of Census and Statistics of Sri Lanka; Asian Development Bank estimates.

Youth unemployment has been a persistent issue, increasing steadily to 26.5% in 2021 and 22.7% in 2022, compared to 21.4% in 2018. Addressing this will require shifting towards an outward-oriented and private sector-driven economy that can create formal and quality jobs, which is essential for reducing poverty and preventing vulnerability to falling back into poverty.

(Source: Sri Lanka Country Partnership Strategy (2024–2028)- Asian Development Bank / Asian Development Outlook (ADO) April 2024: Sri Lanka)

NON-BANK FINANCIAL SECTOR (NBFS)

The Non-Bank Financial Sector (NBFS) is poised to play a pivotal role in enhancing access to efficient and affordable financial services through the refinement of payment and settlement systems. Despite facing the challenges of economic contraction, particularly evident in the Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs), these entities managed to sustain their expansion trajectory throughout the fiscal year 2022.

By the conclusion of 2022, the NBFS sector's total assets reached a significant milestone, amounting to Rs. 1,611.2 billion, constituting a noteworthy 5.2% share of Sri Lanka's overall financial system assets. This achievement underscores the sector's resilience and potential for further growth. To fortify this stability and propel growth, the implementation of Phase II of the Masterplan for Consolidation of Non-Bank Financial Institutions is scheduled to commence in 2024. This strategic initiative aims to bolster the foundations of Non-Bank Financial Institutions (NBFIs) and ensure their alignment with the prevailing market dynamics.

In parallel, efforts to enhance regulatory frameworks are underway, with amendments to key acts such as the Finance Business Act No. 42 of 2011 and Finance Leasing Act No. 56 of 2000 on the agenda. These amendments, coupled with the introduction of new rules and regulations, are expected to fortify the sector's resilience and contribute to its long-term stability.

A significant development on the regulatory front is the proposed Microfinance and Credit Regulatory Authority Act, spearheaded by the Central Bank. This legislative initiative seeks to elevate market conduct standards, bolster consumer protection measures, and extend regulatory oversight to encompass unregulated moneylenders alongside Licensed Microfinance Companies. The anticipated passage of this act is poised to usher in a new era of regulatory robustness and accountability within the NBFS sector.

However, the sector continues to grapple with challenges, notably higher operational costs compared to traditional banks. This disparity is primarily attributed to elevated borrowing costs and the management of customer deposits. Consequently, mitigating credit risks while maintaining compliance with stringent regulatory standards remains a key priority for NBFIs.

The performance of the NBFS sector is also significantly influenced by external factors, including global economic trends, geopolitical events, and shifts in international trade dynamics. Throughout the fiscal year 2023/24, the sector navigated through unforeseen economic changes and fund mismatch issues arising from sudden increases in deposit rates, underscoring the importance of adaptability and resilience in the face of external uncertainties.

An in-depth analysis of the NBFS sector's employment landscape reveals a strategic focus on fostering job creation within emerging sectors such as tourism, information technology (IT), and both local and foreign education. Additionally, concerted efforts are underway to provide financing support to the cooperative sector in rural areas, thereby contributing to workforce participation and unemployment rate trends.

(Source: statement on monetary and financial sector policies for 2024 and beyond central bank of Sri Lanka | 10 January 2024/ CBSL Annual report 2022)

Financial Capital

For FY 2023/24, the company saw a substantial 17% increase in interest income, reaching LKR 1,202 million compared to LKR 1,032 million in the previous fiscal year

FINANCIAL PERFORMANCE AND GROWTH ANALYSIS FOR FY 2023/24

For the fiscal year 2023/24, the sector demonstrated robust financial performance, with total assets surging by 19% to an impressive LKR 7,013 million. This notable growth can be attributed to heightened demand for credit and increased investments in government securities, both of which significantly bolstered the company's asset base. A substantial contributor to this growth was the marked increase in gross loans, signaling a surge in lending activities across the sector. Additionally, the expansion of the deposit base highlighted increased confidence and engagement from depositors, underscoring the sector's substantial financial footprint and its pivotal role in the broader economy.

KEY TRENDS

Among the notable trends, lease activities experienced a remarkable 73% increase, reflecting the growing importance of leasing as a viable financing mechanism. This surge underscores a shift towards alternative financing options and highlights the sector's ability to adapt to evolving market needs. Furthermore, investment in Unit Trusts saw an extraordinary 297% rise, indicating a strong interest in investment opportunities offered by the sector. These trends illustrate the dynamic nature of the capital sector and its responsiveness to market changes, positioning it to drive future economic growth and financial inclusion.

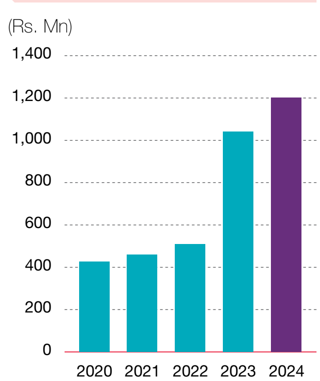
INCOME STATEMENT

Interest Income

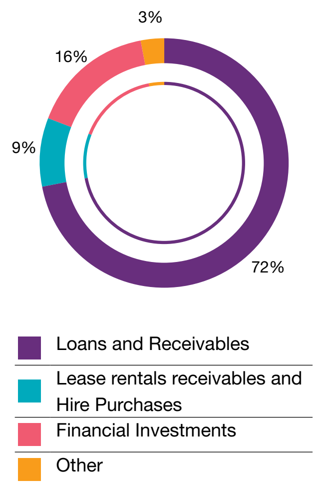
For FY 2023/24, the company saw a substantial 17% increase in interest income, reaching LKR 1,202 million compared to LKR 1,032 million in the previous fiscal year. This impressive growth was primarily driven by a 34% rise in interest income from leasing activities, reflecting the significant expansion of the leasing portfolio.

Interest income from loans and receivables grew by 22%, reaching LKR 866 million, up from LKR 710 million in the prior year. Income from lease rentals and hire purchases also saw notable growth, climbing to LKR 110 million from LKR 82 million, marking a 34% increase. However, interest income from financial investments experienced a slight decline, decreasing by 8% to LKR 195 million from LKR 212 million. Despite this, overall interest income growth remained positive, supported by strong performance in other segments. Penalty interest also increased by 18%, rising to LKR 31 million from LKR 26 million.

Interest Income



Composition of Interst Income

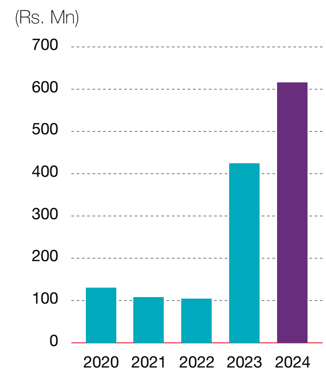


Interest Expenses

Interest expenses experienced a significant increase of 45% in the financial year 2023/24, reaching LKR 620 million compared to LKR 427 million in the previous year. This rise can be attributed largely to the upward trend in market interest rates throughout the year, which impacted the cost of borrowing and financing.

In addition to the heightened interest expenses, the financial year also saw a substantial increase in customer deposits, which grew by LKR 889 million. This marks a 37% rise compared to the previous year, reflecting our continued efforts to attract and retain customer funds. The growth in deposits not only demonstrates increased customer trust and confidence but also provides a solid foundation for our future lending activities and overall financial stability.

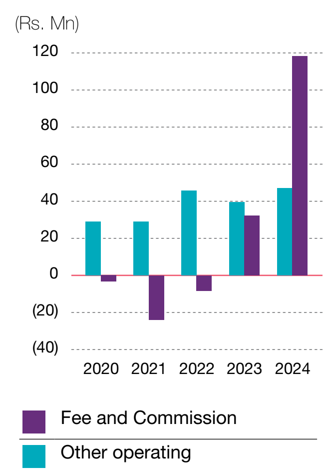
Interest Expenses



Non-Interest Income

The company's non-interest income saw a notable increase of 19%, reaching LKR 47 million in 2023/24 compared to LKR 39.5 million in 2022/23. This growth was primarily driven by the expansion of our loan and lease portfolio, which contributed to higher fee-based earnings and service charges. The strategic emphasis on diversifying income streams and enhancing our financial products' attractiveness has resulted in increased customer engagement and transaction volumes, thereby boosting our non-interest income.

Non-Interest Income



Additionally, other operating income experienced a remarkable surge of 267%, rising to LKR 118 million. This significant increase was mainly attributed to profits from our unit trust investments, which performed exceptionally well during the financial year. Our investment strategy focused on maximizing returns and capitalizing on market opportunities, leading to substantial gains. This performance underscores our commitment to generating diversified revenue streams and enhancing the overall financial health of the company.

Operational Expenses

The company's operating expenses increased by 28% compared to the previous financial year, reflecting a significant rise in both personnel costs and other overhead expenses. The personnel costs surged to LKR 194 million, driven by several key factors. Firstly, there were 104 new recruits during the year, hired to staff our newly opened branches, which was essential for supporting our expansion strategy. Additionally, salary increments and performance-based promotions, accompanied by corresponding salary increases, contributed to higher personnel expenses. Inflation adjustments also played a role, as the company sought to ensure that employee compensation remained competitive and in line with rising living costs.

Moreover, office and other administrative expenses saw an increase due to high inflation, which led to a rise in the prices of goods and services. This included costs related to utilities, supplies, and general office maintenance. The company continues to monitor these expenses closely, seeking efficiency improvements and cost-saving measures to manage the impact of inflation while maintaining the quality of operations and support for business growth.

Impairment

During the financial year 2023–24, the company remained committed to improving its credit quality, as evidenced by its approach to managing impairments. The company allocated LKR 122 million as impairment charges for the year, marking a 35% increase compared to the previous year. This rise in impairment charges reflects our proactive stance in recognizing potential credit losses and ensuring sufficient provisions to mitigate risk.

Despite efforts to maintain high credit standards, the Net Non-Performing Loan (NPL) ratio increased to 11.57% for FY 2024, up from 9.09% in the previous year. This increase indicates a slight deterioration in asset quality, suggesting that some borrowers faced challenges in meeting their obligations, potentially due to economic factors and market conditions.

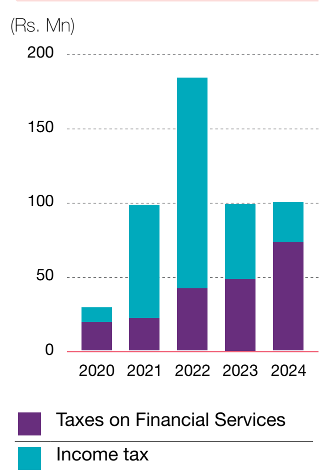
The company calculates impairments using a comprehensive approach that includes assessing the Loss Given Default (LGD), Probability of Default (PD), and Economic Factor Adjustment. These assessments are based on the company's historical data and market forecasting information provided by the Central Bank of Sri Lanka. By utilizing these sophisticated metrics, the company strives to accurately predict credit risk and maintain a robust balance sheet, ensuring its financial stability and resilience in changing economic environments.

Taxation

During the financial year 2023/24, the company's tax on financial services rose by 51%, reaching LKR 72.3 million compared to LKR 47 million in the previous year. This increase was largely due to the introduction of the Social Security Contribution Levy (SSCL), which significantly impacted the tax expenses.

In contrast, the company's income tax decreased to LKR 26 million for the 2023/24 financial year, down from LKR 49 million in the 2022/23 financial year. This reduction reflects changes in tax liabilities and strategic financial management.

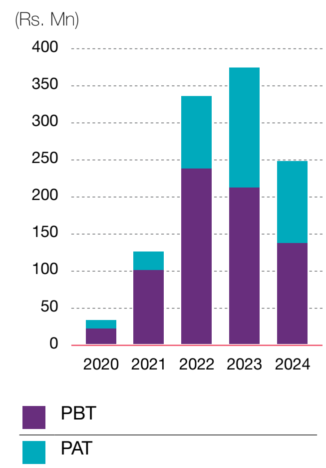
Taxation



PROFITABILITY

On the profitability front, the company reported a profit of LKR 123 million for FY 2023/24, down from LKR 163 million in the previous year. This decline in profit, while significant, reflects the challenges faced in a high-interest rate environment and underscores the need for continued strategic financial management

Profitability

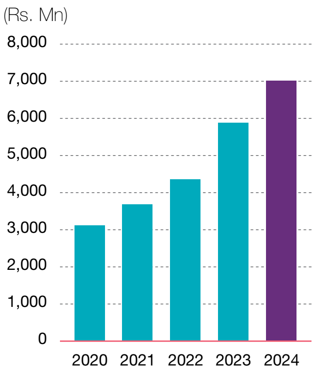


FINANCIAL POSITION

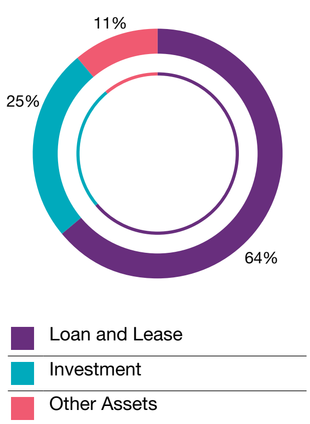
Total Assets

For the fiscal year 2023/24, the sector demonstrated robust financial performance, with total assets surging by 19% to an impressive LKR 7,013 million. This notable growth can be attributed to heightened demand for credit and increased investments in government securities, both of which significantly bolstered the company's asset base. Also, increase of total asset mainly contributed of Loan and Lease portfolio of the company and it take place of 64% of the total assets.

Total Assets



Total Assets



LOAN PORTFOLIO AND LEASING ACTIVITIES

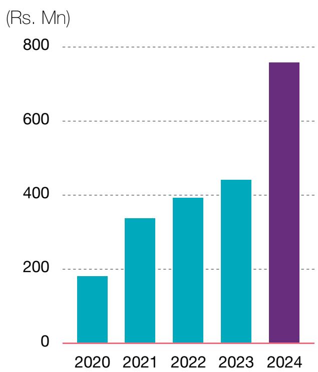
Loan Portfolio

The company's loan portfolio demonstrated resilience and strategic growth across various segments. Total loans and advances saw a marginal increase to LKR 3,747 million, up from LKR 3,739 million in the previous fiscal year. This incremental growth highlights the company's ability to sustain lending activities amidst a fluctuating economic environment.

Leasing Activities

The lease portfolio, however, experienced a significant boost, rising to LKR 761 million from LKR 441 million, marking a remarkable 73% increase. This growth reflects the company's successful efforts to expand its leasing operations and capitalize on the increasing demand for leasing solutions.

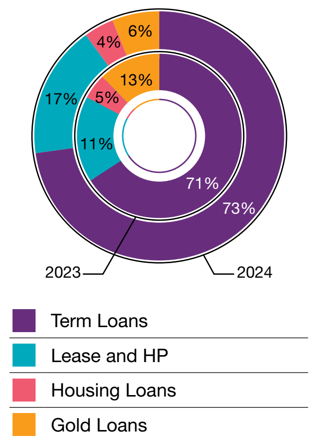
Lease & HP



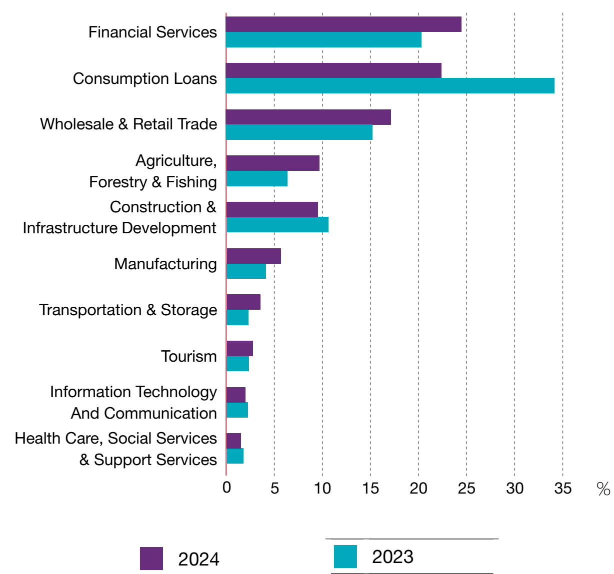
Strategic Focus and Service Enhancements

To leverage the growth potential in the leasing sector, the company implemented targeted campaigns across all provinces, with a particular focus on rural areas and farmers. By connecting with local societies, the company provided tailored financial solutions to meet the specific needs of these communities. Enhancements in service delivery included the integration of Point of Sale (POS) machines, which improved transaction efficiency, and the introduction of SMS alerts to enhance customer communication. Additionally, the company addressed short-term funding requirements by offering competitive market values for gold pounds, providing customers with valuable and timely financial options.

Portfolio Composition



Sector -wise Loan portfolio



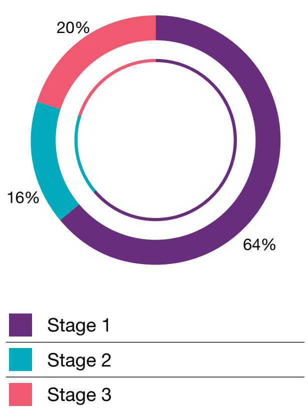
The company has maintained a diversified loan portfolio to mitigate credit risk across various industries, products, and locations. This strategic diversification helps to reduce exposure to any single sector or geographic area, thereby minimizing potential risks and enhancing overall portfolio stability.

Asset Quality

The Net Non-Performing Loan (NPL) ratio increased to 11.57% for FY 2024, up from 9.09% in the previous year, indicating a slight deterioration in asset quality. Asset classification showed that Stage 1 assets accounted for 64% of the gross exposure, Stage 2 assets comprised 16%, and Stage 3 assets constituted 20%. This distribution reveals varying levels of credit risk associated with different asset categories.

The rise in the NPL ratio can be attributed to several factors, including challenging economic conditions that impacted borrowers' repayment capabilities. The company's proactive measures to improve asset quality by reducing impairment charges related to loans and advances may have contributed to the increase in NPLs. Management's efforts in credit monitoring and efficient loan recovery, aimed at minimizing delays, underscore their commitment to addressing asset quality concerns and mitigating credit risk.

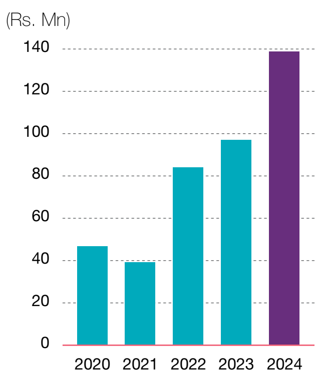
Assets Classification



Liquidity and Financial Management

Maintaining a higher-than-expected liquidity ratio, as set by the CBSL, was a primary focus, alongside achieving improvements in key financial metrics. Despite the challenges posed by a high-interest rate environment, the company took a prudent approach to adjusting customer interest rates. Even with a decline in loan growth, the company remained committed to a strategic approach, carefully evaluating new customer applications to ensure repayment capacity. Notably, substantial deposit base growth was achieved through targeted marketing campaigns in the cooperative sector, which successfully attracted increased deposits from societies.

Property, Plant and Equipment

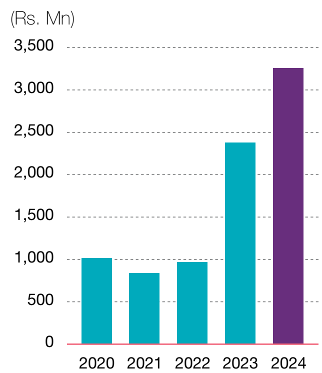


Property, Plant and Equipment

Property, plant, and equipment saw a substantial increase of 43% compared to the previous year. This significant rise primarily reflects the company's strategic expansion efforts, particularly the acquisition of new assets required for the opening of additional branches throughout the financial year.

The investment in property, plant, and equipment was essential for supporting the company's growth initiatives and enhancing operational capabilities. The increased asset base includes expenditures on new facilities, equipment upgrades, and infrastructure improvements, all of which are crucial for accommodating the expanded branch network and meeting the evolving needs of the business. This investment underscores the company's commitment to strengthening its operational infrastructure and positioning itself for future growth and success.

Deposits



Liabilities and Deposit Growth

In the LFCs sector, customer deposits remained a significant component of liabilities, constituting 80% of the total liabilities, an increase from 77% in the previous year. Deposits rose substantially by Rs. 890 million, marking a 37% year-on-year growth and reaching a total of Rs. 3,270 million. In contrast, borrowings saw a more modest increase of 7%, rising to Rs. 604 million in FY 2023/24. This positive trend enabled the allocation of over 50% of loans to community-based organizations, societies, and cooperatives, reflecting the company's commitment to supporting these sectors while expanding its deposit base.

Capital Adequacy Ratios

- Tier 1 Capital Adequacy Ratio: The Tier 1 ratio stood at 42.07% in 2024, down from 45.15% in 2023, well above the minimum regulatory threshold of 8.50%. This indicates a strong core capital base relative to risk-weighted assets.
- Total Capital Adequacy Ratio: This ratio mirrored the Tier 1 ratio at 42.07% in 2024, compared to 45.15% in 2023, exceeding the minimum requirement of 12.50%.
- Capital Funds to Deposit Liabilities Ratio: This ratio was 85.08% in 2024, down from 119.75% in 2023, reflecting a strong capital base relative to deposit obligations, though with a slight decline.
- Available Liquid Assets to Required Liquid Assets Ratio: This ratio remained healthy at 174.88% in 2024, down from 247.15% in 2023, indicating sufficient liquidity to meet short-term obligations.
- Liquid Assets to External Funds Ratio: This ratio declined from 22.53% in 2023 to 16.76% in 2024, reflecting a shift in the composition of funding sources.

Overall, these capital adequacy ratios highlight the company's prudent capital management, strong liquidity position, and adherence to regulatory requirements. This solid foundation positions the company well to withstand financial shocks and support sustainable business growth.

Social and Relationship Capital

LCB Finance actively promotes financial literacy through knowledge sharing sessions and partnerships with cooperative societies.

NURTURING CUSTOMER RELATIONS AND MEETING FINANCIAL NEEDS

LCB Finance prioritizes nurturing strong customer relations by focusing on understanding and meeting the specific financial needs of various segments, particularly in rural areas. This includes conducting thorough research to identify challenges faced by farmers and other local communities. Collaborating with cooperative societies serves as a strategic approach to reach these groups effectively, leveraging existing community trust and accessibility. Moreover, the company conducts financial literacy programs aimed at empowering customers to make informed financial decisions, enhancing their overall financial well-being.

INTRODUCING NEW PRODUCTS FOR CUSTOMER SATISFACTION

In the fiscal year 2023/24, LCB Finance introduced innovative products tailored to meet evolving customer requirements. Notably, initiatives such as the "ලියශක්ති" facility have empowered women entrepreneurs by addressing their unique financial needs. This targeted approach has not only increased customer satisfaction but also fostered loyalty among women business owners who previously may have felt underserved. By providing essential funding for business growth and offering personalized financial solutions, LCB Finance has strengthened its relationships with customers, positioning itself as a trusted partner in their success.

PERSONALIZED CUSTOMER COMMUNICATION AND ISSUE RESOLUTION

LCB Finance enhances customer satisfaction through personalized communication channels and proactive issue resolution strategies. Multiple communication avenues ensure accessibility and timely resolution of customer concerns, thereby improving overall service delivery. The expansion of branch networks has further facilitated customer engagement, particularly in underserved regions where access to financial services was previously limited. This approach not only builds trust but also reinforces LCB Finance's commitment to customer-centric operations.

UTILIZING MARKETING CHANNELS FOR CUSTOMER ENGAGEMENT

To engage effectively with customers, LCB Finance utilizes diverse marketing channels including door-to-door campaigns and social media platforms like Facebook. Door-to-door campaigns enable personalized interactions, fostering trust and facilitating direct communication about product benefits. Simultaneously, social media campaigns leverage targeted advertising to reach specific demographics, showcasing product features through interactive content such as videos and customer testimonials. Collaborations with cooperative societies in rural areas amplify local engagement, ensuring culturally relevant messaging and deeper community connections.

PROMOTING FINANCIAL LITERACY AND EMPOWERMENT

LCB Finance actively promotes financial literacy through knowledge-sharing sessions and partnerships with cooperative societies. These initiatives not only educate customers on financial management but also empower them to make informed decisions about their finances. By establishing strong links with local communities, LCB Finance ensures that its offerings are aligned with the needs and aspirations of its customers, fostering sustainable financial empowerment.

SUPPORTING EMPLOYEE GROWTH AND WORK-LIFE BALANCE

Employee growth and work-life balance are integral to LCB Finance's organizational culture. The company invests in comprehensive training and development programs to enhance employee skills and career progression. Additionally, motivational initiatives such as staff get-together events and sports days promote a positive work environment and strengthen team cohesion. A favorable leave policy and flexible work arrangements further contribute to employee well-being, ensuring a supportive workplace conducive to both personal and professional growth.

ENHANCING SHAREHOLDER AND INVESTOR RELATIONS

LCB Finance maintains strong relations with shareholders and investors through transparent communication and robust governance practices. Annual general meetings and timely dividend payments provide shareholders with opportunities to participate in the company's growth and success. Furthermore, regular financial reporting ensures transparency and accountability, building trust among investors and stakeholders alike.

SUPPLIER RELATIONS AND TRANSPARENCY

The company fosters open communication and transparency in its dealings with suppliers, ensuring mutual trust and reliability. By outsourcing services such as courier, office cleaning, and security, LCB Finance maintains operational efficiency while supporting local businesses. This collaborative approach strengthens supplier relationships and contributes to the company's commitment to ethical business practices.

COMMUNITY UPLIFTMENT AND SOCIAL RESPONSIBILITY

LCB Finance actively contributes to community upliftment and social initiatives as part of its corporate social responsibility efforts. Initiatives such as the Gold Loan program and eye clinics organized in collaboration with local societies demonstrate the company's commitment to making a positive impact beyond financial services. By engaging with local communities to identify their needs and developing targeted initiatives, LCB Finance strengthens community ties and enhances social well-being.

REGULATORY COMPLIANCE AND ETHICAL PRACTICES

LCB Finance adheres strictly to regulatory frameworks and ethical standards, ensuring compliance with laws governing financial operations. The company maintains strong relationships with regulatory bodies such as the Central Bank of Sri Lanka and tax authorities through proactive engagement and adherence to reporting requirements. This commitment to regulatory compliance safeguards the interests of stakeholders and reinforces trust in LCB Finance's operations.

CUSTOMER FEEDBACK AND DECISION-MAKING

Customer feedback plays a crucial role in shaping LCB Finance's product offerings and service delivery strategies. The company incorporates customer input into its decision-making processes, prioritizing customer needs and preferences. By actively soliciting feedback and responding promptly to suggestions, LCB Finance strengthens customer relationships and continuously improves its offerings to better meet market demands.

LEVERAGING TECHNOLOGY FOR CUSTOMER ENGAGEMENT

LCB Finance leverages technology to enhance customer engagement and service delivery. Initiatives such as an online banking platform, mobile banking app, and AI-powered customer support streamline transactions and improve accessibility for customers. Digital payment solutions and interactive features on digital platforms further enhance the overall customer experience, reinforcing LCB Finance's commitment to innovation in financial services.

DIVERSITY AND INCLUSION IN WORKFORCE

LCB Finance promotes diversity and inclusion within its workforce, fostering a supportive work environment where employees from diverse backgrounds can thrive. The company prioritizes equal opportunities and career development for all employees, ensuring fairness and inclusivity in recruitment, training, and promotion processes. By embracing diversity, LCB Finance enriches its organizational culture and strengthens its capacity for innovation and excellence.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Strong corporate governance and risk management practices are central to LCB Finance's operations. The company upholds transparency, accountability, and effective risk mitigation strategies to safeguard stakeholder interests. Through rigorous governance frameworks and regular risk assessments, LCB Finance ensures operational resilience and regulatory compliance, thereby enhancing long-term sustainability and trust among stakeholders.

ENGAGEMENT WITH LOCAL COMMUNITIES

LCB Finance engages with local communities to understand their needs and develop targeted initiatives that address social and economic challenges effectively. By collaborating with community stakeholders and supporting local development projects, the company contributes to community welfare and sustainable development. This approach not only strengthens community relations but also aligns LCB Finance's business goals with broader societal interests.

MONITORING AND EVALUATION OF SOCIAL INITIATIVES

LCB Finance monitors and evaluates the effectiveness of its social and relationship capital initiatives through rigorous impact assessments and stakeholder feedback mechanisms. By measuring the outcomes of its programs and initiatives, the company gauges their impact on stakeholders and the broader community. This data-driven approach enables LCB Finance to refine its strategies and allocate resources more effectively, ensuring meaningful contributions to social well-being.

FUTURE STRATEGIES FOR SOCIAL CAPITAL

Looking ahead, LCB Finance aims to strengthen its social and relationship capital by focusing on innovation and growth initiatives. The company plans to expand its community outreach programs, enhance digital engagement platforms, and further integrate sustainability principles into its business practices. By building upon its existing initiatives and embracing emerging trends, LCB Finance seeks to create lasting positive impacts and sustainable value for all stakeholders in the upcoming fiscal year.

Manufactured Capital

During the fiscal year 2023/24, the company opened four new branches, complementing the existing network across various provinces: 11 branches in the Southern province, 5 in the Western province, 1 in the North Western province, and 2 in the Sabaragamuwa province

BRANCH EXPANSION

The company has prioritized rural development through a strategic expansion of its branch network, aiming to extend services to customers in rural areas. This strategy enhances financial inclusion and supports economic growth in underserved regions. Notably, during the fiscal year 2023/24, the company opened four new branches, complementing the existing network across various provinces: 11 branches in the Southern province, 5 in the Western province, 1 in the North Western province, and 2 in the Sabaragamuwa province. This expansion strengthens the company's market presence and positions it for growth in diverse geographic regions.

TECHNOLOGICAL ADVANCEMENTS AND CUSTOMER CONVENIENCE

During the fiscal year 2023/24, LCB Finance launched several initiatives to enhance operational capabilities, customer service, and security protocols. Significant advancements include SMS Alert services, reflecting the company's commitment to leveraging technology for customer convenience. Opening of four new branches with latest technology is another significant milestone for the company.

INTERNAL SYSTEMS AND CYBERSECURITY ENHANCEMENTS

LCB Finance also invested in internal systems to boost efficiency and productivity, such as the Human Resource Information System (HRIS), which streamlined HR functions like payroll, performance tracking, and benefits administration, providing management with valuable workforce insights, and cybersecurity enhancements to reinforce policies and protocols, mitigating cyber threats and protecting customer data.

MODERNIZING IT INFRASTRUCTURE

Additionally, the company focused on modernizing IT infrastructure with the implementation of Software-Defined Wide Area Network (SD-WAN) technology to improve connectivity across the branch network, a Human Resource Management Application to streamline personnel management and operational effectiveness, a Management Information System to support quick, informed decision-making processes, enhancements to the Disaster Recovery Centre to ensure continuity of customer service during unforeseen events, a User Acceptance Test (UAT) environment to reduce time for testing and resolving system issues for efficient software deployments, and a comprehensive website revamp to provide up-to-date information and enhance transparency and user experience.

ENSURING SECURITY AND COMPLIANCE

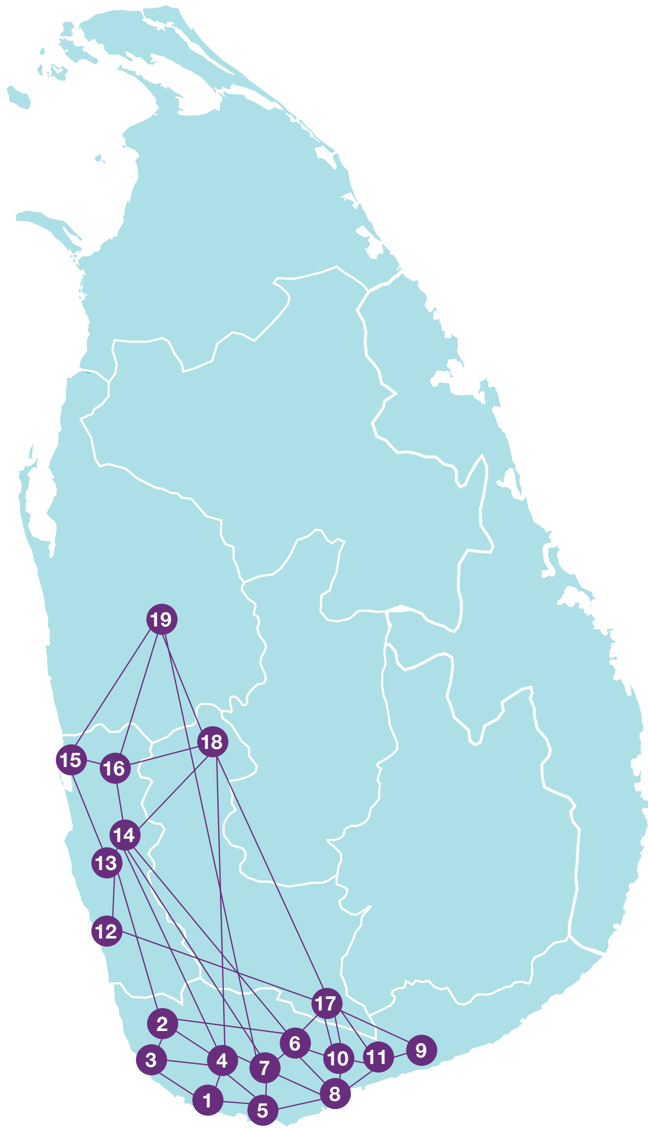
To ensure security and compliance, LCB Finance implemented employee awareness programs to reinforce robust cybersecurity practices, engaged in Vulnerability Assessment and Penetration Testing (VAPT) to identify and address potential information security weaknesses, and conducted an Information System (IS) audit to verify the accuracy and functionality of application systems. Looking ahead, the company plans to implement an Information Classification and Data Leakage Prevention System to strengthen data security and invest in IT staff training to maintain a skilled workforce. Despite economic challenges, strategic IT investments are prioritized for long-term benefits and improved customer service.

STRATEGIC PARTNERSHIPS AND IT INVESTMENTS

Collaboration with external vendors and technology service providers remains key to the company's IT strategy, ensuring high-quality, uninterrupted service through strong partnerships. The difficult economic environment posed significant hurdles in deciding on IT investments. However, these challenges were addressed through careful cost-benefit analysis, prioritizing investments that promise long-term benefits and enhanced customer service. This strategic approach has enabled the company to navigate the complexities of IT implementation effectively.

Furthermore, the company believes that strong, collaborative partnerships are essential for the successful implementation of IT initiatives and infrastructure upgrades. Throughout these partnerships, the company ensures effective coordination and communication to align with strategic objectives and achieve technological goals. In conclusion, the advancements in IT infrastructure during the reporting period have positioned LCB Finance for future growth and success. By investing in new technologies, enhancing security measures, and fostering a skilled IT workforce, the company is committed to delivering exceptional service to its customers.

Manufactured Capital *Contd.*



No.	Branch Name	District	Province
1	Galle	Galle	Southern
2	Karandeniya	Galle	Southern
3	Rathgama	Galle	Southern
4	Karapitiya	Galle	Southern
5	Matara	Matara	Southern
6	Deiyandara	Matara	Southern
7	Akuressa	Matara	Southern
8	Tangalle	Hambantota	Southern
9	Tissamaharama	Hambantota	Southern
10	Walasmulla	Hambantota	Southern
11	Agunukolapelessa	Hambantota	Southern
12	Pelawatta	Kalutara	Western
13	Kohuwala	Colombo	Western
14	Maharagama	Colombo	Western
15	Negombo	Gampaha	Western
16	Gampaha	Gampaha	Western
17	Embilipitiya	Ratnapura	Sabaragamuwa
18	Kegalle	Kegalle	Sabaragamuwa
19	Kuliyapitiya	Kurunegala	North Western

Agunukolapellessa Branch opening

Gampaha Branch opening

Minuwangoda Branch opening

Human Capital

LCB Finance promotes employee well-being through staff sports days, encouraging physical activity and promoting a healthy lifestyle among its workforce.

Human Capital *Contd.*

HUMAN RESOURCE POLICY AND DIVERSITY

During the fiscal year 2023/24, LCB Finance adhered strictly to its Human Resource Policy, which emphasizes non-discrimination, diversity, and equal opportunity. These principles are integral to our organizational culture, ensuring that all employees are treated fairly and equitably, regardless of their background or personal characteristics.

GENDER REPRESENTATION AND INCLUSIVE HIRING PRACTICES

To ensure gender representation and equal treatment across all levels of operations, we have implemented robust hiring practices that prioritize equal opportunity. This has resulted in a diverse workforce with significant female representation in senior positions, including Branch Managers, Assistant Managers, and the Head of Legal. Over the past year, our workforce has evolved, maintaining a balanced male-to-female ratio and a stable total number of employees, currently standing at 197. This balance reflects our ongoing commitment to gender equality and inclusive hiring practices.

STAFF RETENTION AND DEVELOPMENT INITIATIVES

To manage staff turnover and promote employee retention, we have implemented several initiatives. We prioritize internal promotions for higher positions, offer job role rotations within and across departments and branches, and conduct comprehensive internal training programs monthly, alongside external training opportunities through institutions like CBSL and IBSL, supported by a dedicated annual training budget. Employees also benefit from paid leave for medical and study purposes, performance-based allowances, a flexible work environment, and open access to top management. Additionally, we provide opportunities for Management Trainee and Intern positions with competitive salaries.

RECRUITMENT AND SELECTION STRATEGIES

LCB Finance's Human Resource Policy focuses on effectively utilizing and developing human capital. This includes comprehensive strategies for recruitment and selection, ensuring fairness, impartiality, and suitability for all positions. An annual recruitment plan, approved by the Board of Directors, guides our hiring processes, which involve internal job postings, public vacancy announcements, and thorough panel interviews. Salary details are maintained confidentially, and proper documentation is ensured through HR.

LEARNING AND DEVELOPMENT PROGRAMS

During the reporting period, LCB Finance provided extensive learning and development opportunities. Monthly internal training programs and external training sessions, supported by a special annual budget, were conducted. Training evaluations and annual training need analyses were performed to ensure the effectiveness of these programs.

PERFORMANCE APPRAISALS AND INCENTIVES

Performance appraisals are conducted annually and semi-annually, with interim appraisals as needed. These appraisals are crucial for recognizing employee contributions, identifying training needs, and promoting continuous improvement. Based on appraisal results, employees may receive salary increments, promotions, or additional training for poor performers. To encourage employee motivation and maintain a positive work environment, LCB Finance has implemented performance-based incentive schemes and transport allowances.

WORK-LIFE BALANCE AND HEALTH BENEFITS

We promote work-life balance through additional leave benefits, a flexible work environment, and opportunities for employees to work at branches close to their hometowns. Health insurance benefits further support employees' well-being.

FUTURE PLANS FOR HUMAN CAPITAL DEVELOPMENT

Looking ahead, LCB Finance plans to increase the number of training programs and participant engagement. We are also working on a succession plan to adapt to new changes, ensuring the continued development and growth of our human capital.

HEALTH AND SAFETY PRACTICES

As a service organization, LCB Finance follows general health and safety practices to protect both employees and customers. Specific measures include additional medical insurance benefits and vehicle insurance policies for field staff. We also ensure the proper maintenance of transport vehicles and bikes to safeguard our employees during their duties outside the office.

MEDICAL POLICY ENHANCEMENTS

Currently, our medical policy includes inpatient coverage, but we recognize the need for improvement. Plans are underway to enhance these benefits with the upcoming renewal of our medical insurance policy, providing better protection for our field staff against unforeseen incidents.

EMPLOYEE GRIEVANCE HANDLING

LCB Finance handles employee grievances effectively to maintain motivation and commitment. Grievances are initially addressed by HR Executives or Managers, who directly discuss the issues with the relevant employees to identify solutions. For serious cases, a grievance committee is involved to find the best resolution, ensuring that affected employees receive the support they need.

COMPLIANCE WITH HR REGULATIONS

We strictly adhere to human resource-related regulations and laws, including the Shop and Office Act, non-discriminatory policies, child labor and forced labor regulations, maternity benefits, and employment laws concerning women, young persons, and children. This compliance ensures a fair and legally sound working environment for all employees.

CHALLENGES AND FUTURE IMPROVEMENTS

Maintaining health and safety standards and effectively handling employee grievances can be challenging. However, LCB Finance addresses these challenges by promoting a culture of transparency and accountability. Employees are encouraged to voice their concerns and provide feedback, fostering an open-door policy within the organization. Looking ahead, we plan to implement new initiatives and improvements in health and safety management and grievance handling to further enhance employee well-being and satisfaction. These efforts will be guided by the latest trends and best practices in people management, ensuring that LCB Finance remains a supportive and thriving workplace for all its employees.

EMPLOYEE RECOGNITION AND MORALE INITIATIVES

LCB Finance demonstrates a commitment to recognizing and rewarding its employees through various initiatives aimed at fostering a positive work environment and enhancing morale. One way the company acknowledges employee contributions is through regular staff promotions accompanied by salary increments, ensuring that career progression is aligned with performance and achievements. Additionally, LCB Finance organizes annual staff get-together events, providing opportunities for team building, networking, and celebrating collective successes. These gatherings not only strengthen interpersonal relationships but also reinforce a sense of camaraderie and belonging among employees.

Furthermore, LCB Finance promotes employee well-being through staff sports days, encouraging physical activity and promoting a healthy lifestyle among its workforce. These events not only contribute to team spirit but also emphasize the company's commitment to supporting overall employee health and wellness. Alongside these activities, LCB Finance maintains a favorable leave policy that allows employees to achieve a healthy work-life balance. By offering flexible leave options and accommodating personal needs, the company ensures that employees can manage their responsibilities effectively while enjoying time for personal pursuits and family commitments.

Overall, LCB Finance's comprehensive approach to recognizing employee contributions and enhancing morale through promotions, events, sports activities, and a supportive leave policy underscores its dedication to creating a positive and motivating workplace culture. These initiatives not only boost employee satisfaction and engagement but also contribute to sustained organizational success and growth in the financial services industry.

Staff Event 2023

Staff Sport Day 2023

Natural Capital

The company aims to reduce paper usage, increase green financing, and implement new policies and procedures to support these goals.

CULTIVATING ENVIRONMENTAL AWARENESS

LCB Finance has placed a strong emphasis on cultivating environmental awareness among its employees. This has been achieved through various strategies aimed at fostering a culture of environmentally conscious behavior within the organization. Regular training sessions and awareness programs have been conducted to educate employees on the importance of environmental conservation. Additionally, internal communications consistently highlight sustainable practices, ensuring that all staff members are well-informed and actively engaged in the company's environmental initiatives.

ENERGY CONSERVATION INITIATIVES

LCB Finance has implemented several initiatives to promote energy conservation across its operations, both at the head office and branch levels. These initiatives include maximizing the use of natural lighting at workstations, instilling a habit of switching off unnecessary lights and appliances, and utilizing energy-saving electric items such as inverter air conditioners and LED lighting. By monitoring and controlling the energy costs of branches, the company ensures efficient energy use and cost savings. Employee engagement in these efforts is fostered through continuous education and the promotion of energy-saving practices.

WATER CONSERVATION MEASURES

To conserve water within its facilities, LCB Finance sources its daily consumption needs from the National Water Supply and Drainage Board, while drinking water is obtained from an outsourced company. The company takes prompt action in repairs and maintenance to minimize wastage or leakage. These measures are part of a broader strategy to promote sustainability and ensure responsible water usage throughout the organization.

RESOURCE OPTIMIZATION AND TECHNOLOGY TRANSITION

LCB Finance is committed to resource optimization, particularly through transitioning to a technology-driven workplace and e-finance platform. This transition has significantly reduced dependency on manual processes and minimized paper usage. For instance, the implementation of an automated Human Resource Management System has streamlined employee attendance, leave management, and salary processes. The introduction of a Management Information System (MIS) is expected to further cut down on manual processes and enhance operational efficiency, underscoring the company's dedication to leveraging technology for productivity improvements and cost reduction.

TRACKING ENVIRONMENTAL PERFORMANCE

LCB Finance tracks its progress in environmental conservation and sustainability efforts through specific metrics and key performance indicators (KPIs). These metrics assess the impact of initiatives related to energy conservation, water conservation, and resource optimization. Regular reviews and reports ensure that the company remains on track with its sustainability goals and can make data-driven decisions to enhance its environmental performance.

ADDRESSING CHALLENGES AND INNOVATION

Implementing environmental sustainability initiatives comes with its challenges. LCB Finance has faced obstacles in promoting a paperless environment and integrating digital solutions. However, the company has addressed these challenges by focusing on innovation and digitalization. By continuously improving its automation processes, LCB Finance is moving towards a more sustainable, paperless operation.

STAKEHOLDER ENGAGEMENT

Engaging with stakeholders, including employees, customers, and the community, is a critical aspect of LCB Finance's approach to promoting environmental awareness and sustainability practices. The company has initiated various collaborative efforts and outreach programs to involve stakeholders in its sustainability journey. These initiatives help build a shared commitment to environmental stewardship and foster a culture of collective responsibility.

FUTURE SUSTAINABILITY PLANS

Looking ahead, LCB Finance has ambitious plans to enhance its environmental sustainability efforts further. The company aims to reduce paper usage, increase green financing, and implement new policies and procedures to support these goals. Investing in alternative energy sources such as solar power, promoting the use of hybrid and electric vehicles, and enhancing the digital user experience for employees and customers are among the key initiatives planned for the future.

COMPLIANCE AND PARTNERSHIPS

LCB Finance ensures compliance with environmental regulations and standards at both the national level and within its internal policies. Specific measures are in place to monitor and enforce environmental compliance, ensuring that the company meets all legal and regulatory requirements. Additionally, LCB Finance has established partnerships with environmental organizations and agencies to support its sustainability initiatives. These collaborations contribute significantly to the company's overall environmental goals and enhance its ability to implement effective sustainability practices.

Natural Capital *Contd.*

EMPLOYEE-LED SUSTAINABILITY INITIATIVES

Employees play a crucial role in driving LCB Finance's environmental sustainability agenda. The company encourages employee-led initiatives and has committees dedicated to promoting environmental stewardship within the organization. By improving employee knowledge of environmentally friendly activities and motivating less paperwork and digitalized procedures, LCB Finance fosters a proactive and engaged workforce committed to sustainability.

ENVIRONMENTAL CONSIDERATIONS IN DECISION-MAKING

LCB Finance integrates environmental considerations into its decision-making processes, particularly regarding investment choices, operational practices, and product development. Sustainability criteria are incorporated into business planning and strategy, ensuring that environmental impacts are considered at every stage. For instance, the company focuses on green financing when developing new products and motivates employees to adopt energy-saving practices.

ECONOMIC BENEFITS OF SUSTAINABILITY EFFORTS

The economic benefits of LCB Finance's environmental sustainability efforts are significant. The company conducts variance analysis for expenses branch-wise, controlling highly fluctuating costs such as electricity, water, and stationery. These measures result in substantial cost savings and demonstrate the financial impact of initiatives like energy conservation and resource optimization.

COMMUNICATION AND TRANSPARENCY

LCB Finance communicates its environmental sustainability initiatives and achievements to stakeholders through various channels. The company maintains transparency and accountability in its environmental reporting, ensuring that customers, investors, and the wider community are informed about its efforts and progress. This open communication builds trust and reinforces the company's commitment to sustainability.

ENVIRONMENTAL RISK MANAGEMENT

To assess and mitigate environmental risks associated with its operations, LCB Finance proactively identifies potential challenges and implements measures to address them. The company's risk management strategy includes regular evaluations and updates to ensure that all environmental risks are effectively managed.

SUSTAINABLE SUPPLY CHAIN MANAGEMENT

LCB Finance incorporates environmental considerations into its supply chain management practices. The company evaluates suppliers based on their environmental performance and sustainability practices, ensuring that all partners align with its commitment to environmental stewardship.

INNOVATIVE APPROACHES TO SUSTAINABILITY

LCB Finance has implemented innovative and unique approaches to promote environmental sustainability beyond regulatory compliance. By fostering creativity and innovation in its sustainability initiatives, the company sets an example for others in the industry. These efforts are designed to drive long-term positive impacts on the environment and promote a culture of continuous improvement.

LONG-TERM SUSTAINABILITY GOALS

Looking forward, LCB Finance has set long-term sustainability goals focused on its impact on natural capital and environmental stewardship. The company envisions a future where it plays a significant role in promoting sustainability for the communities it serves. Investing in alternative energy, enhancing digital experiences, and promoting environmentally friendly transportation options are key components of this vision.

CONCLUSION

In conclusion, LCB Finance's commitment to environmental sustainability is reflected in its comprehensive strategies. By fostering environmental awareness, implementing conservation initiatives, engaging stakeholders, and promoting innovation, the company is well-positioned to achieve its sustainability goals and contribute to a more sustainable future.

Intellectual Capital

The company plans to expand its intellectual capital management strategies, focusing on continuous improvement, technological integration, and strategic partnerships.

Intellectual Capital *Contd.*

ENSURING COMPLIANCE AND SECURITY

LCB Finance prioritizes strict adherence to intellectual property regulations at both national and internal levels. The company maintains robust IT infrastructure and stringent security policies to safeguard intellectual assets. These measures not only ensure legal compliance but also mitigate risks associated with intellectual property violations.

COLLABORATIVE PARTNERSHIPS FOR INNOVATION

To advance its intellectual capital initiatives, LCB Finance collaborates actively with research institutions and knowledge-based organizations. These partnerships play a crucial role in driving innovation by fostering research-driven insights and technological advancements. By leveraging external expertise, LCB Finance enhances its capability to innovate and leads in financial service advancements.

EMPLOYEE ENGAGEMENT AND KNOWLEDGE SHARING

Employees play a pivotal role in driving LCB Finance's intellectual capital agenda through continuous learning and innovation. The company invests significantly in employee training and development to enhance skills, promote professional growth, and deepen domain knowledge. Employee-led initiatives and dedicated committees further cultivate a culture of knowledge sharing and innovation within the organization.

INTEGRATION INTO DECISION-MAKING PROCESSES

LCB Finance integrates intellectual considerations into its decision-making processes across investments, operations, and product development. The company systematically incorporates criteria for intellectual property protection into business planning and strategy formulation. This proactive approach not only mitigates risks but also enhances the value derived from intellectual assets, supporting sustainable business growth.

ECONOMIC BENEFITS AND VALUE CREATION

The company measures the financial impact of its intellectual capital efforts through various metrics, including return on investment in training, innovation programs, and knowledge management systems. These initiatives not only drive operational efficiency but also foster a culture of continuous improvement and enhance competitiveness in the market.

COMMUNICATION AND TRANSPARENCY

LCB Finance communicates its intellectual capital initiatives and achievements transparently to stakeholders, including customers, investors, and the wider community. The company demonstrates accountability through comprehensive reporting on intellectual property, ensuring stakeholders are informed about its commitment to responsible management and leveraging of intellectual assets.

RISK ASSESSMENT AND MITIGATION

Proactively assessing and mitigating risks associated with intellectual property and knowledge assets is a top priority for LCB Finance. The company identifies potential challenges and vulnerabilities related to intellectual capital, implementing robust measures to safeguard against threats and capitalize on opportunities for innovation and growth.

CULTIVATING A CULTURE OF INNOVATION

LCB Finance fosters a culture of innovation and continuous learning among its employees through incentives and recognition programs that encourage creativity and intellectual contributions. By nurturing an environment that embraces new ideas, the company stimulates innovation across its operations, driving sustainable business success.

UNIQUE APPROACHES TO ENHANCE INTELLECTUAL CAPITAL

LCB Finance implements innovative strategies beyond regulatory compliance to enhance its intellectual capital. These include leveraging intellectual assets to maintain a competitive advantage in the market and pioneering new approaches in financial services. By capitalizing on intellectual capital, the company remains agile and responsive to evolving market demands.

LONG-TERM STRATEGIES FOR INTELLECTUAL CAPITAL MANAGEMENT

Looking ahead, LCB Finance aims to further leverage its knowledge assets to drive sustainable growth and innovation. The company plans to expand its intellectual capital management strategies, focusing on continuous improvement, technological integration, and strategic partnerships. By enhancing its intellectual capital framework, LCB Finance positions itself for long-term success and leadership in the financial services industry.

UNITED IN UPLIFTMENT

Board of Directors

Front seated L- R : **Ashwin Welgama Nanayakkara**
Director

Dushmantha Thotawatte
Non-Executive / Independent Director

Standing L - R : **Kapila Indika Weerasinghe**
Director

Vijitha Lokunarangoda
Director

J. P. C. Jayalath
Director

Front seated L- R : **Kandegoda Gamage Leelananda** Executive Director/ Chief Executive Officer; **Ranjan Lal Masakorala** Director

Standing L - R : **U.K. Harith Ruwan Ranasinghe** Director; **Gayan Kalhara Nanayakkara** Director; **Mahesh Katulanda** Director

Board of Directors *Contd.*

MR. DUSHMANTHA THOTAWATTE

Chairman

Bachelor of Commerce (Special) Degree at the University of Sri Jayawardenapura, Masters in Arts Financial Economics at the University of Colombo, Fellow Member of the Institute of Chartered Accountants. Former Chief Executive Officer Lanka Sathosa Ltd., Additional General Manager – National Water Supply and Drainage Board . He is the Chairman of Canwill Holdings (Pvt) Ltd. Also a Board Member of People`s Bank, and a Board Member of Sri Lanka Insurance Corporation.

MR. KANDEGODA GAMAGE LEELANANDA

Executive Director / Chief Executive Officer

Mr. K.G. Leelananda holds a Management Degree from the University of Jayewardenepura, Diploma in HRM at Aquinas University College, Chartered Licentiate at Chartered Institute of Sri Lanka 1993 and Intermediate Banking & Finance Diploma at IBSL. He has successfully completed courses on Private Enterprise Development in Harvard USA. Furthermore, he qualifies in Management in Finance at NTUC in Singapore University, Co-operative Banking System Course conducted in South Korea, Netherland and Canada. Successfully completed System Study at Banka Italia in Italy. Since 2001, he has contributed towards the growth of SANASA Development Bank PLC and reached the 2nd Key Executive Post "The Senior Deputy General Manager" in the Bank until 2015..

MR. RANJAN LAL MASAKORALA

Director

Mr. Ranjan holds a Diploma in Management –Japan –University of Tokyo and functions as the Director of Premium Cars Japan. He is the Managing Director of Hotel Kabalana (Pvt) Ltd and The Villa Hotel Unawatuna. He is the Managing Director of Udumullagoda Tea Factory (Pvt) Ltd. He is the Proprietor of Vista Tours, Uneth Car sale and a Director of Yakkalamulla Tea Factory. He is the Director of Niriella Motors Private Limited and Isuru Motors Private Limited.

MR. U.K HARITH RUWAN RANASINGHE

Director

He had followed a Management Trainee Course –AOTS-LKCM-Japan; Management Trainee Course-NIPM. He has served as an Assistant Superintendent / Superintendent at Sri Lanka State Plantation Corporation; Managing Director at Thalgampala Tea Company (Pvt) Limited; Chairman and promoter of UKG Enterprise; Director of L & H Capital Partners (Pvt) Limited; Secretary – at Galle Business Club. Past Chairman of the Sri Lanka Tea Factory Owners' Association and also the Chairman of Sinha Capital Investments Ltd.

MR. KAPILA INDIKA WEERASINGHE

Director

He holds a Diploma in Chartered Accountancy in Germany; He is the Managing Director / Chairman of Transline GMBH – Transport & Packaging and R K W Courier Service. He is a leading businessman in Germany.

MR. VIJITHA LOKUNARANGODA

Director

Managing Director – Galle Highway Express and Narangoda Group of Companies; Vice President of Old Boys Association – Mahinda College Galle. Inspector of Fisheries, Department of Fisheries.

MR. GAYAN KALHARA NANAYAKKARA

Director

He holds a Joint Hons—BSc in Computer Science with Management Studies from the University of Nottingham, UK. Currently has the director position at Mahesland Estates Private Limited, Wijaya Tea Factory Private Limited, Naindawa Tea Factory Private Limited and Etambagahawila Tea Factory Private Limited.

MR. ASHWIN WELGAMA NANAYAKKARA

Director

Mr, Ashwin holds MSc. in Law and Accounting from – the London School of Economics UK, an LLB in Law from – the London School of Economics UK, and is Director of NEM Construction (Pvt Ltd.

MR. MAHESH KATULANDA - LLM (LATRIBE-AUSTRALIA)

Director

Mr. Mahesh is a Senior Attorney at Law in the Supreme Courts, holding several key roles throughout their career, including Chairman and Commissioner of the Office on Missing Persons. They have also served as a Director in various companies and governmental bodies, such as Sri Lanka Insurance (General) Ltd., and the Marine Environment Protection Authority. In addition, they have been involved in committees and organizations related to water resource management and the legal profession. Their expertise has been utilized as a Legal Adviser to the Minister of Irrigation and Water

Management. Overall, their distinguished career reflects a strong commitment to the legal field and public service.

MR. J. P. C. JAYALATH

Director

Mr. Jayalath has been a professional in information technology for over 35 years, and he has been a director of information technology at the Board of Investment since 2006 until he left the institute. Also, when he resigned from the BOI, he had been an executive director of the institute.

He is academically qualified and a sound professional in the IT stream with a BSc. Physical Science at the University of Colombo, a postgraduate Diploma in e-Government at the University of Sri Jayawardenepura, and a Master of Public Administration at the University of Sri Jayawardenepura.

Management Team

A.P. Vithanage
DGM - Business Development & Fund Mobilization

Nalaka De Silva★
DGM -Recovery

Nishantha Fernando
DGM - Credit

Vajira Jayasinghe
DGM- IT

K. Kelum Wannige
AGM- Finance

R.M.G. Ratnayaka
Head of Finance

★ Resigned during the reporting period

K.G. Sajith Suranga Senevirathna
Head of IT

M. Hasitha Vewita
Head of Compliance

M.J.H. Perera
Chief Risk Officer

W.H. Anusha Chamani Fernando
Head of Legal

R. Shamil Kumara
Head of Leasing

Kandiaha Sashikumar
Head of Recovery

Management Team *Contd.*

Wijekoon Bandara
Manager - Admin & Operations

Milinda Madushan
Manager – Finance

K.R.S. Rajitha Lakmal
Manager - Finance

Imesh Sandarathna
Manager – Legal

N.S. De Silva
Manager - HR

Nuwan Dilhara
Manager - Marketing

A.P. Sri Senavirathna
Manager - IT

H.G. Ananda Kumara ★★
Senior Manager - Credit

M.K. Madhushanka Silva
Manager - Recovery

K. Thiruchchenthuran ★★
Manager- Credit

★★ Appointed after the reporting period

Branch Contact Information

Branch	Name	Designation	Address	Telephone	E-mail
Galle	Lokugeeganage Indika Pushpa Kumara	Branch Manager	119 Wakwella Road Galle	912247222	mgrgalle@lcbfinance.lk
Karandeniya	Kariyawasam Bandigoda Gamage Isuru Nishan	Acting Branch Manager	Elpitiya Road Maha-A danda Karandeniya	912290255	mgrkarandeniya@lcbfinance.lk
Matara	Thanthirige Mahesh Priyankara	Branch Manager	68 Anagarika Dharmapala Mawatha Matara	412250017	mgrmatara@lcbfinance.lk
Pelawatta	Mihindukulasuriya Sampath Thushara Fernando	Branch Manager	07 Mathugama Road Pelawatta	342284810	mgrpelawatta@lcbfinance.lk
Kohuwala	Ponna Hannedige Nisansala Jeewanthi Dias	Acting Branch Manager	76 S.De.S.Jayasinghe Road Kohuwela Nugegoda	112825404	mgrkohuwala@lcbfinance.lk
Rathgama	Sanjeewa Srimal Heenatigala	Branch Manager	622 Devinigoda Rathgama	912268160	mgrrathgama@lcbfinance.lk
Karapitiya	Game Kankanamge Lakshitha Iman	Branch Manager	No.249d Golden Range Karapitiya	912245810	mgrkarapitiya@lcbfinance.lk
Negombo	Katukurunda Gamage Don Chaminda Gamage	Branch Manager	No 615, Colombo Road, Kurana, Katunayaka.	312226565	mgrnegombo@lcbfinance.lk
Kuliyapitiya	Kottawa Hewa Manage Ishan Madushanka	Acting Manager	No. 33 & 35, Hettipola Road, Kuliyapitiya.	372286280	mgrkuliyapitiya@lcbfinance.lk
Tangalle	Maneesha Rehashini Weerarathna	Acting Branch Manager	157, Hambantota Road, Tangalle.	472244000	lcbtangalle@lcbfinance.lk
Deiyandara	Shyama Prashad Thilakasiri Hasalaka Subasinghe	Branch Manager	In Front of Government Hospital, Deiyandara.	412268958	mgrdeiyandara@lcbfinance.lk
Akuressa	Malgaha Gamage Kolitha Maduranga	Branch Manager	No. 66A, Matara Road,Akuressa	412280090	mgrakuressa@lcbfinance.lk
Embilipitiya	Abesing Korale Arachchige Dulanga Vinod Sithara	Branch Manager	No 47, Pallewela, Embilipitiya.	472261505	mgrembilipitiya@lcbfinance.lk
Maharagama	Usettige Lasantha Perera	Branch Operation And Business Development	No 155, High level Road, Maharagama	112840244	mgrmaharagama@lcbfinance.lk
Kegalle	Liyanarachchi Appuhamilage Suramya Sri Sangeeth Liyanarachchi	Branch Manager	No. 44, Main Street, Kegalle	352233383	mgrkegalle@lcbfinance.lk
Tissamaharama	Hewa Kekanadurage Gayan Priyankara	Branch Manager	No.472, Opposite the Clock Tower Debarawewa,Tissamahara	472259044	mgrtissa@lcbfinance.lk
Walasmulla	Charitha Lanka Karasingha Arachchi	Senior Manager	No.70, Beliatta Road, Walasmulla	472247067	mgrwalasmulla@lcbfinance.lk
Agunukolapelessa	Gonapinuwala Vithanage Nimmi Sandaruwani	Acting Branch Mangaer	No 439/11, Ranna Road, Angunakolapelessa	472228313	mgragunukolapelessa@lcbfinance.lk
Gampaha	Mannapperumage Rukshan Pramod	Acting Manager	No.57A , Bauddhaloka Mawatha, Gampaha	332238062	mgrgampaha@lcbfinance.lk

Corporate Governance Report

An effective Corporate Governance system enables a Company to cultivate a culture of integrity, transparency and accountability driving positive performance and sustainable growth. Hence, at Lanka Credit and Business Finance PLC, we consider Corporate Governance as a pivotal aspect in determining the Company's prudent strategic direction as it directs, controls, and monitors the performance to ensure robust and balanced progress of the Company. With this commitment, we uphold the highest standards of Corporate Governance and ethical business practices in facilitating sustainable growth of the Company thereby delivering to the interest of all stakeholders.

LCB Finance PLC's Board and the Board appointed committees hold the responsibility for ensuring governance of the Company providing a clear direction complying with principles of good governance preserved in the Code of Best Practices for Corporate Governance issued by the Institute of Chartered Accountants, Sri Lanka, and the Finance Business Act Directions No.05 of 2021 on Corporate Governance and Finance Business Act Directions No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Person.

GOVERNANCE STRUCTURE

The Board of Directors holds supreme responsibility for the affairs of the Company and has set in place an appropriate governance structure to facilitate the discharge of its duties. The Board Sub Committees assist the Board in its supervision of functions in specialised areas requiring significant attention. The governance structure of the Company is aligned with its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub Committee and Management.

GOVERNANCE FRAMEWORK

The Corporate Governance Framework of LCB Finance PLC complies with the following regulatory requirements.

- Companies Act No.7 of 2007
- Finance Business Act No. 42 of 2011
- Finance Leasing Act, No.56 of 2000
- The Finance Companies Directions, rules, determinations, notices, and guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka in terms of the Finance Business Act Directions No.05 of 2021 on Corporate Governance and Finance Business Act Directions No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons
- The Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission.
- Continuing Listing Rules of the Colombo Stock Exchange (CSE)

ATTENDANCE FOR BOARD MEETING AND SUB COMMITTEE

Director	Board Meeting	BAC	BIRMC	RPTRC	HR & Rem. committee
Prof.Mr. W.M.A.Bandara (Resigned in July 2023)	4/12				
Mr. R. L. Masakorala	10/12				
Mr.K.I. Weerasinghe	9/12				
Mr. A.G.M. Priyantha (Resigned in September 2023)	5/12				
Mr. K.G. Leelananda	12/12				
Mr.D. Thotawatta	12/12	8/8	4/4	1/1	1/1
Mr.V. Lokunarangoda	10/12			1/1	
Mr. G. K. Nanayakkara	10/12	8/8			
Mr. U.K.H.R. Ranasinghe	9/12				1/1
Mr.K.I. Weerasinghe	9/12				
Mr.A.W. Nanayakkara	10/12		3/4		
Mr. M. Katulanda	9/12	4/8	2/4	1/1	1/1
Mr. J.P.C. Jayalath (w.e.f. October 2023)	6/12	1/8	3/4	1/1	

Section	Corporate Governance Principle	Compliance
1.	**BOARD'S OVERALL RESPONSIBILITIES**	
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.	Complied with The Board approved Strategic Business Plan for 2024-2029 is in place. The Board and the Management are well aware of the strategic objectives and organizational values which have been communicated throughout the Company. Further, the Board approved Strategic Plan for 2024-2029 has also been established.
1.2	Business Strategy and Governance Framework	
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.	Complied with Board approved Strategic Plan for 2024-2029 and projected financial statements / budget for the year 2024 are in place. The Board measures corporate performance against predetermined goals. The Company's Strategic Plan for 2024-2029 includes measurable goals for the next four 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.	Complied with The Board approved governance framework is in place.
1.2.c	Assessing the effectiveness of its governance framework periodically.	Complied with The governance framework is assessed annually by the Board of Directors.
1.2.d	Appoint the Chairman and the Chief Executive Officer and define the roles and responsibilities.	Complied with The Board approved functions and responsibilities of the Managing Director and Chairman is in place which complies with the section 6.4 and 6.5 of the Finance Business Act Direction 05 of 2021. The Chairman and CEO positions are held by two individuals, and the functions of the Chairman and the Managing Director are clearly documented, defined, and separated by the Board, thereby preventing unfettered powers for decision making being vested in one individual. There is a clear division of responsibilities between conducting the business of the Board and the day-to-day operations of the Company in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and ensuring its effectiveness. CEO's role is primarily to conduct the business operations of the Company with the help of Corporate Management. The roles of the Chairman and the CEO are clearly distinct from one another.
1.3	Corporate Culture and Values	
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent, and professional behaviour.	Complied with 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. A Board approved Code of Conduct for employees is in place. The Code of Conduct translates generic values into more specific policies and guidance, which in turn influences behaviour. The Code of Conduct emphasize that the Company sees the value in acting with integrity.
1.3.b	Playing a lead role in establishing the Company's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	Complied with The Board approved Code of Conduct is available to all employees including the Board of Directors. This Code focuses mainly on the following areas: Fair dealing, protection, and proper use of the Company's assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination, and harassment, health, and safety, discipline, etc.

Section	Corporate Governance Principle	Compliance
1.3.c	Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	Complied with Sustainable development goals are included in the Board approved Strategic Plan 2024 - 2029.
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.	Complied with 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.
1.4	Risk Appetite, Risk Management, and Internal Controls	
1.4.a	Establishing and reviewing the Risk Appetite Statement (RAS) in line with Company's business strategy and governance framework.	Complied with The Board approved Risk Appetite Statement (RAS) is in place which is in line with Company's business strategy and governance framework.
1.4.b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	Complied with Risk indicators and monitoring pertaining to Credit Risk, Liquidity Risk, and other residual risks are discussed and appropriate mitigating actions are recommended at the BIRMC meeting.
1.4.c	Adopting and reviewing the adequacy and the effectiveness of the Company's internal control systems and management information systems periodically.	Complied with The Board Audit Committee assists the Board in assessing the adequacy and integrity of the internal controls system, management information system (MIS), and financial reporting processes of the Company. The Internal Audit Department helps the process by carrying out audits to assess the internal controls over financial reporting and MIS. Further, the External Auditors were engaged in providing assurance on the Directors' Responsibility Statement on Internal Controls over financial reporting included in the annual report, and their opinion was submitted to the Board.
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.	Being developed The Business Continuity Management Committee is appointed to provide strategic direction and support in establishing, implementing, operating, monitoring, reviewing and improving the business continuity management systems of the Company. A frequent BCM drills are initially conducted covering core business units of the organization to ensure the effectiveness of the Company's business continuity and disaster recovery planning.
1.5	Board Commitment and Competency	
1.5.a	All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the Company.	Complied with The Board possesses necessary qualifications, skills, knowledge, and experience bringing with it a range of expertise in multiple sectors, perspectives and knowledge that reflect the broader requirements of various stakeholders The Board has defined the areas of authority and key responsibilities of the Board Members. In addition, Non-executive Directors have specific areas of responsibility through the various Sub Committees of the Board.
1.5.b	All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.	Most of 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.	Complied with The Board regularly reviews and agrees the training and development needs of its members, along with the annual self-evaluation of Directors that is carried out. Training and development needs of the members are reviewed and regular updates pertinent to the regulatory and business environment are provided in a timely manner

Corporate Governance Report *Contd.*

Section	Corporate Governance Principle	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.	Complied with Each Director performs an annual self-assessment of his own effectiveness as well as the performance of the Board as a whole based on the criteria set by the Board and records are maintained of such assessments. The latest self-assessment of the Board was carried out and the results of the evaluation were discussed by the Chairman with the members of the Board at the Board Meeting. The mandatory sub-committee performance evaluations for the Audit Committee and the Integrated Risk Management Committee was conducted for 2023-24 and tabled.
1.5.e	The Board shall resolve to obtain external, independent, professional advice to the Board to discharge duties to the FC.	Complied with The Board Charter empowers a director seeking professional advice at the Company's expense, in order to discharge the duties and responsibilities effectively. This procedure is coordinated through the Company Secretary, as and when it is requested
1.6	Oversight of Senior Management	
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.	Complied with Identification and designation of Senior Management - Key Responsible Persons (KRP), who are in a position to significantly influence policy and other attributes are identified through an evaluation process. All Directors, Deputy General Managers and Assistant General Managers have been identified as KRPs. Company's Compliance Officer, Chief Risk Officer, Head of Internal Audit and the Company Secretary have also been designated as KRPs. All appointments of designated KRP are recommended by the Nomination Committee and approved by the Board. KRP / KMP (Key Management Personnel) are also defined in the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", as the persons who significantly influence policy, direct activities and exercise control over business activities, operations, and risk management. For financial reporting purposes, the Company defines KRP as the Board of Directors
1.6.b	Defining the areas of authority and key responsibilities for the senior management.	Complied with Areas of authority and key responsibilities have been defined for Senior Management through their employment contracts and exigencies of evolving business needs. The delegated authority for KRPs have been reviewed and approved by the Board. Senior Management has delivered the entrusted responsibilities at expected levels within their respective areas of authority during the year
1.6.c	Ensuring the senior management possesses the necessary qualifications, skills, experience, and knowledge to achieve the FC's strategic objectives.	Complied with Necessary qualifications, skills, experience and knowledge of the Senior Management is assessed upon recruitment and during periodical performance assessment of the Senior Management to ensure whether they fit the position to achieve the Company's Strategic Objectives

Section	Corporate Governance Principle	Compliance
1.6.d	Ensuring there is appropriate oversight of the affairs of the Company by senior management.	Complied with The Board at its monthly meetings and Board Sub Committees/ Management Committees at its detailed monthly review ensures that there is appropriate oversight of the Company's affairs by Senior Management and consistent with its Strategic Objectives and corporate values of the Company.
1.6.e	Ensuring the FC has an appropriate succession plan for senior management.	Complied with A documented Succession Plan is in place for all Senior Management positions and training programs are being continuously reviewed and formulated to ensure that there is adequate succession capacity at all levels of the Senior Management
1.6.f	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.	Complied with The Board meets with Senior Management on a monthly basis in reviewing policies, monitoring progress towards Corporate Strategic Objectives and ensuring lines of communication. In addition, presentations are made to the Board as a whole or to individual Directors on matters of interest. The Management Committees (MGCs), a committee comprising Executive Directors and Senior Management meets on a monthly basis to review policies, procedures and to monitor the strategic initiatives and Company performance. Further, Senior Management members attend Board sub-committee meetings on invitation to facilitate effective review, monitoring and decision making
1.7	Adherence to the Existing Legal Framework	
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.	Complied with The Company acts responsibly giving due consideration to the interests of and obligations to, depositors, shareholders and other stakeholders. Compliance with related regulatory requirements is monitored by the Compliance Function on a continuous basis and the same is audited periodically. Any deviations noted on compliance with the Legal Framework are brought to the attention of the Board Sub-committees and subsequently to the Board
1.7.b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	Complied with Executive Director, Head of HR, Head of Compliance and Company Secretary updates the Board Members on changes to the regulatory environment. Regular discussions, training and seminars are arranged for Directors and Senior Management to facilitate understanding the regulatory environment and to ensure compliance with relevant laws, regulations, directions and ethical standards. Compliance with related regulatory requirements is monitored by the Compliance Function on a continuous basis and the same is audited periodically. Any deviations noted on compliance with the Legal Framework are brought to the attention of the Board Subcommittees and subsequently to the Board.
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.	Complied with The management of the Company acts with due care and prudence, and with integrity. The Board and the Senior Management are always on alert and aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently

Section	Corporate Governance Principle	Compliance
2.	**GOVERNANCE FRAMEWORK**	
2.1	Board shall develop and implement a governance framework in line with the Finance Business Act Directions No.05 of 2021.	Complied with The Board implements the governance framework within the Company, which encompasses the requirements specified in the Direction
3.	**COMPOSITION OF THE BOARD**	
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.	Complied with During the year the Board comprised of Ten (10) Directors with a diverse mix of skills and expertise for effective oversight of the management of the Company. This mix of skills and experience was adequate to meet the requirements of the Company taking into consideration its size, complexity and risk profile. Transitional period until 01.07.2024 has been granted to comply with the new requirements under Section 3.2 of the Finance Business Act Directions No. 05 of 2021 for the number of Directors to be not less than seven (7) and not more than thirteen (13) However, the Company is already in compliance with the requirement.
3.2	The number of directors on the Board shall not be less than 7 and not more than 13.	Complied with As at 31 March 2024, The Board of Directors Comprise ten (10) members which is within the statutory limit required by the direction. The objective of the Company is to maintain a healthy balance between Executive, NonExecutive and Independent Directors
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.	Complied with Non-executive Directors serving on the Board have not served on the Board for more than nine years.
3.4	Non-Executive directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. Provided, however, the number of non-executive directors eligible to exceed 9 years is limited to one-fourth (¼) of the total number of directors on the Board.	Complied with There are no Non-Executive Directors who hold more than 10% of voting rights of LCB Finance Company holding office
3.5	Executive Directors	
3.5.a	Only an employee of a Company shall be nominated, elected, and appointed, as an Executive Director of the Company, provided that the number of Executive Directors shall not exceed one-third (1/3) of the total number of directors of the Board.	Complied with Throughout the financial year there was one executive director who is the Chief Executive Officer out of ten Directors. The number of executive directors has not exceeded one-third of the total number of directors of the Board. There have been no new appointments of Executive Directors during the year. The total number of Executive Directors of the Company does not exceed one-half of the number of Directors of the Board as per the requirements under Finance Companies (Corporate Governance) Direction No. 03 of 2008. Transitional period until 01.07.2024 has been granted to comply with the new requirements under section 3.5 (a) of the Finance Business Act Directions No. 05 of 2021 to limit the number of Executive Directors to 1/3rd of the Board.

Section	Corporate Governance Principle	Compliance
3.5.b	A shareholder, who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an executive director or as senior management. Provided however, existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/ senior management until the retirement age of the FC and may be reappointed as a non-executive director subject to provisions contained in directions 4.2 and 4.3. Existing executive directors without a contract of employment and functional reporting line need to step down from the position of executive director from the effective date of this direction and may be reappointed as non-executive directors subject to provisions contained in directions 4.2 and 4.3.	Complied with Executive Directors or Senior Management does not hold more than 10% of the voting rights of the Company
3.5.c	In the event of the presence of the Executive Directors, CEO shall be one of the Executive Directors and may be designated as the Managing Director of the Company.	Complied with Mr. K.G. Leelananda is an Executive Director and is designated as Director/Chief Executive Officer of the Company
3.5.d	All Executive Directors shall have a functional reporting line in the organization structure of the Company.	Complied with CEO is the only Executive Director and assigned to specific functional areas in the Company.
3.5.e	The Executive Directors are required to report to the Board through the CEO.	Complied with CEO is the only Executive Director and directly reports to the Board.
3.5.f	Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.	Complied with The CEO who is the only Executive Director, does not hold executive directorships or senior management positions in any other Company.
3.6	Non-Executive Directors	
3.6.a	Non-Executive directors (NED) shall possess credible track records and have the necessary skills, competency, and experience to bring independent judgement on the issues of strategy, performance, resources, and standards of business conduct.	Complied with The Non-executive Directors possess skills and experience from a number of industries and business sectors, including the leadership of large multinational enterprises which helps to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct.
3.6.b	A Non-Executive Director cannot be appointed or function as the CEO/ Executive Director of the Company.	Complied with Non-executive Directors do not get involved in day-to-day business operations of the Company and are not appointed or required to function as an Executive Director of the Company.
3.7	Independent Directors	
3.7.a	The number of Independent Directors of the Board shall be at least three or one-third of the total number of directors, whichever is higher.	Complied with Three (3) out of ten (10) Directors are Independent Directors which is within the requirement of this direction. The composition of the Board of Directors is published on pages 46 to 47 of the Annual Report.
3.7.b	Independent Directors appointed shall be of the highest caliber, with professional qualifications, proven track records, and sufficient experience.	Complied with The Independent Directors are eminent persons with knowledge, expertise and experience in different business sectors which has added diversity and brought about better judgment in matters relating to strategy, performance and resources. A brief profile of their expertise and experience is given on pages 48 to 49.
3.7.c	A Non-Executive Director shall not be considered independent if such:	
3.7.c.i	Director has a direct or indirect shareholding exceeding 5% of the voting rights of the Company or exceeding 10% of the voting rights of any other Company.	Complied with In 2023/24, no such circumstance occurred.

Section	Corporate Governance Principle	Compliance
3.7.c.ii	Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.	Complied with In 2023/24, no such circumstance occurred.
3.7.c.iii	Director has been employed by the Company or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director.	Complied with In 2023/24, no such circumstance occurred.
3.7.c.iv	Director has been an advisor or consultant or principal consultant/ advisor in the case of a firm providing consultancy to the Company or its affiliates during the one year preceding the appointment as director.	Complied with In 2023/24, no such circumstance occurred.
3.7.c.v.	Director has a relative, who is a director or senior management of the Company or has been a director or senior management of the Company during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the Company or exceeding 20% of the voting rights of another Company.	Complied with In 2023/24, no such circumstance occurred.
3.7.c.vi	Director represents a shareholder, debtor, or such other similar stakeholder of the FC;	Complied with In 2023/24, no such circumstance transpired.
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;	Complied with In 2024, no such circumstance occurred.
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	Complied with In 2023/24, no such circumstance transpired.
3.7.d.	The nomination committee and Board should determine whether there is any circumstance or relationship, which is not listed in direction 3.7, which might impact a director's independence or the perception of the independence.	Complied with The Nomination Committee and the Board assess whether there are any circumstances or relationships, beyond those specified in the direction, that could potentially influence the independence of a director or create a perception that their independence may be compromised at the annual evaluation process. However, no such incidents were determined during the year
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.	Complied with A process is in place to disclose immediately to the Board on any change in circumstance that may affect the independence of an Independent Non-Executive Director. No such changes in the status of the independence were reported to the Board during the year
3.8	Alternate Directors	Complied with There were no instances of appointing Alternate Directors for any of the members of the Board of Directors during the year
3.9	Cooling off Periods	Complied with Mr. J.P.C. Jayalath has been appointed as an independent director on our board, effective from October 2023.

Section	Corporate Governance Principle	Compliance
3.10	Common Directorships	
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).	Complied with As at 31.03.2024, none of the Directors on the Board or Senior Management of the Company were nominated, elected or appointed as a Director of another Finance Company.
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.	Complied with None of the Directors hold Directorships in more than 20 Companies including the subsidiaries and associates companies of Central Finance Company PLC as at 31.03.2024.
4.	**ASSESSMENT OF FIT AND PROPER CRITERIA**	
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.	Complied with Fitness and Propriety of Directors are assessed annually in terms of the requirements of the Finance Business Act Direction no. 6 of 2021 Assessment of Fitness and Propriety of Key Responsible Persons.
4.2	A person over the age of 70 years shall not serve as a director of an FC.	Complied with All the Directors as at 31st March 2024 are below the age of 70 years and the Company Secretary monitors the compliance.
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;	Only one director exceeded age of 70years in April 2024, no any other appointments occurred during the year.
4.3.a	Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	In 2024, Annual Assessment of all directors have been completed
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).	The Age of the Mr. V. Lokunarandoda (Director) has exceeded 70 years and necessary documentation has been forwarded to the Central Bank of Sri Lanka (CBSL) for the approval.
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.	Only one director exceeded age of 70years in 2023/24, no any other appointments occurred during the year.
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.	Mr. V. Lokunarandoda was appointed as a director on May 9, 2018
5.	**APPOINTMENT AND RESIGNATION OF DIRECTORS AND SENIOR MANAGEMENT**	
5.1	The appointments, resignations, or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	Complied with All the appointments and resignations to the Board and Senior Management were made in accordance with the Finance Business Act direction no. 6 of 2021 Assessment of Fitness and Propriety of Key Responsible Persons
6.	**THE CHAIR AND THE CHIEF EXECUTIVE OFFICER**	
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.	Complied with There is a clear separation of duties between the roles of the Chairman and the Chief Executive Officer. These positions are held by two separate individuals who have been appointed by the Board.
6.2	The Chairperson shall be an Independent Director, subject to 6.3 below.	Complied with
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.	Chair person's performance has been assessed for the year 2023/24.

Section	Corporate Governance Principle	Compliance
6.4	Responsibilities of the Chairperson	
6.4.a	Provide leadership to the Board;	Complied with
6.4.b	Maintain and ensure a balance of power between the Executive and Non-Executive Directors;	The Chairman provides leadership to the Board and ensures that the Board works effectively and discharges its responsibilities. He also ensures that all key issues are discussed by the Board in a timely manner.
6.4.c	Secure effective participation of both Executive and Non-Executive Directors.	
6.4.d	Ensure the Board works effectively and discharges its responsibilities	The Board Secretary prepares the agenda for Board meetings under the direct supervision of 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 agenda with Notice of Meeting is duly circulated to the Directors at least seven days prior to the date of the meeting.
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.	All Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.
6.4.h	Not engage in activities involving direct supervision of senior management or any other day-to-day operational activities.	The Chairman ensures full and active contribution of all members of the Board including executive and non-executive members, and maintains the balance of power between the two parties.
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.	The Chairman does not engage in activities involving the direct supervision of Senior Management on operational activities.
6.4.j	Annual assessment of the performance and the contribution during the past 12 months of the Board and the CEO.	Chairman takes the lead in implementing decisions and directions by the regulators.
6.5	Responsibilities of the CEO	
	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	Complied with CEO implements business and risk strategies in order to achieve the established strategic objectives.
6.5.a	Implementing business and risk strategies in order to achieve the FCs strategic objectives;	
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;	CEO establishes a management structure that promotes accountability and transparency throughout the 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.	He promotes a sound corporate culture within the Company, while reinforcing ethical, prudent and professional behaviour.
6.5.d	Ensuring the implementation of a proper compliance culture and being accountable for accurate submission of information to the regulator.	CEO ensures the implementation of proper compliance culture and being accountable for accurate submission of information to the regulator where applicable.
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.	Works to strengthen the regulatory and supervisory compliance framework. He addresses the supervisory concerns and any situations of 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.	
7.	**MEETINGS OF THE BOARD**	
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.	Complied with The Board meets at monthly intervals, but meets more frequently whenever it is necessary. Circulation of written or electronic resolutions / Board papers to obtain Board's consent was minimized and approvals obtained through the circulation of resolutions / Board papers are subsequently ratified at the next Board Meeting. The Company has held 12 Board meetings during the year. Details of the meetings and individual attendance during the year 2023/24 are given on page 55.

Section	Corporate Governance Principle	Compliance
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.	Complied with Procedures are in place to enable matters and proposals from all Directors to be included in the agenda for regular meetings as and when they arise.
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.	Complied with The Annual Board meeting calendar is scheduled at the end of the previous year enabling the Board of Directors to attend meetings. Directors are given notice of at least 3 days for regular Board Meetings.
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	Complied with All Directors contribute actively to matters arising at Board meetings and actively contribute by providing views and suggestions.
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.	Complied with The meetings of the Board have always been constituted by fulfilling the quorum requirement, where at least one fourth (1/4) of the number of Directors constituting the quorum are Independent Directors. As per the attendance of the Board Meetings during the year 2023/24, the required quorum has been maintained at all Board Meetings. Details of the meetings and individual attendance during the year 2023/24 are given on page 55
7.6	The Chairperson shall hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary, and at least twice a year.	Complied with The chairman of the Board has met the Non-executive Directors without the presence of the Executive Management twice during the year 2023/24.
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.	Complied with Procedure is in place for Directors to abstain from voting on any Board Resolution, when the Director or any of his relatives or a concern, in which he has substantial interest, is interested and the Director is not counted for the quorum for the relevant agenda item. Further a director does not participate in any discussion on a related party transaction for which he or any of his immediate family members are associated with and is required to provide all material information concerning the related party transactions to the Board.
7.8	A director, who has not attended at least two-thirds of the meetings in the period of 12 months, immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance.	Complied with All Directors have attended more than two-thirds of the meetings held during the year. No Director has been absent from attending three consecutive meetings held in 2023/24. Attendance at Board Meetings is given on page 55
7.9	Scheduled Board Meetings and Ad Hoc Board Meetings	
	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.	Complied with For the scheduled meetings the members are always encouraged to participate in person while for ad hoc meetings virtual meetings are held as and when required. During the year all meetings were held as physical meetings and participation in person or through electronic media is recorded in the minutes.

Section	Corporate Governance Principle	Compliance
8.	**COMPANY SECRETARY**	
8.1.a.	The Board shall appoint a Company Secretary considered to be senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with This section is currently in compliance with the Section 3 (5) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008. P R. secretarial services (Pvt) Ltd. provided secretarial services to the Board. However, to comply with the requirement under Section 8.1 (a) and (b) of the Finance Business Act Directions No. 05 of 2021, The Board will appoint a qualified corporate secretary, who will be considered as a Key Responsible Person (KRP) of the Company starting from July 31, 2024
8.1.b.	The Board shall appoint its Company Secretary, subject to the transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a Company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the Company Secretary, such person shall become an employee of the Company and shall not become an employee of any other institution.	Complied with P R. secretarial services (Pvt) Ltd who functions as the Company Secretary of the Company have met the required qualifications. However, to comply with the requirement under Section 8.1 (a) and (b) of the Finance Business Act Directions No. 05 of 2021, The Board has appointed a qualified corporate secretary, who will be considered as a Key Responsible Person (KRP) of the Company starting from July 31, 2024
8.2	All directors shall have access to the advise and services of the Company Secretary with a view to ensuring the Board procedures laws, directions, rules, and regulations are followed.	Complied with Service of the Board Secretary is available for all Directors in discharging their duties to the Company. The Board Secretary has provided the Board with support and advice relating to corporate governance matters, Board procedures and applicable laws, rules and regulations during the year.
8.3	The Company Secretary shall be responsible for preparing the agenda in the event the Chairperson has delegated carrying out such function.	Complied with The Board Secretary prepares the agenda, in consultation with the Chairman.
8.4	The Company Secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	Complied with Company Secretary maintains the minutes of Board Meetings with sufficient details. Upon a reasonable request, any Director can inspect the minutes
8.5	The Company Secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.	Complied with Minutes of the Board meetings with all submissions to the Board are maintained for a minimum period of 6 years.
8.6	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly include the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) fact-finding discussions and the issues of contention or dissent including contribution of each individual director. (d) the explanations and confirmations of relevant parties which indicate compliance with the Board's strategies and policies and adherence to relevant laws 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; (f) the decisions and Board resolutions.	Complied with Minutes of the Board Meetings are maintained in sufficient detail by the Board Secretary as defined in the direction
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied with Minutes are available for the inspection of the Directors. A Board approved procedure is available to inspect the minutes

Section	Corporate Governance Principle	Compliance
9.	**DELEGATION OF FUNCTIONS BY THE BOARD**	
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.	Complied with The Company has a board approved a Delegation of Authority (DA) that gives clear directions to the senior management as to the matters that the Board shall approve before decisions are made by senior management on behalf of the Company.
9.2	In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	Complied with There are five Board appointed Sub-committees, namely Audit Committee, Remuneration Committee, Nomination Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee. Minutes of the meetings of these Committees are circulated to the main board to ensure the functions stipulated under such committees based on the charter/terms of reference are conducted effectively
9.3	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.	Complied with The Board has appointed the following Senior Management level sub-committees to assist the Board in its decisions with appropriate Delegated Authority: Assets and Liability Management Committee (ALCO) Head office Credit Committee IT Steering Committee Information Security Committee (ISC) Disposal of Repossessed Assets Head office committee for evaluation of sale of assets Product Development Committee Investment Committee
9.4	The Board shall not delegate any matters to a Board Sub-committee, Executive Directors, or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with The Board has not delegated 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.
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.	Complied with The Board periodically evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
10.	**BOARD SUB-COMMITTEES**	
	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.	
	Board Sub-Committees	
	FCs with asset base of more than Rs. 20 bn	
	Shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee.	Complied with In terms of the FBAD No.05 of 2021, the Company has in operation a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Nomination Committee (BNC), Board Human Resource and Remuneration Committee (BHRRC), and Board Related Party Transactions Review Committee (BRPTRC). In addition, Board Credit Committee (BCC) have been formed. There were 6 BAC meetings and 04 BIRMC meetings held during the year 2023/24. Please refer ‘Directors’ Attendance and Committee Memberships’ table given on pages 55 & 104-110 of the Annual Report.
	Meetings - Meetings shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually.	There were 6 BAC meetings and 04 BIRMC meetings held during the year 2023. Please refer ‘Directors’ Attendance and Committee Memberships’ table given on pages 55 & 104-110 of the Annual Report.

Section	Corporate Governance Principle	Compliance
10.1.b	Each Board sub-committee shall have a written term of reference specifying clearly its authority and duties.	Complied with The TORs for the required sub-committees are in place.
10.1.c	The Board shall present a report on the performance of duties and functions of each Board Sub- Committee, at the Annual General Meeting of the Company.	Complied with The performance and duties of the sub-committees are given on the pages 104 to 110 of the annual report
10.1.d	Each sub-committee shall appoint a Secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records, and carry out such other such secretarial functions under the supervision of the Chairperson of the committee.	Complied with Each subcommittee has a secretary that, maintains meeting minutes and carry out such other secretarial functions under the supervision of the Chairperson of the committee
10.1.e	Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge, and experience relevant to the responsibilities of the committees.	Complied with Each committee comprises at least three (3) Board members who possess skills, knowledge and experience relevant to the responsibilities of the board Sub Committees.
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.	Complied with Occasional rotation of members and Chairpersons of the Board Sub Committees are considered as and when required
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.	Complied with The Board appointed Mr. D. Thotawatta as the Chairman of the Board Audit Committee w.e.f. 24th August 2020. Mr. D. Thotawatta is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, having Master of Art in Financial Economics degree from University of Colombo. He graduated from the University of Sri Jayewardenepura, Sri Lanka with a Degree in B.Com specializing in Financial Accountancy.
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.	Complied with The Board Audit Committee consist with three Independent Non-Executive Directors and one None Executive Director. Members are Mr D Thotawatta (Chairman) Independent, Non-Executive Director Mr. Mahesh Katulanda– Independent, Non - Executive Director Mr J.P.C. Jayalath– Independent, Non- Executive Director Mr G K Nanayakkara - Non- In depended Non- Executive Director All of them have expertise and knowledge in the fields of banking, finance, Legal, information technology, etc.
10.2.c	The secretary to the Board Audit Committee shall preferably be the Chief Internal Auditor (CIA)	Internal Audit Manager functions as the Secretary of the Audit Committee.
10.2.d	External Audit Function	
	i. The BAC shall make recommendations on matters in connection with the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the auditor.	Complied with The BAC makes the following recommendations to the Board regarding. The appointment of M/S Ernst & Young, Chartered Accountants as External Auditor for audit services provided in compliance with the relevant statutes for the financial year The implementation of the Central Bank guidelines issued to Auditors from time to time. The application of the relevant accounting standards
	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.	Complied with Engagement period of current audit partner is 5 years. External Audit firm will be rotated subject to the transitional provisions

Section	Corporate Governance Principle	Compliance
10.2.d	iii. The audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.	Complied with Audit Partner is not a director or employee and does not hold any senior management position 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.	Complied with External Auditors are independent and report directly to the Board Audit Committee of the Company. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking into account the regulations and guidelines.
	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.	Complied with The Company has a policy on the engagement of the external auditor in the provision of 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.	Complied with The BAC has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with Sri Lanka Accounting Standards.
	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: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with Financial statements are circulated to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit recommendations and compliance with statutory requirements takes place and obtains required clarifications in respect of all areas before being recommended for the Board Approvals
	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.	Complied with Audit Committee met with the External Auditors and provided them opportunity to discuss material issues, problems or reservations arising from audits without the presence of any other directors/senior management
	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.	Complied with The Committee has reviewed the External Auditor's Management letter and management responses thereto, relating to the audit for the year ended 31st March 2023.
10.2.e	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	Complied with The process has been set in place to review the effectiveness of the system of internal controls
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.	Complied with The BAC monitors these through regular reporting from the Internal Audit Department

Section	Corporate Governance Principle	Compliance
10.2.g	Internal Audit function:	
	i. The Committee shall establish an Independent Internal Audit function, either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the Company's internal control, risk management, governance systems and processes	Complied with There is an in-house Internal Audit Department and a Chief Internal Auditor to be appointed.
10.2.g	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.	Complied with The Manager Internal Audit directly reports to the BAC. The Internal Audit function has a clear mandate to carry out its functions within the Company as per the Board approved Internal Audit Charter
	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;	Complied with Board Audit Committee has discussed the adequacy of the scope, functions, and resources of the Internal Audit Department
	(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 ;	Complied with The Board Audit Committee has reviewed and approved the Annual Internal Audit Program. Internal Audit Reports, with the management comments, have been discussed at length, and action is taken to rectify the same.
	(iii) Assess the performance of the head and senior staff members of the Internal Audit Department;	Complied with Performance appraisal of the Head of Internal Audit for the year 2023/24 is to carried out.
	(iv) Ensure that the Internal Audit Function is independent and activities are performed with impartiality, proficiency, and due professional care;	Complied with In terms of the Organization Chart of LCB Finance PLC, the 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.	Complied with There is regular reporting to the BAC on the status of investigations.
	(vi) Examine the major findings of internal investigations and management's responses thereto. ;	Complied with 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.	Complied with The progress of implementation of recommendations of CBSL on-site investigation report to be reviewed by BAC quarterly basis
10.2.i	Meetings of the Committee	
	i. The committee shall meet as specified in direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with Every BAC meeting is duly recorded and minutes are submitted to the Board for its information.
	ii. Other Board members, senior management, or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview.	Members of the Board Audit Committee, the Head of Internal Audit, and the AGM Finance attend the meetings. Chief Executive Officer attend by invitation.
	iii. BAC shall meet at least twice a year with the external auditors without any other directors / senior management / employees being present.	We will ensure to hold committee meeting with the External Auditors, without the Executive Management being present, to discuss any matters (if any) the auditor may wish to discuss.

Section	Corporate Governance Principle	Compliance
10.3	Board Integrated Risk Management Committee (BIRMC)	
	The following shall apply in relation to the BIRMC	
10.3.a.	The Committee shall be chaired by an Independent Director. The Board members appointed to BIRMC shall be Non-Executive Directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with Senior Management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied with The Chairman of the Committee is an Independent Non-Executive Director. The Committee consists of three Independent Non -Executive Directors. CRO as the Secretary to the Integrated Risk Management Committee as at the reporting date. The Committee closely works with Key Responsible Personnel and makes decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
10.3.b	The secretary to the committee may preferably be the CRO.	Complied with CRO as the Secretary to the Integrated Risk Management Committee as at the reporting date.
10.3.c	The committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, compliance and technology to the Company at least once 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;	Complied with Key risks are assessed on a regularly basis through appropriate risk indicators and management information and reported to the respective Management Committees and summary reports are submitted to the Integrated Risk Management Committee at quarterly intervals for necessary guidance.
10.3.d	Developing the Company's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns throughout the FC.;	Complied with Board approved RAS is in place which identifies the risk tolerance limits of the Company.
10.3.e.	The BIRMC shall review the Company's risk policies including RAS, at least annually.	Complied with The BIRMC reviews the Company's risk policies, including RAS at a regular interval
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.	Complied with In fulfilling its responsibilities, the Committee reviewed the adequacy and effectiveness of Management Committees to manage risks within quantitative and qualitative risk limits. BIRMC assessed the adequacy and effectiveness of the Assets & Liabilities Committee (ALCO) to address specific risks.
10.3.g	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Board-approved Disaster Recovery Plan (DR) are in place and are reviewed periodically. BCP is to be reviewed by the BIRMC
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO.	Complied with The Committee assesses the performance of the Compliance Officer and CRO

Section	Corporate Governance Principle	Compliance
10.3.i	Compliance function	
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.	Complied with The Committee has established a separate compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on respective areas of business operations
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 Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	A Compliance Officer has been appointed.
10.3.i.iv	The responsibilities of a compliance officer would broadly encompass the following:	
	i) Develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements;	Complied with Board approved policies and procedures are in place commensurate with the size, complexity and risk profile of the Company
	ii) Ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;	Complied with Board approved Compliance policy is in place and communicated to Senior management and branch mangers
	(iii) Ensures that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;	Complied with 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;	Complied with All new legal and regulatory developments are applied as applicable
	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	Complied with Board approved new product 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	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	Regular contact and a good working relationship with regulators is maintained.
10.3.j	Risk management function	
10.3.j.i	BIRMC shall establish an independent risk management function responsible for managing risk- taking activities across the FC.	Complied with The Company is to establish an Independent Risk Management function.
10.3.j.ii	For FCs with an asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO, considered to be senior management, shall carry out the risk management function and report to the BIRMC periodically.	N/A

Section	Corporate Governance Principle	Compliance
10.3.j.iii	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	Complied with A separate department for Risk Management Function is established, which is headed by the CRO. Reports / observations are submitted to the BIRMC The Company has established Risk Management policies with relevant RAS and is in line with the strategic objectives of the Company
10.3.j.iv	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: a) various potential risks and frauds b) possible sources of such risks and frauds; c) mechanism of identifying, assessing, monitoring and reporting of such risks and frauds; includes quantitative and qualitative analysis covering stress testing. d) effective measures to control and mitigate risks at prudent levels; and e) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually	Complied with Risk Management controls are functioning in an integrated manner in the Company as required by the direction. A stress testing policy is established and testing results are presented at the BIRMC meetings periodically.
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.	Complied with CRO 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.	Complied with The Risk Register is submitted to the BIRMC on a quarterly basis.
10.3.j.vii	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	The Board of Directors have the ultimate responsibility for the risk management of the Company. Minutes of the BIRMC meetings and Risk Trajectory is tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on significant issues raised and decisions taken at the committee meetings, enabling the Board to make correct decisions. The Risk Trajectory Report based on discussions at the BIRMC is submitted to the subsequent Board Meeting
10.4	Nomination Committee	
	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.	Complied with The committee is comprised of two independent director and one Non-Executive Director and one Executive Director. The members are Mr. D. Thotawatta (Chairman), Mr.U.K.H.R. Ranasinghe, Mr. Katulanda and Mr. K.G. Leelananda (CEO/Executive Director)
10.4.b	Secretary to the nomination committee may preferably be the Company Secretary.	Secretary to the committee is the Company Secretary.
10.4.c	The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management is to be appointed with the recommendation of CEO, excluding CIA, CRO and Compliance officer.	Complied with The Company has a formal and transparent procedure to select/appoint new directors and senior management. Senior management is to be appointed with the recommendation of the CEO, excluding the CIA, CRO and Compliance Officer
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).	Complied with Fitness and propriety for Board of Directors are evaluated on an annual basis and for senior management fitness and propriety is evaluated at the time of appointment, promotion, renewal of contracts or on lateral moves

Section	Corporate Governance Principle	Compliance
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.	Complied with The selection process includes 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; (iii) have sufficient time to carry out their responsibilities fully
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.	Complied with The committee ensures 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
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.	Complied with The qualifications, experience and critical attributes required for eligibility, to be considered for appointment to the CEO and Senior Management have been clearly mentioned in the Board approved Job Description.
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: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent.	The Company conforms to the stated section.
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.	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.	Complied with This is considered at the BNC and BNC is responsible for the selection, nomination, appointment, election, and retirement of KRPs.
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.	Complied with The members will not participate in decision making relating to own appointments or reappointments
10.5	Human Resources and Remuneration Committee	
	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.	Complied with The Committee is comprised of two Independent Directors and one Non-Executive Non-Independent Director, committee is chaired by Prof. Mr. Thotawatta (Indepensent Director). Other members of the committee are Mr.U.K.H.R. Ranasinghe and Mr. M. Katulanda.
10.5.b	The secretary to the Human Resource and Remuneration Committee may preferably be the Company Secretary.	The Company Secretary functions as the secretary to the committee.
10.5.c	The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and senior management of the FC and fees and allowances structure for Non-Executive Directors.	The Committee determines the remuneration policy relating to Executive Directors and Senior Management
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	The remuneration policy has been developed to achieve fair and equitable benefits with transparent guidelines

Section	Corporate Governance Principle	Compliance
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.	Complied with The remuneration policy has been recommended by BHRRC and approved by the Board
10.5.f	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests, and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take an excessive risk or to act in self- interest.	Complied with The remuneration structure is aligned with the Company's business strategy, objectives, values, long-term interests and cost structure. It also includes measures to prevent conflicts of interest
10.5.g	The committee shall review the performance of the senior management (excluding Chief Internal Auditor, Compliance Officer, Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits, and other payments of performance-based incentives.	The performance of the senior management excluding the Manager Internal Audit, CRO and Head of Compliance has been conducted through an effective annual evaluation process which will determine the basis for the remuneration revisions. These will be reviewed by HRRC from the next evaluation cycle.
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.	Respective senior management personnel abstain from attending meetings, when matters related to them are discussed.
11.	**INTERNAL CONTROLS**	
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.	Complied with 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. The Committee is assisted in this function by Internal Audit Department. Further, the External Auditors were engaged in providing assurance on the "Directors Responsibility Statement on Internal Controls over Financial Reporting" and it is given on pages 115 to 117 Internal Controls have been embedded to the day-to-day operations of all employees and all employees are accountable are responsible for protecting the Company and achieve its objectives.
11.2	A proper internal control system shall: a) promote effective and efficient operations; b) provide reliable financial information; c) safeguard assets; d) minimize the operating risk of losses from irregularities, fraud, and errors; e) ensure effective risk management systems; and f) ensure compliance with relevant laws, regulations, directions, and internal policies.	
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	
12.	**RELATED PARTY TRANSACTIONS**	
12.1	Board shall establish a policy and procedures for related party transactions, which covers the following.	
12.1.a	All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the Chairperson shall be an Independent Director and the members shall consist of Non-Executive Directors.	Complied with The Board has established a Board Related Party Transactions Review Committee, and it is comprised of three Independent Directors and one Non-Executive Non independent Director.
12.1.b	All related party transactions shall be prior reviewed and recommended by the RPTRC.	Complied with The Board approved policy is in place for governing the Related Party Transactions. All Related Party transactions were carried out in accordance with the requirement of the Direction & other statuary requirement.

Section	Corporate Governance Principle	Compliance
12.1.c	The business transactions with a related party that is covered in this Direction shall be the following: i. Granting accommodation; ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable; iii. Providing financial or non-financial services to the FC or obtaining those services from the FC. iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to sharing proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.	Complied with The RPT policy defined the transactions that can be carried out by the company to avoid any non-compliance and conflicts of interest. All related party transactions have been disclosed in the Financial Statements.
12.2	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. a) Directors and senior management. b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC. c) Subsidiaries, associates, affiliates, holding Company, ultimate parent Company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa d) Directors and senior management of legal persons in paragraph (b) or (c). e) Relatives of a natural person described in paragraph (a), (b) or (d). f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.	Complied with The Board approved Related Party Transaction Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties "more favourable treatment" as defined in this Direction. The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties.
12.3	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: a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FC's regulatory capital, as determined by the committee. b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counter-party; c) Providing preferential treatment, such as favourable terms, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related party without a proper evaluation procedure; e) 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	Complied with Internal controls have been deployed to comply with these parameters. Sufficient education has been provided to relevant employees in this regard There is a documented process approved by the Board which clearly defines related party transactions and ensures that the Company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than what is accorded to other constituents of the Company carrying out similar transactions with the Company

Section	Corporate Governance Principle	Compliance
13.	**GROUP GOVERNANCE**	
13.1	Responsibilities of the FC as a Holding Company.	The Company is 72% owned subsidiary of LCB Limited. Further, the Company does not have subsidiaries or associates.
13.2	Responsibilities as a Subsidiary	
	If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.	The Company is 72% owned subsidiary of LCB Limited. The Company fulfills its own legal and governing obligations.
14.	**CORPORATE CULTURE**	
	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.	Complied with The Company has developed a Code of Business Conduct and Ethics for all employees covering the areas of conflict of interest, bribery and corruption, accurate accounting and record keeping, confidentiality, 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
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.	Complied with Breaches of Code of Conduct are recorded and such breaches are addressed by the Human Resource Department, in a manner that upholds high standards of integrity
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.	Complied with The Company has in place a Whistleblowing Policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees can raise concerns about illegal, unethical or questionable practices in a confidential manner and without the risk of reprisal.
15.	**CONFLICTS OF INTEREST**	
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.	Complied with The Directors make declarations of their interests at appointment, annually and whenever there is a change in same. Directors abstain from voting on any resolution in which the Directors have related party interests and are not counted in the quorum for the relevant agenda item at the Board Meeting.
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; i. Identify circumstances that constitute or may give rise to conflicts of interests. ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest. iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest. iv. 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. v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and vi. Articulate how any non-compliance with the policy is to be addressed.	Complied with Managing conflicts of interest is included in Corporate Governance Policy and the policy is reviewed periodically.

Section	Corporate Governance Principle	Compliance
16.	**DISCLOSURES**	
16.1	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.	Complied with. The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (LKAS/ SLFRS) and the formats prescribed by the Supervisory Regulatory Authorities. Further, such statements are published in the newspapers in Sinhala, Tamil and English.
	i. Financial Statements- In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include, • 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. • A statement of responsibility of the Board in preparation and presentation of financial statements.	Complied with Relevant disclosures are included in pages 104 to 110 of the Annual Report under "Statement of Directors Responsibilities" and pages 112 to 114 of the "Annual Report of the Board of Directors on the state of affairs of the Company".
	ii. Chairperson, CEO and Board Related Disclosures • Name, qualification and a brief profile. • Whether executive, non-executive and/or independent director. • Details of the director who is serving as the senior director, if any. • The nature of expertise in relevant functional areas. • Relatives and/or any business transaction relationships with other directors of the company. • Names of other companies in which the director/ CEO concerned serves as a director and whether in an executive or non-executive capacity. • Number/percentage of board meetings of the FC attended during the year; and • Names of board committees in which the director serves as the Chairperson or a member.	Complied with Details of the Directors including names and transactions with the Finance Company are given on page 185 of the Annual Report. Annual declaration is to be obtained from the Board of Directors of the Company and there is no business relationships with other Directors of the Company.
	iii. Appraisal of Board Performance • An overview of how the performance evaluations of the Board and its committees have been conducted	Complied with. The Company has adopted a scheme of self-assessment, to be undertaken by each Director, annually. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual and the Board as a whole and that of its committees and the records of such assessments are maintained by the Company Secretary

Section	Corporate Governance Principle	Compliance
16.1	iv. Remuneration • 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) • The aggregate values of remuneration paid by the FC to its directors and senior management.	Complied with. The achievement of the set targets is a prerequisite for performance-based remuneration. Performance targets are established in accordance with the Annual Strategic Plan and Budget. Annual promotions, increments and bonus of all employees are directly in relation with the performance, contribution, commitment, work ethics and behaviour of the employee. The remuneration structure of the staff, Senior Management and Executive Directors are in line with the business strategy, objectives, values, long term interest, cost structure of the Company, incorporating prevention of conflict of interest in particular incentives embedded within the remuneration structures that does not incentivise employees to take excessive risk or act in self-interest. Aggregate values of remuneration paid by the company to KRP 2023/24- Rs. 12.26 Mn (Aggregate values of remuneration paid for Directors for the Year 2023/2024 - Rs. 24.370 Mn.)
	v. Related Party Transactions • The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. • Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital. • The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.	Complied with. The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. No relationships prevail among the other members of the Board. There were no accommodations outstanding in respect of related parties. The aggregate values of the transactions of the Company with its senior management during the year under review are given below. Rs. 12.26 Mn Accommodation granted NIL Deposits held 21.176 Mn
	vi. Board Appointed Committees • The details of the chairperson and members of the board committees and attendance at such meetings.	Please refer 'Directors' attendance and Committee Memberships' tables are given on page 43 of the Annual report.
	vii. Group Structure • The group structure of the FC within which it operates. • The group governance framework	The Company is 72% owned subsidiary of Lanka Credit and Business Limited. The Company fulfills its own legal and governing obligations.

Section	Corporate Governance Principle	Compliance
16.1	viii. Director's Report - A report, which shall contain the following declarations by the Board ⦿ The FC has not engaged in any activity, which contravenes laws and regulations. ⦿ The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested. ⦿ The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors. ⦿ The business is a going concern with supporting assumptions; and ⦿ The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.	Given on pages185 & 112-114 of the Annual Report.
	ix. Statement of Internal Control ⦿ 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. ⦿ The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. ⦿ A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. ⦿ 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.	Given on pages 112 & 118 of the Annual Report.
	x. Corporate Governance Report ⦿ Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.	Complied with. The Corporate Governance Report is given on pages 56 to 93 of the Annual Report. The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these regulations. The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above
	xi. Code of Conduct ⦿ 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.	Complied with. The Company has developed a Code of Business Conduct and Ethics for all employees. The Board is not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by the Company. Refer the Chairman's Statement in the Annual Report for details.
	xii. Management Report ⦿ Industry structure and developments ⦿ Opportunities and threats ⦿ Risks and concerns ⦿ Sustainable finance activities carried out by the company ⦿ Prospects for the future	Complied with. Please refer 'Management Discussion and Analysis' on pages 23 to 31

Section	Corporate Governance Principle	Compliance
	xiii. Communication with Shareholders ◉ The policy and methodology for communication with shareholders. ◉ The contact person for such communication.	Complied with. The Board approved Communication Policy is in place which covers all stakeholders including Depositors, Shareholders, borrowers and other creditors. The Company Secretary communicates with the shareholders through the Annual Report, Quarterly Reports, and by notices issued to the shareholders

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.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1	**THE BOARD** The Board of Directors at LCB Finance PLC (the "Company") represents professionals from different disciplines such as Legal, Marketing, Management, Finance, Information Technology and they bring with them a wealth of business experience to provide leadership to the Company.		
A.1.1	Board meetings	Complied	The regularity of the Board meetings and the structure and process of submitting information have been pre- agreed by the Board. The Board meets at monthly intervals, but meets more frequently whenever it is necessary. During the year, the Board met 12 times, at approximately monthly intervals. A monthly Board pack is presented to the Board members comprising financial and operational performance compared to previous periods, prevailing risks and mitigation factors, forecasts, regulatory compliances and any other matters that the Board should be aware of. Circulation of Board papers to obtain Board's consent was minimised and confirmations ratified at the subsequent Board meeting. Details of the Board meetings and individual attendance are given on page 55 of the Annual report.
A.1.2	Responsibilities of the Board	Complied	The Board of Directors is responsible for setting sound business strategy, ensuring the execution of strategies, monitoring performance and oversight of the Company's affairs. The Board is chaired by an Independent Non-executive Director and the Board has put in place a Corporate Management team led by the CEO/ Director equipped with the required skills, experience and knowledge to implement the business strategy of the Company. A comprehensive succession planning for the CEO/ Director and key management personnel has been documented for a seamless operation. The non-executive Directors possess experience from a number of industries and business sectors, including the leadership of large multinational enterprises. The Board determined the matters expressly reserved to the Board and the aspects delegated to the management including limits of authority and financial delegations. The Board takes necessary steps towards safeguarding the depositors, securing integrity of information, prudent management of risks, implementing an effective internal control system, ensuring good governance and compliance with rules and regulations. Processes have been established to monitor the progress on strategy implementation, budgets, plans and related risks and to ensure the corporate reporting, on a quarterly basis, through the Board appointed sub committees. The Board is responsible to ensure that the interest of all stakeholders is taken into consideration in the corporate decision making process and that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and complying with laws, regulations and ethical standards

Corporate Governance Report *Contd.*

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1.3	Agreed procedure on seeking independent professional advice	Complied	The Board collectively, and Directors individually are conscious of their responsibility to comply with laws applicable to the Company. The Directors are permitted to seek independent professional advice at the Company's expense as and when such advice is required
A.1.4	Advice and services of the Company Secretary	Complied	All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed. Minutes of Board Meetings are maintained by the Company Secretary. The minutes are approved at the subsequent Board meeting. Minutes are open for inspection by any Director. The Company Secretary serves only in the capacity of Company Secretary, not holding simultaneous employment in another capacity. The removal of the Company Secretary is a matter to be considered by the Board as a whole
A.1.5	Independent judgement of directors	Complied	Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation, risk management, compliance and standards of business conduct
A.1.6	Dedicating adequate time and effort by the directors	Complied	Directors devote adequate time for Board meetings as well as Board Sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged. Agenda, draft minutes and Board papers are sent in advance to the Board to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification.
A.1.7	Training for new and existing directors	To be Complied	A newly appointed Director is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company. In accepting the appointment consideration is given by a Director to the responsibilities of the role, ability to commit time, any existing or potential conflicts of interest and possessing required competencies of the role
A.2	**CHAIRMAN AND CEO** Board of Directors does not intervene with the Company's day-to-day business and there is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company by the Executive Management, in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board to drive toward the Company's Strategic Vision and to ensure the effectiveness of the Board. The CEO's role is to conduct the business operations of the Company with the help of the Corporate and Senior Management. Hence, the roles of the Chairman and the CEO are clearly distinct from one another.		
A.2.1	Separation of the roles of Chairman & CEO	Complied	The positions of the Chairman and the CEO have been separated. The Chairman is responsible for leading the Board and for its effectiveness. The Director is the Chief Executive Officer who is responsible for managing the Company's business.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.3	**CHAIRMAN'S ROLE** 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.		
A.3.1	Role/functions of the Chairman	Complied	The Chairman provides leadership to the Board and encourages an active contribution of both Executive and Non-Executive Directors to the Board's affairs and maintains balance of power between Executive and Non-Executive Directors. The Chairman ensures that the Board effectively discharges its responsibilities and that all key issues are discussed and resolved in a timely manner. The Secretary to the Board draws up the agenda under the authority delegated by the Chairman. This agenda is approved by the Chairman of the Board. The Company Secretary circulate formal agenda prior to the Board Meeting. Board papers covering adequate information of matters to be taken up for discussions are circulated in advance prior to the meeting. All Directors are encouraged to actively participate in Board's affairs. There is a constructive relationship among all Directors and they work together in the best interest of the Company. Effective communication with shareholders is maintained at the Annual General Meeting providing opportunity for them to express their views and recommendations.
A.4	**FINANCIAL ACUMEN** 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 four Board members having Accounting and financial qualifications including one director is qualified Chartered Accountants and having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.		
A 4	Financial acumen and knowledge	Complied	The Board has adequate number of Directors who have financial acumen and knowledge to contribute and offer guidance to the Board on matters of finance. The Chairman of the Audit Committee, Mr. D. Thotawatta is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, MA in Economics from the University of Colombo and graduated from the University of Sri Jayawardenepura, with a Degree in B.Com specializing in Financial Accounting. Mr. K.G.Leelananda graduated in B.Sc.Management (Sp) from the University of Sri Jayawardanepura, Licentiate in Chartered Accountancy from ICSL and Intermediate Banking & Finance, Institute of Bankers of Sri Lanka. Mr.A.W.Nanayakkara has a Master degree in Accounting & Law from the London School of Economics (UK) and LLB in Law and Regulations from the London School of Economics (UK). The details of their qualifications and experience have been set out on pages 48 to 49
A.5	**BOARD BALANCE** 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.		
A.5.1	Presence of a strong team of Non- Executive Directors (NEDs)	Complied	Board maintains the required balance of Executive and Non-Executive Directors on the Board. The Board consists of one Executive Director, Six Non-Executive Non-Independent Directors and three independent Directors. As the majority of the Board comprises Non-Executive Directors, their opinions and views carry significant weight in the Board's decisions.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.5.2 & A.5.3	Independence of NEDs	Complied	Three Independent Non-Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.
A.5.4	Annual declaration of NEDs	To be Complied	Each Non-Executive Director provides a signed declaration of his independence or non-Independence annually as at the reporting date
A.5.5	Annual declaration by the Board on the independence of directors	Complied	The Board determines the Independence and Non-Independence of the Non-Executive Directors based on the declarations submitted by them and also based on the extent of independence as defined in the Listing Rules of the Colombo Stock Exchange and the Finance Business Act Direction No.05 of 2021 on Corporate Governance.
A.5.6	Alternate Director	Complied	At present, there are no alternate Directors. (No such a requirement has arisen)
A5.7 & A5.8	Requirement to appoint a 'Senior Non-Executive Director' and make himself available for confidential discussions.	Complied	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.
A5.9	Chairman holds meetings with NEDs only without EDs	Not Complied	The Chairman met with the Non-executive Directors without the presence of the Executive Directors twice during the year.
A.5.10	Recording of concerns in Board minutes	Complied	The Board Minutes include concerns raised by Directors and also the ultimate decisions made by the Board
A.6	**SUPPLY OF INFORMATION** 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.		
A.6.1	Obligation of the Management to provide appropriate and timely information to the Board	Complied	The Management provides timely and appropriate information to the Board by way of Board Papers and Proposals. The Directors are free to raise queries for additional information as and when necessary. Presentations have been made to the Directors on important matters relating to strategy, risk management, recoveries, IT infrastructure developments, key updates in financial reporting and new legal developments. The Chairman ensures that all Directors are briefed on issues arising at Board Meetings
A.6.2	Adequate time for Board meetings	Complied	Annual calendar of Board meetings is issued at the beginning of the each calendar year enabling them to include matters and proposals in this regard. Notice of Meeting is circulated to the Directors prior to the meeting for regular Board meetings which are held at monthly intervals. Reasonable notice is given before any special meeting.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.7	**APPOINTMENT TO THE BOARD** Company has a formal and transparent procedure in place to appoint new Directors.		
A.7.1& A.7.2	Presence of a Nomination Committee and annual assessment of the composition of the Board.	Complied	The Board appointed Nomination Committee recommends selection of new Directors for the approval of the Board. Details of the committee members are given in the Nomination Committee Report on page 105 Committee member attendance of the Nomination Committee is given on page 105 There were no changes to the Board composition during the year 2023/ 2024. The Board carries out continuous reviews of the structure, size, composition, skills and knowledge of the Board, to ascertain whether the combined knowledge and experience of the Board matches the strategic demands and key risks faced by the Company. Findings of the assessment of the Board are considered for new appointments and re-election of Directors. Also, a process has been established to determine that the proposed Board appointees are fit and proper for the requirement
A.7.3	Disclosure of information to shareholders upon appointment of New Directors	Complied	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 directorships in other companies, and the number of shares he holds in the Company, whether he is appointed as an Executive Director or a Non-Executive Director, and whether as an Independent Director or as a Non-Independent Director. There are no such appointments to the Board in this manner during the year under review.
A.8	**RE-ELECTION** 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	To be Complied	The procedure adopted by the Company to re-elect by rotation.
A.9	**APPRAISAL OF BOARD PERFORMANCE** 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.	To be Complied	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	Complied	The Company Secretary and the Board subcommittee secretaries submit the self-evaluation questionnaire to each director and obtain their individual responses. A summary of the responses is submitted to the Board for further action if deemed necessary
A.10	**DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS** 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	Complied	The following details pertaining to each director are disclosed in the Annual Report (a) Brief profile with expertise and experience - pages 46 to 49 (b) Other business interests - pages 185 to 186 Remuneration - Note16.1 on page 79 Status of independence - pages 104 to 110 Details of Board Meetings and Board Committee Meetings held during the year - page 55

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.11	**APPRAISAL OF MANAGING DIRECTOR** 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.		
A.11.1 & A11.2	Setting annual targets and the appraisal of the performance of the CEO/ Managing Director	Complied	Assessment of the performance of the CEO is carried out by the Board on an ongoing basis to ensure that the performance of the Company is achieved.
B.	**DIRECTORS' REMUNERATION**		
B.1	**REMUNERATION PROCEDURE** 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.1.1	Establishment of a Remuneration Committee	Complied	The Remuneration Committee is responsible for; • Assisting the Board with regard to the remuneration policy for the Executive Directors and other senior level staff members. • Reviewing strategic human resource policies that can impact the business and recommending appropriate measures. • Determining and agreeing with the Board, the broad policy framework for the remuneration of the Executive Directors. • Deciding remuneration of the senior level staff members in order to recruit, retain and motivate them. • Reviewing / monitoring evaluation of performance of KMPs and their management developments and succession planning. Communicating with shareholders on the remuneration policy and the committee's work on behalf of the Board through remuneration committee report
B.1.2	Composition of the Remuneration Committee	Complied	Two Members of the Board Human Resources and Remuneration Committee are Independent and the Chairman of the Committee is appointed by the Board.
B.1.3	Chairman and the Members of the Committee	Complied	Please refer to 'Board Human Resources and Remuneration Committee Report' on page … for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
B.1.4	Determination of the remuneration of Non-Executive Directors, including members of the Remuneration Committee	Complied	The Board as a whole decides on the remuneration of the Non-executive Directors. The Non-executive Directors receive a fee for serving on the Board and its Sub-Committees. The Non-executive Directors fee structure is reviewed and revised by the Board as a whole, as and when necessary.
B.1.5	Ability to consult the Chairman and/ or the Managing Director and to seek professional advice by the Committee	Complied	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.
B.2	**LEVEL AND MAKE-UP OF REMUNERATION** The Company ensures that the remuneration of Non-Executive Directors is at a satisfactory level to attract and retain the services of directors.		
B.2.1	Remuneration packages of Executive Directors	Complied	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.2.2	Competitiveness of levels of remuneration	Complied	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.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
B.2.3	Comparison of remuneration with other companies in the Group	Not Applicable	The Board HR & Remuneration Committee, where necessary, reviews the Company's remuneration levels in relation to the industry standards of the country.
B.2.4	Performance-based remuneration of Executive Directors	Complied	During the year under review, the Company did not provide performance- based remuneration for Executive Director.
B.2.5	Executive Share Options	Not Applicable	No Executive Share Options were granted during the year.
B.2.4	Performance-based remuneration of Executive Directors	Complied	During the year under review, the Company did not provide performance- based remuneration for Executive Director.
B.2.5	Executive Share Options	Not Applicable	No Executive Share Options were granted during the year.
B.2.6	Designing the performance-related remuneration of Executive Directors.	Complied	The Board approved a challenging but transparent set of targets for the CEO via annual budget. These targets are intended to provide the highest value to all stakeholders.
B.2.7 & B.2.8	Early termination of Executive Directors	Not arisen	This is in line with the contract of appointment.
B.2.9	Levels of remuneration of Non-Executive Directors	Complied	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.3	**DISCLOSURE OF REMUNERATION** The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.		
B.3.1	Disclosure of Remuneration	Complied	Please refer to 'Board Human Resources and Remuneration Committee Report' in page 110 or disclosure of the names of the Remuneration Committee members and the Remuneration Policy of the Company. Please refer Note 16.1 to the Financial Statements for the aggregate remuneration paid to Directors.
C.	**RELATIONS WITH SHAREHOLDERS**		
C.1	**CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS** The Code requires the Board to use the AGM to communicate with shareholders and encourage their active participation.		
C.1.1	Use of Proxy Votes	Complied	The Parent Company holds 72% of the shares.
C.1.2	A separate resolution at the AGM on each substantially separate issue and adoption of Annual Report Accounts.	Complied	The Parent Company holds 72% of the shares. Refer to shareholding on page 190 to 192 Adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance, and the Financial Statements together with the Report of the Auditors thereon are considered separately.
C.1.3	Availability of Board Subcommittee Chairpersons.	Complied	Chairpersons of the other Board Sub-committees are present at the AGM to answer all queries that may be raised. In the absence of the Chairman of the respective Committee, a co-member is attended to queries raised.
C.1.4 & C1.5	Adequate Notice of AGM to shareholders together with a summary of the procedure governing voting.	Complied	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.
C.2	**COMMUNICATION WITH SHAREHOLDERS** 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	Complied	By circular to shareholders and notice of shareholder meetings.
C.2.2	Policy and methodology for communication	Complied	By circular to shareholders and notice of shareholder meetings.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
C.2.3	Implementation of the policy and methodology for communication with shareholders	Complied	By circular to shareholders and notice of shareholder meetings.
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Complied	The main contact person is the Company Secretary.
C.2.5	Process to make all directors aware of major issues and concerns of shareholders	Complied	Any major issue of concern of shareholders are informed to Board Members by the Company Secretary.
C.2.7	Process responding to shareholder matters	Complied	Appropriate response will be provided to all validly received shareholder correspondence by the Board or individual Directors, as applicable, and Company Secretary will be directed to send immediate responses to the particular shareholder. Disclosure process of responding to shareholders is specified in the company communication policy.
C.3	**MAJOR AND MATERIAL TRANSACTIONS** 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 during 2023/24
D.	**ACCOUNTABILITY AND AUDIT**		
D.1	**FINANCIAL REPORTING** This Principle requires the Board of the Company to present a balanced and understandable assessment of the company's financial position, performance, and prospects.		
D.1.1	Board's Responsibility for Statutory and Regulatory Reporting	Complied	The Financial Statements of the Company have been prepared in accordance with the revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 and the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.
D.1.2	Declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the state of affairs of the Company on pages 112 to 114 contains the declarations as required by the Code.
D.1.3	Statements by Directors' and Auditors' on responsibility for financial reporting	Complied	The 'Responsibility for Financial Statements for the preparation and presentation of financial statements is given in Note 3 on page 60 of the Annual Report. Please also refer pages 115 to 118 for the Independent Auditor's Report.
D.1.4	Management Discussion and Analysis	Complied	Please refer to 'Management Discussion and Analysis' (MD&A) set out on pages 23 to 24 presented as an integrated report covering all aspects referred to in the code.
D.1.5	Declaration by Board on the going concern of the business	Complied	Please refer to 'Annual Report of the Board of Directors on the state of affairs of the Company' and Note 3 Estimates and Assumptions to the Audited Financial Statements on pages 112 to 114
D.1.6	Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	Not applicable	No such event occurred during the financial year.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.1.7	Declaration by Board on Related Party Transactions	Complied	The Board has established an effective and comprehensive process for identifying, recording and disclosure of related party transactions. Steps have been taken by the Board to avoid any conflict of interest that may arise, in transacting with related parties. The Board ensures that any financial transaction is on terms that are reasonable if the Company and the related party were dealing at arm's length in the ordinary course of business. All Related Party Transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in Note 12 to the Audited Financial Statements.
D.2	**INTERNAL CONTROL** 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.		
D.2.1	Directors to conduct an annual review of internal controls	Complied	The Company obtained the External Auditor's Certification on the Directors Responsibility Statement on Internal Control over Financial Reporting included in the Annual Report.
D.2.2	Need for an Internal Audit Function	Complied	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.
D.3	**AUDIT COMMITTEE** 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.		
D.3.1	Composition of the Audit Committee	Complied	Details of the members, are given on the 'Board Audit Committee Report' on pages 105 to 106
D.3.2	Duties of the Audit Committee	Complied	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.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.3.3	Terms of Reference of the Audit Committee	Complied	The Audit Committee is guided by the Committee Charter which sets out authority and responsibility of the Audit Committee. The Charter was reviewed for 2023/24 in line with the Code of Best Practices on Audit Committees of CA Sri Lanka. The Duties and Responsibilities of the Committee include: • Assisting the Board to ensure preparation and presentation of Financial Statements in conformity with Sri Lanka Accounting Standards and other laws and regulations. The committee reviews the annual and quarterly financial statements with management and the External Auditor • Assessing the compliance of regulatory requirements and Company's ability to continue as a going concern in the foreseeable future. • Monitoring and reviewing the effectiveness of the Internal Audit function. • Reviewing the internal control system. • Making recommendations to the Board on the appointment, re-appointment or removal of the External Auditor and to approve the remuneration and terms of engagement of the external auditor. • Discussion of external audit plan, key audit issues and management responses with management and the Auditor. • Assisting the Board in assessing the independence and objectivity and effectiveness of the audit process. The Committee has set out the policy for the engagement of the External Auditor for non-audit services taking into account, relevant ethical and regulatory guidance regarding the provision of non-audit services by the external audit firm. The Audit Committee reviewed and approved the policy for engagement of the External Auditor to provide non-audit services during 2023/2024. Separate periodic meetings with management, external auditor and the internal auditors. Reporting regularly to the Board of Directors.
D.3.4	Disclosure of names of the members of the Audit Committee	Complied	Names and composition of the members of the Audit Committee are given under Audit Committee Report on pages to 106 to 107.
D.4	**CODE OF BUSINESS CONDUCT AND ETHICS** 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.		
D.4.1	Disclosures on the presence of Code of Business Conduct and Ethics.	Complied	LCB Finance PLC has developed a Code of Business Conduct for all staff members, which addresses conflict of interest, receiving gifts or any other benefit, accurate accounting and record keeping, corporate opportunities, confidentiality of information, fair dealing, protection and proper use of the Company's assets including information assets and compliance with applicable laws and regulations including insider trading laws and, encouraging the reporting of any illegal or unethical behavior. The code of business conduct and ethics has been adhered to in all respects by the Directors and Key Management Personnel.
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer to the Chairman's message for details on pages 10 to 11.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.5	**CORPORATE GOVERNANCE DISCLOSURES** Directors of the Company disclose annually the Company's adherence to 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 and the Central Bank of Sri Lanka (CBSL). Finance Business Act Directions No. 05 of 2021 on Corporate Governance, Finance Business Act Directions No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons, Section 7.10 of the Listing rules of the Colombo Stock Exchange on Corporate Governance.		
D.5.1	Annual Corporate Governance Report in the Annual Report	Complied	Corporate Governance reports is given on pages 55 to 93 in the Annual Report.
SECTION 2 : SHAREHOLDERS			
E.	**INSTITUTIONAL INVESTORS**		
E.1	**SHAREHOLDER VOTING** Due to the Parent Company holding 100% of the equity of the Company, the requirement of disclosures to institutional investors has not arisen from an equity point of view. In the event such a need arises from the perspective of accountability and transparency, all material disclosures would be made to strengthen the positive relationship between management and institutional investors.		
E.1.1	Communication with shareholders	Complied	The Annual General Meeting is used for effective dialogue with the shareholders on matters which are relevant and of concern to the general membership. The Chairman communicates the views and queries of the shareholders to the Board and Senior Management, in order to ensure that the views are properly communicated and acted upon.
E.2	**EVALUATION OF GOVERNANCE DISCLOSURES** The Code requires the Company to encourage institutional investors to give due weight to all relevant factors drawn to their attention.		
E.2.1	Encourages Institutional Investors to give due weight to relevant governance arrangements	Complied	Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition when evaluating governance arrangements.
F.	**OTHER INVESTORS;**		
F.1	**INVESTING/DIVESTING DECISION**		
F.1.1	Seek independent advice in investing or divesting decisions.	Not applicable	
F.2	**SHAREHOLDER VOTING**		
F.2.1	Encourage voting by Individual Investors in general meetings	Complied	The Parent Company and shareholders use its voting rights at the AGMs.
G.	**SUSTAINABILITY REPORTING** Sustainability is a business approach that creates long-term stakeholder value. It focuses on managing risks arising from economic, environmental, and social aspects. Sustainability reporting aims towards the goals of sustainable development in the context of business strategy and activities.		
G.1.1	Economic Sustainability	Complied	Please refer to 'Management Discussion and Analysis' on pages 23 to 44
G.1.2	The Environment	Complied	This is covered in the 'Management Discussion and Analysis' on pages 23 to 44
G.1.3	Labour Practices	Complied	Please refer 'Management Discussion and Analysis' on pages 23 to 44
G.1.4	Society	Complied	Please refer 'Management Discussion and Analysis' on pages 23 to 44
G.1.5	Product and Service Responsibility	Complied	Please refer to 'Management Discussion and Analysis' on pages 23 to 44
G.1.6	Stakeholder Identification, Engagement & Effective Communication	Complied	Please see the contents of the 'Management Discussion and Analysis' on pages 23 to 44
G.1.7	Sustainable Reporting & Disclosure	Complied	Please see the contents of the 'Management Discussion and Analysis' on pages 23 to 44

STATEMENT OF COMPLIANCE UNDER SECTION 7.10 OF THE RULES OF THE CSE ON CORPORATE GOVERNANCE

Rule No.	Applicable Requirement	Compliance Status	Comment
Non-Executive Directors			
7.10.1(a)	2 or 1/3 of the total number of Directors should be Non- Executive Directors whichever is higher.	Complied	As of 31 March 2024, Board comprised of ten Directors. Nine (09) out of the ten (10) are Non-Executive Directors.
Independent Directors			
7.10.2 (a)	2 or 1/3 of Non- Executive Directors appointed to the Board whichever is higher shall be independent	Complied	Three (03) out of the nine (09) Non-Executive Directors are independent
7.10.2(b)	Submission of declarations annually, declaring the independence of directors	Complied	Complied
Disclosure Relating To Directors			
7.10.3(a)	The Board shall annually determine the independence or non-independence of Directors.	Complied	The Board is well aware of the requirement and the Board evaluates the independence of directors.
	Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on pages 46 to 47 of the Annual Report.
7.10.3(b)	The basis for the Board's determination of Independent Directors,if criteria specified on independence is not met.	Complied	The Board determines the independence of directors based on the criteria set out in the CSE Listing Rule No. 7.10.4. The requirement is met.
7.10.3(c)	Publish a brief resume of each Director	Complied	Profiles of each director have been published on pages 48 to 49 of the Annual Report.
7.10.3(d)	Provide a brief resume of new Directors appointed to the Board	Complied	There were no new appointments to the Board during the year 2023/24.
Criteria For Defining Independence			
7.10.4 (a-h)	Determination of Independence	Complied	The Board has met the criteria of defining independence which is in line with CSE and CBSL Directions on Corporate Governance.
Remuneration Committee			
7.10.5(a)	Composition	Complied	Remuneration Committee consists of two (02) independent Non-Executive Directors and one Non-Executive Director
7.10.5(b)	Recommendation on Remuneration for Executive Directors, CEO and/or equivalent position	Complied	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.
7.10.5(c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report on pages page 110 under HR & Remuneration Committee Report.
	Remuneration Policy	Complied	Policy is given in HR& Remuneration Committee Report on page 110
	Aggregated remuneration paid to Directors	Complied	Published in the Annual Report of the Board of Directors on the state of affairs of the Company on pages 112 to 114 of the Annual Report.
Audit Committee			
7.10.6(a)	Composition and Role of the Audit Committee	Complied	All members of the Board Audit Committee are Independent, Non-Executive Directors and Non- Executive Non- Independent Director The Committee comprised of Mr. D. Thotawatta (Chairman), Mr. M. Katulanda, Mr. J.P.C. Jayalath and Mr. G. K. Nanayakkara. Please refer to the contents of the Board Audit Committee Report on pages 106 to 107 for the role of the Audit Committee.

Rule No.	Applicable Requirement	Compliance Status	Comment
7.10.6(a)	Chairman of the Audit Committee	Complied	The Board appointed Mr.D.Thotawatta as the Chairman of the Board Audit Committee w.e.f. 28th August 2020 Mr.D.Thotawatta is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, and having Master degree in Financial Economics from University of Colombo. He graduated from the University of Sri Jayawardenepura, Sri Lanka with a Degree in B.Com specializing in Financial Accounting.
	Attendance at Audit Committee Meetings	Complied	Members of the Board Audit Committee, the Manager Internal Audit and H e ad of Finance attend the meetings. CEO attend by invitation.
7.10.6(b)	i) Preparation, presentation, and adequacy of disclosures in the financial statements of the Company in accordance with Sri Lanka Accounting standards.	Complied	The Company is in compliance with Sri Lanka Accounting Standards (SLFRS&LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 1.5 on page 127 to the Audited Financial Statements under Statement of Compliance.
	ii.) Compliance with financial reporting requirements, information requirements of the Companies Act, and other relevant financial reporting-related regulations and requirements.	Complied	The Company is in compliance with the requirements of the Companies Act No. 7 of 2007. This fact is stated in Note 2.1 pages 127 to the Audited Financial Statements under Statement of Compliance.
	iii) Process to ensure that the Company's internal control and risk management are adequate to meet the requirements of the Sri Lanka Auditing standards.	Complied	The Auditor's certification on the Directors Responsibility Statement on Internal Controls over Financial Reporting included in the annual report has been obtained. The Company assesses the internal controls via Risk & Control Self-Assessment (R&CSA) process.
	iv) Assessment of the independence and performance of the Company's external auditors	Complied	The Board Audit Committee (BAC) assesses the independence of External Auditors and their performance. The Board Audit Committee regulatory reviews the scope of the External Auditors and the effectiveness of the audit. Furthermore, the committee ensures that non-audit services provided by External Auditors do not affect their independence.
	v) Recommendations to the Board pertaining to the appointment, reappointment and to approve the remuneration and terms of engagement of the external auditor.	Complied	The Board Audit Committee makes recommendations to the Board for appointment of the External Auditor for audit and non-audit services, their service period, audit scope and audit fee. During financial year not such requirement arisen
7.10.6(c)	Names of Directors comprising the Audit Committee.	Complied	Published in the Annual Report on pages 105 to 106 under Audit Committee Report.
	Determination of the independence of the Auditors and the basis for such determination	Complied	
	Report of the Audit Committee setting out the manner of compliance by the Company	Complied	Please refer the report of the Audit Committee, published on pages 106 to 107 of the Annual Report.

Risk Management

1. INTRODUCTION THE INTEGRATED RISK MANAGEMENT FRAMEWORK

The Integrated Risk Management Framework, (IRMF) hereinafter referred to as the " Integrated Risk Management Policy " or " IRMP ". Sets out the principles adopted by Lanka Credit and Business Finance PLC, (LCBF) hereinafter referred as the "Company", to measure, monitor and manage its material risks, and also to assure that adequate capital is held to meet the various risks to which the Company is exposed.

The IRM Framework aims at establishing the foundation rules for the Risk Management Function in terms of

1. Risk management governing principles and objectives.
2. Risk governance, including specific roles and responsibilities for all relevant stakeholders.
3. Defining the components / stages of the risk management process
4. Risk identification, assessment / measurement and management / mitigation.
5. Guidelines for the formulation Risk Appetite Statement (RAS)
6. High-level Risk Identification & Assessment (RIA).
7. Setting out standards for documentation of specific risk policies.
8. Defining guidelines for Integrated Risk Management Reporting (IRMR).
9. Defining the underlying principles for comprehensive risk assessment (i.e. Pillar 2 risks)
10. Risk & capital budgeting (Internal Capital Adequacy Assessment Process – ICAAP)

1.1 Risk Management Principles

P1. Risk Management shall ensure the long-term viability of the Company.

Risk management has to ensure that business grows sustainably and shareholder value is preserved.

P2. Risk is taken within a defined / approved Risk Appetite.

The RAS is defining the risk boundaries within which risks are underwritten by the Company. All risk control elements (Risk Limits, Risk Monitoring reports, Risk Review procedures etc.) have to ensure that at all times the Board approved RAS holds. Deviations from the approved RAS have to be reported.

P3. Specific responsibilities for risk taking have to be defined.

Every material risk taken by the Company needs to have an Owner, Approver and an Independent Reviewer. Through the governance model (see next principle) the Company should aim at segregating the three roles ensuring independence.

P4. Risks taken needs to be adequately compensated.

The Company should aim at correlating pricing with risk through the implementation of internal capital models, Risk Adjusted Return On Capital (RAROC) and Risk Based Pricing Policies (RBPP).

P5. Risk Management shall be supported by a strong risk management culture.

The risk management culture shall be fostered by the Board and should cascade downwards into the operational levels of the Company, supported by an appropriate communication policy.

P6. Risk Governance has to follow best international practices.

The governance models have to be designed and periodically reviewed in order to comply with leading international practices. It has to adhere to the principles of independence of control functions, three lines of defense, segregation of duties and proportionality (see Risk Governance section for more details)

P7. Business incentives shall be risk sensitive.

Incentives for risk originators, approvers and underwriters should be set in such as way ensure long term viability of the business. Risk control elements shall be embedded in the incentive structure for the Company's employees.

P8. Risk Planning has to be fully aligned with the business objectives of the Company.

Risk strategy and risk appetite are defined based on the Company's strategic plans in order to align risk, capital and business performance targets. Risk Management function should be actively involved, at an early stage, in the elaboration of the Company's strategy.

P9. Risks shall be assessed comprehensively.

No material risk sources shall be left outside the scope of the Risk Management Framework. Therefore, risks shall be assessed covering all material risk types, business lines and relevant entities within the Company.

P10. Risks shall be managed by all relevant stakeholders.

The management of risks should not be confined to the risk management function. It should be primarily the responsibility of the management and staff in all business lines and they should be aware of their accountability in this respect.

2 THE INTEGRATED RISK MANAGEMENT FRAMEWORK (RMF)

2.1 Integrated Risk Mgt Framework Elements

The Risk Management Framework consists of all the elements set out by the Company to attain the general objectives of risk management set out in the IRMF. The main components are *(i) Integrated Risk Management Framework (IRMF)*

Ground rules for the Risk Management Framework (RMF) including without limitation risk governance, Risk Appetite Statement (RAS) guidelines, definition of the Risk Management Processes (RMP), as well as Risk Management Policy (RMP) documentation and reporting guidelines. The IRMF is also catering for risk categories not captured by risk specific policies. All the other components of the RMF shall be developed consistently with the principles set out in the IRMF.

(ii) Risk Governance

Main roles and responsibilities, including levels of authority and reporting lines of all key stakeholders involved in Risk Management. The governance elements of the RMF are documented under IRMF (see next section)

(iii) Risk Appetite, Risk Strategy and ICAAP

Defines the risk strategy of that the Company in terms of risks the Company wishes to assume, clear boundaries for each material risk type, integration of risk planning with business planning through ICAAP. Detailed description of governance, processes, methodologies pertaining to RAS and ICAAP shall be documented in dedicated policies.

(iv) Specific Risk Management Policies and Processes

Defined for Credit, Market, Liquidity, Operational risk, and ESG risk following principles set out in the IRMF. All these policies are standalone documents that govern specific segments of the RMF.

(v) Risk Management Infrastructure

Consists of all the resources deployed by the Company to carry out the provisions set out in the risk management policies and procedures, including without limitation People, Systems, Data Base Models and Methodologies.

(vi) Day to day Risk Management Activities are the risk policies and procedures in action carried out by all relevant stakeholders.

Risk Management Policies that Supplement the IRM Policy

1. Credit & Credit Risk Policy
2. Operational Risk Management Policy
3. Market Risk Policy
4. Investment Policy
5. Assets & Liability Management Policy
6. ICAAP Framework Policy
7. Stress Testing Framework Policy
8. Compliance Policy
9. Anti-Money Laundering Policy
10. Information Security Management policy

2.2. Key Risk of Areas the Company

1. Credit Risk
1.1. Credit Concentration Risk
1.2. Default Risk
2. Market Risk
2.1. Interest Rate Risk in Advance Book (IRRAB)
3. Liquidity Risk
4. Operational Risk
4.1. Information Technology (System) Risk
4.2. Internal Process Risk
4.3. People Risk
4.4. External Event Risk
4.5. Business Continuity Risk (BCR)
5. Strategic Risk
6. Regulatory Compliance Risk
7. Environment, Social, Governance (ESG) Risk
8. Reputational Risk

LCBF's risk universe represents the key (Quantitative and Qualitative) risks that the Company may be exposed to as a result of the environment in which it operates. What we consider to be our key risks are those that can have an impact on the Company's business model, ability to achieve its strategic objectives or sustainable growth of the Company

Quantitative Risks

- Credit Risk
- Liquidity Risk
- Market Risk
- Strategic Risk
- Capital Management

Qualitative Risks

- Operational Risk
- IT and Information Security Risk
- HR Risk
- Legal Risk
- Reputational Risk

3. RISK GOVERNANCE

3.1. Risk Governance Principles

The following principles underlie the risk governance structure of the Company as part of the Integrated Risk Management Framework (IRMF)

- Independent of control functions

The risk management and control functions shall be independent from any other units or functions which have operational or business-related responsibilities. Independence shall be maintained throughout the entire internal control system, from Board independence through to the separation of front / middle / back-office functions based on the 3 lines of defense structure. The following are key elements to aiming at preserving independence of the risk function.

- The Board Integrated Risk Management Committee (BIRMC)

The composition of the Board of Directors (BoD) shall consist in majority of independent / non-executive director. The BIRMC shall be formed mainly by independent or non-executive directors. The Chairman of the BIRMC shall be independent.

- The Chief Risk Officer (CRO) - Shall have a direct and functional reporting line to the BIRMC apart from the administrative reporting to the CEO.
- The Risk Management function shall not have responsibility for revenue generating business or risk-taking activities.

  Notwithstanding the independence requirement, Risk Management shall keep close enough to business/ risk taking activities in order to gain sufficient information on risk exposures, business strategies and ensure compliance with risk appetite, policies and limits.
- Risk Management shall use its own independent information sources (data, documents, records etc), shall have unrestricted access to this information and should form views, opinions and recommendations in an independent and unbiased way.

\- 3 Lines of defense in Risk

All material risks as defined in the IRMF shall be based on the principle of three lines of defense:

- **1st line of Defense :**

Branches / Business Units shall be the primary risk owners and risk takers being responsible to manage risk exposures on a day-to-day basis through controls embedded at business process level or specialized back-office functions Including branches, Regional Office, Credit Dept., Finance & Treasury Dept., IT Dept., Branch Operations Dept. and other relevant support service sections. In addition to this Board Credit Committee (BCC) will act highest level of 1st line defense of credit.

- **2nd Line of Defense :**

The Risk Management Division as an independent function headed by the CRO. The CRO has direct access to the BIRMC without impediment and reporting functionally to the BIRMC and administratively to the CEO. Compliance is the other independent function headed by the Chief Compliance Officer (CCO) / Head of Compliance and with similar reporting line of CRO. One of the key roles of the Risk Management Division under the 2nd line of defense is to ensure that the 1st line adequately applies and complies with risk and control policies and standards and to provide independent oversight of the risk profile of the LCBF. On the other hand, the function of the Compliance is to ensure that the 1st line is conducting the respective operations in accordance with industry laws and regulations, internal policies and best practices. Executive Integrated Risk Management Committee (EIRMC) will coordinate with all above sections on 2nd line defense of risk under the leadership of CEO / ED. BIRMC is the highest level authority of 2nd line defense of risk management of the Company.

- **3rd line of Defense :**

Specific to Risk Management, the Internal Audit Department is responsible to assess compliance and adherence to Risk Management Policies and Procedures on an ongoing basis and provide an independent assurance of the robustness of the Risk Management framework, processes and methodologies. Board Audit Committee will monitor this mechanism through Internal Audit Dept.

\- Segregations of duties

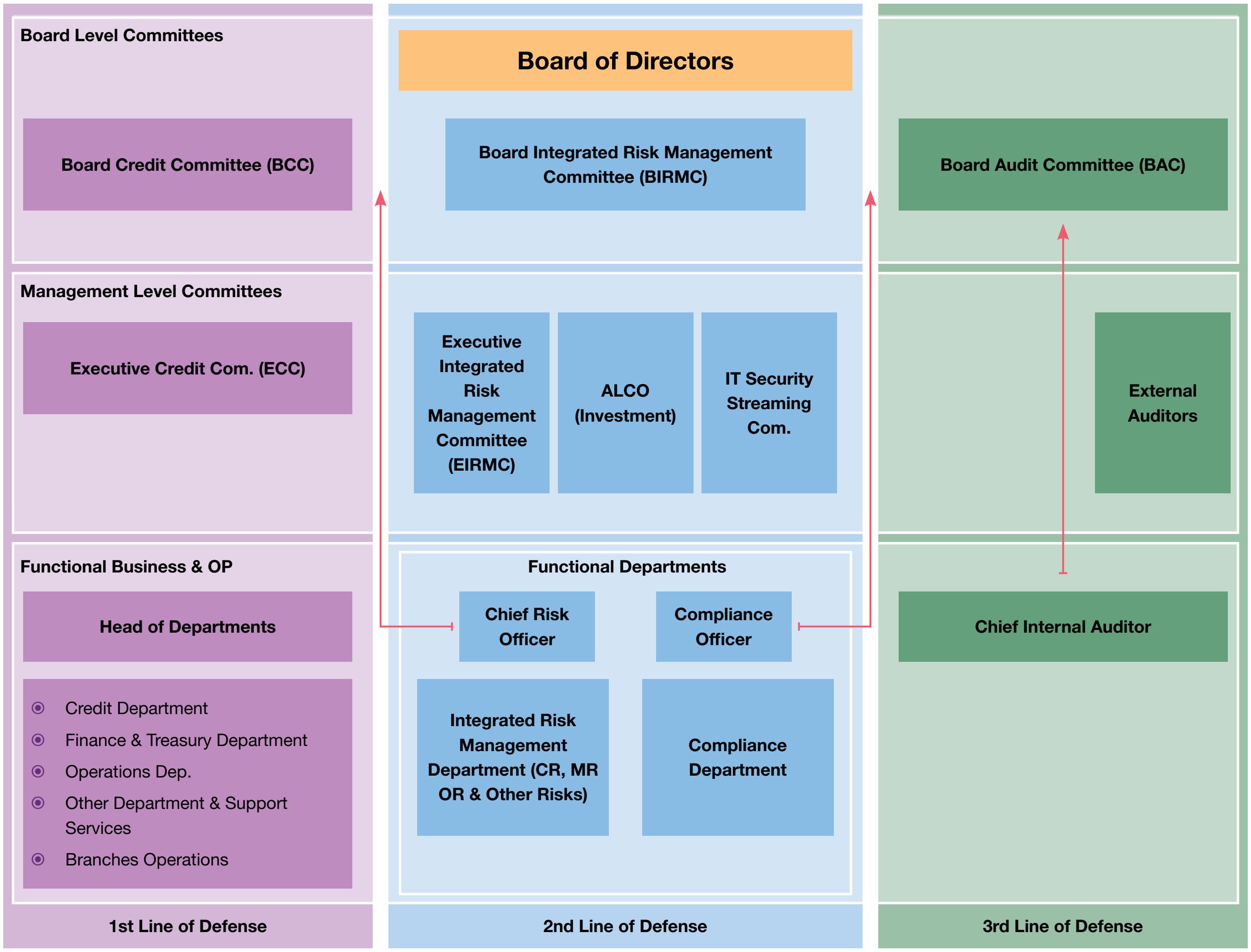
The Risk Governance model caters for segregation of duties between

- Risk origination and risk underwriting /approval - This takes the form of segregation between business lines and review/ approval functions (i.e. segregation between risk origination and the 1st line of defense).
- The Maker and Checker principle of Company's transactions - Any operation of the Company shall include, without exception a 'four eye principles' whereby it takes at least one Checker for any transaction to be affected in the Company's books or systems.
- Top level oversight and Company's operations - Boards of Directors, various BoD or management committees need to be sufficiently independent from the supervised areas or activities of the LCBF to be able to exert effective supervision and oversight.

\- Proportionality

The Risk Governance structure, as all the other elements of the IRMF shall consider the principle of proportionality by which it is acknowledged that the Company operates under a business environment of medium to low complexity and hence it is in the position to adequately manage risks by applying simpler yet robust governance models.

3.2 Risk Governance Structure



3.3 General Roles and Guidelines

3.3.1 Board of Directors

The BoD shall exercise the necessary level of control and oversight having a "duty of care" and "duty of loyalty" to the Company, its depositors and shareholders.

The ultimate responsibility for sound risk management in the Company rests with the BoD. The BoD sets the risk management strategies and policies and holds the main responsibility in overseeing risk taking activities and their compliance with the Risk Management Framework. In order to fulfill its oversight role effectively, the BoD delegates risk management responsibilities to a dedicated committee, the Board Integrated Risk Management Committee (BIRMC). BoD comprise with executive directors, non-executive directors and independent directors appointed by annual general meeting (AGM) under the approval of CBSL.

3.3.2 Board Committees (Relevant to Risk Management)

3.3.2.1 Board Integrated Risk Management Committee (BIRMC)

The Board delegates some of its responsibilities related to Risk Management to the Board Integrated Risk Management Committee (BIRMC) to increase efficiency and allow deeper focus on risk management. The BIRMC shall consist of at least 3 members of directors. It shall be formed in majority of non-executive or independent members and chaired by an independent director. Members shall have the relevant experience in risk management issues and practices. The BIRMC may include also non-Board members (such as independent consultants, staff members, or other cases decided by the BIRMC) in a consultative capacity only (non-voting members) in order to provide additional information and input to the Committee. Its main role shall be to advise and assist the Board of Directors on all its duties related to risk management. It is part of the 2nd line defense of the Company and therefore should be independent from other all committees. This committee is report to BoD of the Company on a quarterly basis.

3.3.2.2 Board Credit Committee

The BCC is a committee of the Board of Directors, typically composed of senior, non-executive directors. The BCC shall consist of at least 3 members of directors, it shall be formed in majority of non-executive or independent members and chaired by an Independent Director. They provide high-level oversight and strategic direction for the Company's credit risk management practices. It vets all lending policies and products and advises the Board on lending matters. It is part of the '1st line of defense' and therefore should be independent from BIRMC. This committee is report to BoD of the Company on a monthly basis.

3.3.2.3 Board Audit Committee (BAC)

The Board Audit Committee is the main reporting and oversight body for the Internal Audit function of the Company. The BAC shall consist of at least 3 members of directors, it shall be formed in majority of non-executive or independent members and chaired by senior independent director. BAC ensures that Internal Audit performs its reviews an efficient, thorough and independent manner with regards to Risk Management the role of the BAC is to review the audit plan / scope and the audit findings on a yearly basis. Important findings shall be then discussed with Board of Directors. It is part of the '3rd line of defense' and therefore should be independent from BIRMC and other committees. This committee is report to BoD of the Company on a monthly basis.

3.3.3 Executive Committees (Relevant to risk management)

3.3.3.1 Executive Integrated Risk Management Committee (EIRMC)

EIRMC consists of executive members of the management team under the CEO and secretariat by CRO including the, Compliance head, Finance head, Treasury head, IT head, Operations head, HR head and business heads, with the main role of coordinating management efforts to implement the Risk Mgt Framework. The EIRMC shall include representatives of both the 1st and 2nd line units responsible for material risks, including management of the lending divisions / lines, Treasury, Finance, Operations, as well as Risk Management representatives. Its overlook 2nd line Defense of overall risk of the Company. This committee is directly report to BIRMC on a quarterly basis.

3.3.3.2 Asset and Liabilities Management Committee (ALCO)

The Asset and Liabilities Management Committee (ALCO) is an executive level committee under the CEO and secretariat by Finance & Treasury head. Membership shall consist of senior management relevant to the mandate of ALCO such as business lines representatives, Risk & Compliance, etc. The mandate of ALCO shall focus on balance sheet management, business growth, profitability management, budgeting and business planning etc, while at the same time keeping the Company within the risk appetite formulated for ALM risks (Liquidity , Market, IRRBB, ICAAP and FX risk). Its overlook 1st line Defense of Market and Liquidity risk of the Company. This committee is directly report to BIRMC on a monthly basis.

3.3.3.3 Executive Credit Committees (ECC)

Executive Credit Committees shall review credit applications and approve loans within their approval authority and limits. Committee under the CEO and secretariat by Credit head. They should review and monitor credit portfolios and propose amendments to lending policies if and when needed. Composition of Credit Committees shall be CEO, Chief Credit Officer, Head of Credit Assessment (Credit origination), Head of Credit Control (Credit Administration, Control & Supervision) and Business, Treasury, Finance, Operations, as well as Risk Management representatives. Its overlook 1st line Defense of Credit Risk of the Company. This committee is directly report to the BCC on a monthly basis.

3.3.3.4 Internal Audit Department (IAD)

The current stress environment requires a rapid response throughout the organization, including the board, executive management, business and operations, and risk management. The Chief Internal Auditor (CIA) / Head of Audit Shall have a direct and functional reporting line to the BAC apart from the administrative reporting to the CEO. As the third line of defense, Internal Audit also plays a critical role in helping the Board Audit Committee (BAC) and executive management evaluate the Company's processes for managing and monitoring risk, and testing the Company's resiliency and controls. Chief Internal Auditor (CIA) in particular can provide the board with an independent perspective that can be pivotal in times of stress. Its overlook 3rd line Defense of overall Risk of the Company. This committee is directly report to BAC on a monthly basis.

3.3.4 The Risk Management Function

3.3.4.1 Risk Management Department & CRO

The Risk Management Department (RMD) is an independent risk management function headed by a Chief Risk Officer (CRO) whose appointment is to be approved by the BIRMC. The CRO has the primary responsibility for overseeing the development and implementation of the

Company's risk management function. The CRO should not have responsibilities of any other operational department. The CRO shall be endowed with sufficient authority, stature, independence, resources and access to the Board, in order to fulfil role as the head of the Risk Management Division. Any 'double hatting' or involvement in operational activities / revenue generating functions must be avoided. The CRO is responsible for supporting the Board and BIRMC efforts to exercise its risk oversight by ensuring effective implementation of the Risk Management Framework, including the LCBF's risk management governance, RAS, ICAAP, risk limits, main risk management processes etc.

3.3.4.2 Integrated Risk Management (IRM)

IRM roles is to ensure consistency of all component of the Risk Mgt Framework in line with the principles set out in the Integrated Risk Management Framework (IRMF). It has to also ensure all material risks (including all material Pillar 2 risks in BASAL) are being managed within the RMD and consistent /coherent Integrated Risk Reporting (IRR) is submitted to senior management and BoD. The IRM function fosters communication, coordination and monitoring the company risks.

Figure 3 Functional Units within Risk Management

collaboration between various functions in risk management in order to recommend consistent risk strategies and policies, design risk governance structure, as well as ensuring a consistent approach to risk management and successful implementation of risk projects at risk division level.

3.3.4.3 Credit Risk Management (CRM)

The primary responsibility of CRM is to ensure that 's credit risk exposures are within the risk appetite & tolerance levels of the Company. While the branches and credit department originate and accept credit risk exposures, Credit Risk Management unit (Pre-Sanction Credit Risk Evaluation) in the IRMD will be responsible for the following

- Conduct pre-sanction review to verify adherence to the credit risk and credit policies, prescribed lending processes
- Contribute in drafting lending and credit risk policies and procedures
- Be accountable for risk assessment methodologies and tools
- Generate and publish portfolio reports to reflect the risk position on the Company versus risk appetite.

3.3.4.4 Liquidity, Interest Rate and Market Risk Management (ALRM)

ALM and Market risks are managed by ALCO, mainly through Treasury and Finance departments (1st line of defense) and monitored by the TMO (2nd line of defense). The role of the 2nd line functions (i.e. the Market Risk Unit /RMD) with regards to these risks is to review and propose (before the final Board approval) all methodologies, assumptions, policies with regards to ALM & Market risks. Furthermore, it shall independently monitor, report and review exposures including generation of market risk reports.

3.3.4.5 Operational Risk Management

The primary responsibility of managing operational risks rests with 1st line operational functions such as Central Operations, the Branch Network, IT, HR, Legal, Finance etc. The Operational Risk Department / RMD shall be responsible for reviewing and assessing risks, as well as formulating recommendations and requests to 1st line function on mitigating all forms of operational risk, including without limitation, IT & IT security risk, Fraud risk, HR risk and Transaction Processing risk.

3.3.4.6 ESG Risk Management

The primary responsibility of managing ESG risks rests with 1 st line operational functions such as the Branch Network, Credit Department, Central Operations, Administration, etc. The Sustainable Banking function with IRMD shall be responsible for reviewing and assessing risks, as well as formulating recommendations and requests to 1st line function on mitigating all forms of ESG risks, including without limitation, Environmental and Social Risk Management and Social Performance Management.

3.3.4.7 Internal Audit

The general role of Internal Audit is to ensure that the Risk Management has been implemented as prescribed by the RMF and is functioning effectively. Internal audit should review the overall appropriateness and adequacy of the Framework as well as review compliance with Board approved policies and procedures with regards to risk management.

4. RISK APPETITE STATEMENT, RISK STRATEGY AND ICAAP

4.1. Risk Appetite Statement (RAS)

4.1.1. RAS Principles

A Risk Appetite Statement (RAS) shall be developed to provide a common framework for the Board to set the boundaries of current and projected risk profile of the Company, by correlating RAS parameters and other risk metrics with strategic decisions and business planning. The Risk Appetite Statement (RAS) shall be designed based on the following key principles:

1. The Company's strategic objectives are articulated by the Board of Directors through the annual business planning. The RAS shall define the boundaries for risk, in full concordance with the Company's business targets.

2. The Company adopts a top-down approach for setting the Risk Appetite, whereby the Board through BIRMC sets / approves the Risk Appetite at the strategic level based on the recommendations of the EIRMC and the Risk Management Department.
3. The Risk Management Department will prepare a comprehensive document articulating the RAS Policy, defining the main principles, governance and processes as well as RAS measures and thresholds / limits.
4. Once the RAS is discussed and approved by the BoD and the relevant committees as discussed above, it is promptly communicated across the Company's departments.
5. RAS processes shall form an integral part of the broader risk planning and budgeting ie. ICAAP. There should be full alignment and consistency between ICAAP results and RAS.
6. RAS shall be defined comprehensively across all material sources of risk identified, covering as a minimum the all arears of risk in the company.

4.1.2. Guidelines for the Risk Appetite Statement (RAS) process

The RAS processes entail three distinct stages:

a). RAS Setting consists of setting out appropriate RAS indicators and calibrating those as part of ICAAP. Proposed RAS levels shall be based on current levels in the LCBF, benchmark local or international data, regulatory requirements, as well as available capital and liquidity given business targets.

b). RAS Review and Approval Following the initial proposal and ICAAP feedback, the RAS indicators are submitted for review and approval as part of the ICAAP report as follows

c). RAS Monitoring and Reporting through the regular /quarterly Risk Mgt Reporting Processes (RMRP), including corrective actions if and when required. RAS shall be fundamentally reviewed at least once a year (ie RAS Setting) as part of the ICAAP or

Figure 4 Summary of the RAS process

more often should business conditions fundamentally change (i .e. Shift in macroeconomic conditions, important revisions of business plans and budgets, depletion of capital buffers or liquidity etc.)

4.2 Internal Capital Adequacy Assessment Process

The ICAAP is a process to estimate and project capital requirements through a comprehensive risk assessment methodology, in conjunction with the business and strategic plans of the Company.

4.2.1 ICAAP Principles

a) The ICAAP shall be comprehensive. It shall identify, assess all material risks. It shall assign a specific capital measure across the entire risk scope (i.e. Enterprise-wide Risk, Credit Risk & Concentration risk, Market Risk, Operational Risk, Liquidity Risk, IRRBB, Reputation Risk Strategic Risk and ESG Risks)

b) The ICAAP should be embedded in the Company's business and strategic planning processes. The Company shall blend the existing financial planning processes with the risk / capital planning dimension to obtain a consistent view of the potential scenarios related to achieving the business objectives.

c) ICAAP's design and related metho do loggias are determined according to the principle of proportionality (i.e. the level of sophistication of the methods and processes deployed under ICAAP are developed in relation to the nature, size and complexity of the Company's operations).

d) The overall responsibility for the ICAAP is assigned to the Company's BoD, which must ensure that the Company's risk-bearing capacity is secured.

e) The ICAAP shall be designed to ensure sufficient capital in a variety of market conditions (particularly unexpected adverse conditions), with Stress Testing being a key feature of the Company's ICAAP framework.

f) The ICAAP should be fully documented, i.e. the methodologies, assumptions, procedures and policies should be formally documented in an ICAAP Framework Policy

g) ICAAP should be forward looking and cover a horizon of at least three years. The direct consequence of this requirement is that the business plan has to cover the same three-year horizon.

4.2.2 Guidelines for the ICAAP Framework Policy

The ICAAP Framework Policy shall achieve the following objectives:

- Reiterate the process for the high-level Risk Identification and Assessment (RIA)
- Define the ICAAP process, including clear assignment of roles and responsibilities for facilitating the ICAAP (i.e. ICAAP Governance)
- Facilitate integration of ICAAP processes the wider strategic management process including, without limitation, the Multiyear Business Plan and the Budget.
- Describe accepted methodologies for internal capital and liquidity assessment, as well as forecasting assumptions
- Describe interaction and integration of RAS as a sub-process of ICAAP
- Set out the standards for ICAAP reporting and documentation

4.2.3 Guidelines for the ICAAP process

a) ICAAP Planning shall cover at least the following process steps

1) Establish Scope of ICAAP by running a high-level risk assessment
2) Perform calculation of current values of RAS & ICAAP indicators
3) Projecting business targets based on the strategic objectives defined by the Board, part of the Multiyear Business Plan
4) Calculate projected RAS and ICAAP risk indicators. Projections shall be done under a baseline scenario and under stress scenarios.
5) Review results in terms of capital and Liquidity availability as well as RAS compliance
6) Draft ICAAP Report describing the ICAAP scope, process and results.

b) ICAAP Review and Approval

Following ICAAP Planning, ICAAP shall be Reviewed and Endorsed by ALCO, EIRMC and BIRMC and approved by the BoD. Following approval, the assignment business and risk targets (including allocation of capital) shall be communicated to the relevant business lines.

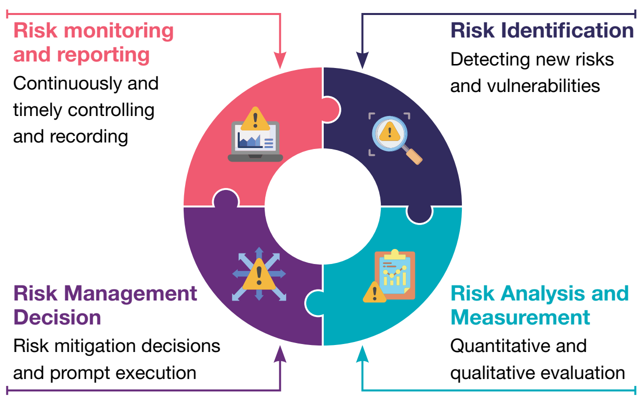
Figure 5 Summary of the ICAAP process

c) ICAAP Monitoring and Reporting

Regular (at least quarterly review by ALCO, EIRMC and BIRMC of the Company's financial performance and risk profile against the RAS and ICAAP benchmarks. ICAAP Policy Manual would define the specific tasks and responsibilities along with the timelines of activities including all regulatory requirements.

5. THE RISK MANAGEMENT PROCESSES (RMP)

Risk management process covers the steps to be taken by the Company in the process of identifying, assessing, mitigating and treating the risks to which the Company is exposed to. It consists of the following conceptual steps.



5.1 Risk Identification and Assessment (RIA)

The purpose of the risk identification is to generate a comprehensive list of risk that may impact the Company's risk profile and may impede the achievement of the Company's overall strategic and business objectives. This process shall capture all significant risks and identify potential threats at the earliest opportunity. It includes review of portfolios, risk indicators, business processes, risk reports etc.

5.3 Risk Reporting and Monitoring

5.3.1 Principles of Risk Reporting

The processes of risk reporting and monitoring shall comply with the following principles

- **Integrated reported** - Risk reporting to senior management and Board shall be done in an integrated and consistent manner. In order to ensure consistency, an Integrated Risk Report is compiled and validated by the IRMD based on specific risk reporting prepared by each relevant risk department.
- **Accuracy** - Risk reporting shall be validated to ensure completeness and accuracy. Validation of risk reports shall be independently carried out by IRMD and each Risk Unit as well as Internal Audit as part of its annual risk audit plan. Also, risk data should be reconciled with Company's sources, including accounting data where appropriate, to ensure that the risk data is accurate
- **Access and Infrastructure** - The Company's risk personnel should have sufficient access to risk data to ensure they can appropriately aggregate, validate and reconcile the data to risk reports. To this end, an appropriate reporting platform shall be made available to risk personnel (e.g. business intelligence systems)
- **Timeliness** - The Company should be able to generate aggregate and up-to-date risk data in a timely manner in order to allow recipients of the reports take timely decisions based on these reports.
- **Distribution** - Risk management reports should be distributed to the relevant parties, including without limitation Board members and relevant members of the management team, while ensuring confidentiality is maintained.

- **Deviations** - Any deviations to Policies, Risk Limits to be escalated to EIRMC and BIRMC on a timely manner with remedial action plans.

6 STRESS TESTING

6.1 Principles

Stress testing is a critical component of the LCBF's risk management system. The main goal of Stress Testing is to quantify the impact of stressed yet plausible macroeconomic and LCBF specific shocks on the LCBF's financial position including its long-term viability.

The following principles shall apply to any stress testing framework of the LCBF:

1. Stress Testing Governance

Stress testing shall form an integral part of the overall risk governance and risk management culture of the LCBF. Authority over the LCBF's stress testing framework rests with the LCBF's Board of Directors and senior management. While the Board is ultimately responsible for ensuring that the LCBF has an effective stress testing framework, it is the role of Risk Management and the relevant risk committees to fulfill the following roles:

- Establish adequate stress testing policies (or sections within risk specific policies) and procedures, and ensure compliance with these policies and procedures
- Review and evaluate stress test results, discuss implications and take prompt remedial action where necessary.
- Finally, Risk Management, through the BIRMC, is also responsible for regularly reporting stress testing results to the Board.

2. Relevant Methodology

Stress test scenarios should be anchored in actual relevant historical corrections in the local market or, in case such history does not exist, using hypothetical scenarios based on the broader interactions experience.

Irrespective of the type of methodology deployed, stress testing should be:

- **Forward Looking** - it should reflect a potential a severe yet realistic future stress situation
- **Tailored to the Company's portfolio vulnerabilities** - should reflect specific portfolio vulnerabilities in the Company rather than being generic
- **Meet regulatory requirements**- should cover minimum regulatory directives

3. Actionable results

Stress test results should be clear, actionable, well supported, and inform the decision-making process at Board, BIRMC and ALCO levels in regular and timely manner. More importantly, stress test results should be directly linked to decision-making related to business strategies, including business planning and budgeting. Among the actions that could be taken the following shall be considered depending on level of impact severity:

- Holding additional risk buffers such as provisions, capital or liquid assets
- Reducing risk exposures (reducing growth levels, shifting portfolios towards lower risk products or segments, requiring additional collateral, reducing concentrations)
- Reduce budgetary or strategic targets or adjust target portfolio mix
- Amending contingency plans

4. Stress Testing Documentation

Stress Testing Framework shall be fully documented, part of each Risk Policy, and shall include frequency and procedure for identifying the principal risk factors, which affect the LCBF's portfolio and required to be stressed.

- Methodology for constructing stress tests, including simulation parameters
- Process of monitoring the stress loss limits.
- Necessary remedial/ trigger actions to be taken, including contingency planning
- Delegation of authority to ensure timely execution of remedial/trigger action

5. Forward Looking

Stress testing methodologies shall be forward-looking and flexible. Flexibility is necessary in order to incorporate changes in the LCBF's activities, portfolio composition, operating environment, business strategy.

Although historical information should be utilized in stress testing, the LCBF' stress testing shall go beyond that and assess various scenarios of 'what could go wrong' within a certain macroeconomic context and given the specific features of the LCBF (using hypothetical scenarios, for example).

6. Frequency of analysis

The LCBF shall aim at preparing stress test results on a quarterly basis. Annually, for ICAAP purposes, the underlying macro scenarios shall be updated as part of ICAAP planning. In case of stress testing related to market conditions (i.e. market risk and IRRBB), stress testing shall be conducted at least monthly.

7. Scope of Risk Coverage

Stress testing shall focus on risk dimensions and portfolios which have the potential of a significant impact on the LCBF's financial condition. All material risk sources shall be subjected to stress testing provided reasonable/realistic methodologies are devised.

8. Relevance of scenarios

Most measures of risk, including the ones used in stress testing, contain a number of assumptions and limitations. In the absence of objective information, the subjective test scenarios should be reasonable and justifiable. In case none of this is possible, the LCBF should not run purely arbitrary stress scenarios that may distort the assessment of risks.

9. ICAAP Component

Stress testing is a key component of ICAAP. Capital and funding projections have to be assessed under adverse scenarios. Relevant and credible contingency plans have to be drawn up in case of capital or liquidity shortages.

10. Stress Test results

Stress test results should be clear, actionable, well supported, and inform the decision-making process at Board or Risk Management Committee levels in regular and timely manner. More importantly, stress test results should be directly linked to decision-making related to business strategies as well as ICAAP and management of the risk profile.

Benchmarking or other comparative analysis should be used to evaluate the stress testing results produced by different scenarios. The LCBF should determine which results should be given greater or lesser weight, analyze the combined impact of its tests across various risk categories, and then evaluate potential courses of action based on that analysis.

6.2 General Methodological Guidelines

1. Level of Severity

Stress testing shall be conducted across at least three levels of intensity according to CBSL guidelines corresponding to a recessionary contraction, a severe downturn and a very severe global market disruption. More specifically the stress scenarios shall be categorized into:

i. Moderate Stress Scenario shall reflect a typical recessionary episode. This is a once in 7-10 years scenario. It is an average severity recessionary episode within a business cycle confined to local market conditions.
ii. Severe Stress Scenario shall reflect a severe but plausible recessionary scenario. This is once in 30-50 years scenarios. This is a severe recessionary episode where local vulnerabilities blend with a regional and international financial crisis situation9.

2. Types of Stress Testing

A number of Stress Testing methodologies and approaches shall be deployed, as follows:

- Sensitivity analysis: Seeks to identify how portfolios respond to the movement of a single risk parameter, while holding all others constant. The following can be considered NPL ratios, provisioning levels, drops in collateral valuations and reduction in recovery rates.
- Scenario analysis: Requires movement of multiple risk parameters simultaneously with the source of the stress event being well defined (the “scenario”). Scenario analysis can make use of hypothetical macroeconomic scenarios or major systemic shocks that occurred in the past.

3. Development of Scenarios for Stress Testing

Scenario analysis is a process that should cover the following stages:

(i) Identification of specific macroeconomic vulnerabilities within the operational environment of the LCBF
(ii) Construction of a stress scenario
(iii) Conversion of the macroeconomic scenario into a form that is usable for a balance sheet and income statement analysis
(iv) Assess impact on liquidity and capitalization levels (where a link to liquidity and capital can be identified).
(v) Interpreting the results

Related Party Transactions Review Committee Report

The Board Related Party Transactions Review Committee is a Board sub-committee chaired by an independent non-executive director and comprising of two Independent directors and one non-executive director to assist the Board in fulfilling its oversight responsibility on transactions with related parties are being conducted at arm's length basis and in complying with relevant directives and rules.

COMMITTEE COMPOSITION

The RPTR Committee is comprised of two Independent Directors and one non-executive director. The Committee is chaired by Independent Director Mr. D. Thotawatte.

The following members served in the Board appointed Related Party Transactions Review Committee during the twelve months period ended 31st March 2024.

Mr. D. Thotawatte (IND/NED)
Mr. V. Lokunarangoda (NED)
Mr. Mahesh Katulanda (IND/NED)
Mr. J. P. C. Jayalath (IND/NED)

(IND - Independent Director, NED - Non-Executive Director)

Brief Profiles of the members are given under the Board of Directors in the Annual Report.

Meetings

The RPTR Committee met one time during the year since need not arise to meet thereafter during the year. Attendance of the members at RPTR Committee Meetings stated follows:

Member	No. of Meetings
Mr. Dushmantha Thoawatte (Chairman to the Committee)	1/1
Mr. V. Lokunarangoda	1/1
Mr. Mahesh Katulanda	1/1
Mr. J. P. C. Jayalath	1/1

RPTR COMMITTEE CHARTER

The terms of reference of the RPTRC are clearly defined in the RPTRC charter which is reviewed and revised annually. The Charter was approved in November 2022. This process ensures that new developments and concerns are adequately addressed.

Role of The RPTR Committee:

The functions of the Committee are geared to assist the Board of Directors in fulfilling its oversight responsibility on transactions with related parties are being conducted at arm's length basis and in complying with relevant directives and rules.

The Committee has been empowered to:

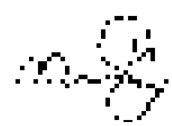
- Review whether the Company abide by the prohibition applicable to granting accommodation, creating liabilities providing services to related parties as defined in the direction.
- Control granting favorable treatment to related parties.
- Introduce prudent limits to control activities with related parties in relation to company's regulatory capital with the approval of the Board of Directors.
- Obtained from the Directors and Key management Personnel (KMP) declarations on their transactions with related parties as defined by CBSL.
- Ensure that no Director or KMP of the Company engage in any board meeting or any committee discussion or participate in the approval of any related party transactions in which he/she is a related party and he/she should provide all material information concerning the transactions subject to such discussion
- Ensure that the Company comply with any future direction of the central Bank of Sri Lanka applicable to Related Party Transaction.
- The Committee shall maintain Minutes of their deliberation having appointed a secretary from its member and maintain an up to date master list of all related party Transactions.
- The Secretary should forward a copy of the minutes of meetings to the CEO /Executive Director for his information.
- The Committee shall meet at least once in six months or if a need arises to convey a meeting as appropriate.
- Any other aspect deemed necessary.

REGULATORY COMPLIANCE

The Related Party Transactions Review Committee closely scrutinizes the compliance of mandatory statutory requirements and systems and procedures in place to ensure the compliance of such requirements.

COMMITTEE EVALUATION

An annual evaluation of the Committee is to be carried out by the Board with contributions from individual Committee Members.



Mr. Dushmantha Thotawatta
Chairman
Related Party Transactions Review Committee

Report on Board Selection and Nomination Committee

The Board Selection and Nomination Committee (BS&NC) carried out it's activities during the year within the scope of it's Terms of Reference in conformity within the direction of Finance Business Act Directions No. 5 of 2021 on Corporate Governance in terms of the powers conferred by section 12 of the Finance Business Act No. 42 of 2011.

COMPOSITION OF BOARD SELECTIONS & NOMINATION COMMITTEE

Board Selection & Nomination Committee comprises 04 members of Board, 02 Directors are non-Executive Independent Directors, 01 non-Executive Director and Executive Director.

The following Directors served on BS & NC

- Dushmantha Thotawatte – Chairman (Independent, Non-Executive Director)
- Mahesh Katulanda – (Independent, Non-Executive Director)
- U K H R Ranasinghe (Independent, Non-Executive Director)
- K G Leelananda – (CEO / Executive Director) – May be present by invitation

The Company Secretary functions as the Secretary to the BS & NC

PRIMARY OBJECTIVES OF THE BS&NC

BS&NC was established to assist the Board of Directors in fulfilling it's role and responsibilities with regard to the selection and appointment of Independent Directors and appointment of Chief Executive Officers and other Key Management Personnels of the Company.

RESPONSIBILITIES OF THE BS&NC

- The Committees shall implement formal and transparent procedures to select/appoint new Directors, Senior Management are to be appointed with recommendation of CEO, excluding Chief Internal Auditor (CIA), Chief Risk Officer (CRO) and Compliance Officer.

1. The committee shall implement a formal and transparent procedure to select/appoint new directors and Senior Management. Senior Management are to be appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer.
2. The committee shall ensure that directors and senior management are fit and proper persons to perform their functions
3. The selection process shall include reviewing whether the proposed directors
   (i) possess the knowledge, skills, experience, independence and objectivity to fulfill 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.
4. 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 a whole.
5. 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.
6. Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders:
   (i) a brief resume of the director;
   (ii) the nature of the expertise in relevant functional areas;
   (iii) the names of companies in which the director holds directorships or memberships in Board committees; and
   (iv) whether such director can be considered as independent
7. The committee shall consider and recommend (or not recommend) the reelection of current directors, considering the combined knowledge, performance towards strategic demands faced by the company and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.
8. 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
9. A member of the nomination committee shall not participate in decision making relating to own appointment/ reappointment and the Chairperson of the board should not chair the committee when it is dealing with the appointment of the successor.

MEETINGS OF BS&NC AND IT'S EFFECTIVENESS

The Committee met twice during the year under review on following:-

- To appoint Non-Executive Independent Director Mr. J P C Jayalath
- To reconstitute the BS&NC
- To review Terms of Reference of BS&NC to be in line with new Corporate Governance Directions.

Mr. Dushmantha Thotawatta
Chairman
Board Selection and Nomination Committee

Audit Committee Report

The Board Audit Committee is a sub-committee of the Board of Directors chaired by an independent non-executive director and comprising exclusively of non-executive directors to assist the Board in fulfilling its oversight responsibility on financial reporting, internal controls, internal audit and external audit related affairs of the Company.

COMMITTEE COMPOSITION

The Audit Committee is comprised of four Non-Executive Directors of whom three are Independent Directors. The Committee is chaired by Independent Director Mr. Dushmantha Thotawatte, who is fellow member of the Institute of Chartered Accountants with considerable experience in the field of Auditing and Finance.

The following members served in the Board appointed Audit Committee during the twelve months period ended 31st March 2024.

Mr. D.Thoawatte (IND/NED) Mr. M.Katulanda (IND/NED)
Mr.J.P.C.Jayalath (IND/NED) Mr.G.K.Nanayakkara (NED)
(IND - Independent Director, NED - Non-Executive Director)

Brief Profiles of the members are given under the Board of Directors in the Annual Report.

The Head of Internal Audit functions as the Secretary to the Audit Committee.

MEETINGS

The Audit Committee met 8 times during the year. The attendance of the members at Audit Committee Meetings was as follows:

Member	No. of Meetings
Mr. Dushmantha Thotawatte (Chairman to the Committee)	8/8
Mr. M.Katulanda	4/8
Mr.J.P.C.Jayalath	1/8
Mr.G.K.Nanayakkara	8/8

The Chief Executive Officer and other Directors and other senior management team members also attended these meetings by invitation as and when required. On the invitation of the Audit Committee, Company's External Auditor, M/s. E&Y attended 2 Committee meetings during the year. Proceedings of the Audit Committee meetings are reported regularly to the Board of Directors.

AUDIT COMMITTEE CHARTER

The terms of reference of the Audit Committee are clearly defined in the Audit Committee charter which is reviewed and revised annually. The Charter was approved in September 2018 and will be reviewed annually. This process ensures that new developments and concerns are adequately addressed.

Role of The Audit Committee:

The functions of the Committee are geared to assist the Board of Directors in fulfilling effectively its oversight responsibility on financial reporting, internal controls, internal audit & external audit related affairs of the Company. The Committee has been empowered to:

- Examine internally any matter within the scope of the charter relating to the financial and other related affairs of the Company
- Make recommendations on matters connected with engagement, re-engagement, removal of external auditors, service period and audit fees. The Committee periodically reviews the independence, objectivity and effectiveness of the audit process in conformity with applicable standards and best practices.
- Monitor and follow-up the Internal Audit programme and External audit plan, review the External Auditors management letter and Internal Audit reports, and follow up on findings and recommendations.
- Review risk management measures and examine the adequacy, efficiency and effectiveness of the Internal Control System over financial reporting.
  Ensure that efficient and sound financial reporting system is in place to provide accurate, appropriate and timely information to the Board and other stakeholders.
- Review the quality and appropriateness of Accounting Policies, emerging accounting issues and disclosures according to Sri Lanka Accounting Standards.
- Review the compliance of financial reporting obligations under Finance Business Act No. 42 of 2011, Rules and Directions issued by the Central Bank of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act No. 15 of 1995 and the Continuous Listing Rules of CSE. Review and recommend Interim and Annual Financial Statements prepared for approval of the Board and submission to shareholders.

Review the policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.

Performance of the Head of Internal Audit was evaluated by the committee.

Audit committee has discharged its duties during 2023/24 within the scope of the charter as stated below.

Financial Reporting

The Committee assisted the Board of Directors to discharge its responsibility for the preparation of the quarterly and annual Financial Statements to reflect true and fair view of the affairs of the Company in accordance with the Company's accounting records and in conformity with the Sri Lanka Accounting Standards, the

Sri Lanka Financial Reporting Standards, Finance Business Act no 42 of 2011, the Companies Act No.7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act no.15 of 1995, rules and regulations of CBSL Directions.

The Committee reviewed the Company's interim and annual financial statements prior to submission to the Board and recommended their issue to shareholders.

The Audit Committee reviewed the internal controls on financial reporting system to ensure the reliability and integrity of information provided. The review included the extent of compliance with LKAS/ SLFRS and applicable laws & regulations, review of critical accounting policies and practices and any changes thereto, going concern assumptions, major judgmental areas and material audit judgments.

The Committee reviewed the progress of the implementation of SLFRS 9 in the preparation of financial statements for the financial year. The company obtained the service of leading accounting advisory services firms Ms/ EY in the implementation of SLFRS 9.

External Audit

The Audit Committee is empowered by the Board to recommend the appointment of the External Auditor in compliance with the relevant statutes, the service period, Audit fee and any resignation or dismissal of the auditor. The committee is satisfied that there is no conflict of interests between the Company and the Auditor. The Committee is thus satisfied that there is no cause to compromise the independence and objectivity of the Auditor. The Committee reviewed the effectiveness of the audit process in accordance with applicable standards and best practices. The Audit

Committee ensured that the engagement of an audit partner shall not exceed five years and that the 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 as per section 8 (2) c) of Direction No.3 of 2008 issued under the Finance Business Act no 42 of 2011.

The annual Financial Statements 2023/24 was reviewed and recommended for the approval of the Board. The External Auditor's Engagement and Management Letters and Management's responses thereto were also reviewed. The Committee also met with the External Auditor at one meeting without the presence of management to discuss whether there have been any irregularities, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditor wished to discuss with the Audit Committee.

The letter of representation issued by the Board to the External Auditor and Independence confirmation letter issued by the External Auditor have been reviewed by the Audit Committee.

The Committee assisted the Board of Directors in engaging the External Auditor for non-audit services in compliance with the statutes and ensured that engagement in non-audit services does not impair the external auditor's independence and objectivity. Policy on engagement of the external auditor to provide non-audit services had been reviewed and approved by the Committee.

The Audit Committee has recommended to the Board of Directors that Messrs. E&Y be appointed as External Auditor of the Company for the financial year 2018/19 on ward up to 5 years.

Internal Control

The Audit Committee, through the internal audit process, had reviewed the effectiveness of internal controls and procedures and is of the view that adequate controls and procedures are in place to provide reasonable assurance to the Board that the assets of the Company are safeguarded and the financial statements present a true and fair view.

Additionally, the Committee assessed the effectiveness of the company's internal controls over financial reporting as at 31st March 2024, as required by Finance Companies (Corporate Governance) Direction 03 of 2008 and 05 of 2021, based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Controls" issued by Institute of Chartered Accountants of Sri Lanka.

Internal Audit

The committee ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. During the year, the Audit Committee reviewed the adequacy of the scope, functions and resources of the Internal Audit Division, the results of the internal audit process and their evaluation of the company's internal control system. The Audit Committee also reviewed and approved the adequacy of coverage of the internal audit programme.

Executive summary of audit carried out at branches by the Internal Audit Department has been reviewed by the Audit committee and issue instructions to strengthen the weak area of internal control of the branch.

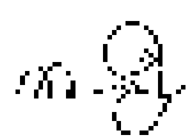
Regulatory Compliance

The Audit Committee closely scrutinizes the compliance of mandatory statutory requirements and systems and procedures in place to ensure the compliance of such requirements.

Audit Committee reviewed the information requirement of Companies Act No 07 of 2007, Finance Business Act No.42 of 2011 and other reporting requirements under SEC, CSE and CBSL regulations.

Committee Evaluation

An annual evaluation of the Committee is carried out by the Board with contributions from individual Committee Members.



Dushmantha Thotawatte
Chairman
Audit Committe

Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company.

COMPOSITION OF THE COMMITTEE

The Board Integrated Risk Management Committee (BIRMC) comprises members who are Directors.

Members of the Board	Position
Mr. Dushmantha Thotawatta-Chairman to the Committee	Chairman
Mr. Ashwin Nanayakkara	Non Independent/ Non Executive Director
Mr. Mahesh Katulanda-(Date of Appointed 27/10/2023)	Independent Director
Mr. J.P.C. Jayalath-(Date of Appointed 27/10/2023)	Independent Director

Permanent members of the Management Level Risk committee are as follows.

Members of the Management	Position
Mr. K.G. Leelananda	Executive Director / CEO
Mr. Jayalal Perera	
Appointed 04/01/2024	Chief Risk Officer (Sectary to the committee)
Mr. K.K. Wannige	AGM – Finance & Planning
Mr. Nishantha Fernando	DGM – Credit
Mr. Vajira Jayasinghe	DGM – IT
Mr. Aruna Vithanage	DGM –Deposit Mobilization
Mr. Shasi Kumar	Head of Recovery
Mrs. Anusha Fernando	Head of Legal

Committee Functions

The Board of Directors of LCB Finance PLC is accountable to design the control environment and set up the Risk Appetite levels to mitigate and effectively manage risks associated with Finance Business. It has delegated the oversight of risk management to the BIRMC and Audit Committees. The BIRMC reviews significant risks and the related risk management and mitigation and reports back to Board any improvements needed, while Audit Committee focuses predominantly on the financial risks and reviews the effectiveness of the risk process as a third line of defense. Each and every department is responsible for identifying, assessing and managing the risks in their respective area. The combined assurance process optimizes assurance coverage and ensures that significant risks are adequately addressed, enabling an effective control environment and ensuring the integrity of information used for decision making and reporting.

Risks and opportunities are identified by the BIRMC throughout the year and assessed potential impact to the Company and mitigations action need to be taken.

Roles and responsibilities

The approved Terms of Reference for the BIRMC stipulates authority, structure, responsibilities and tasks of the BIRMC. Accordingly, the primary responsibilities of the BIRMC includes,

- Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company on a monthly basis through appropriate risk indicators and management information.
- Reviewing the adequacy and effectiveness of ALCO (Assets and Liability Committee) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee
- Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies, regulatory and supervisory requirements.
- Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/ or as directed by the Central Bank Corporate Governance Directions.
- Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.
- Approving in principle, all policies relating to risk management and submit it for the approval of the Board
- Establishing protective risk management culture within the Company.
- Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.

In addition to the above, the Committee may perform such other functions, which are necessary or appropriate for the discharge of its duty.

MEETINGS

The appointed Board Integrated Risk Management Committee met during the financial year to evaluate and address risks faced by the organization. During the year the Committee met three times on a quarterly basis. The attendance of members at meetings is stated as follows

Members of the Bord	No. of Meetings / Attending
Mr. Dushmantha Thotawatta-	4/4
Mr. Ashwin Nanayakkara	3/4
Mr. J.P.C. Jayalath	3/4
Mr. Mahesh Katulanda	2/4

Members of the Management	No. of Meetings / Attending
Mr. K.G. Leelananda	4/4
Mr. Jayalal Perera	2/4
Mr. K.K. Wannige	4/4
Mr. Nishantha Fernando	1/4
Mr. Vajira Jayasinghe	2/4
Mr. Aruna Vithanage	2/4
Mr. Shasi Kumar	3/4
Mrs. Anusha Fernando	2/4

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. Critical issues are taken for discussion at the Board level.

CONCLUSION

The members of the Integrated Risk Management Committee Collectively evaluated the performance of the other risk related committees. The committee is on the view that Lanka Credit and Business Finance PLC is on the right path towards meeting the challenges of risk management and compliance, safeguarding the interest of the stakeholders and towards sustainable operations.

Mr. Dushmantha Thotawatta
Chairman
Board Integrated Risk Management Committee

Board HR and Remuneration Committee Report

The Board HR & Remuneration Committee is a Board sub-committee chaired by an independent non-executive director and comprising of two Independent directors and one non-executive director to assist the Board in fulfilling its oversight responsibility on Human Resources and Remuneration matters are carried out in transparency.

COMMITTEE COMPOSITION

The RPTR Committee is comprised of two Independent Directors and one non-executive director. The Committee is chaired by Independent Director Mr. D. Thotawatte.

The following members served in the Board appointed HR and Remunerations Committee during the twelve months period ended 31st March 2024.

Mr. D. Thotawatte (IND/NED)
Mr. U. K. H. R. Ranasinghe (NED)
Mr. Mahesh Katulanda (IND/NED)

(IND - Independent Director, NED - Non-Executive Director)

Brief Profiles of the members are given under the Board of Directors in the Annual Report.

MEETINGS

The HR & Remunerations Committee met one time during the year since need not arise to meet thereafter during the year. Attendance of the members at HR & Remuneration Committee Meetings was as follows:

Member	No. of Meetings
Mr. Dushmantha Thoawatte (Chairman to the Committee)	1/1
Mr. U. K. H. R. Ranasinghe	1/1
Mr. Mahesh Katulanda	1/1

BOARD HR & REMUNERATIONS COMMITTEE CHARTER

The terms of reference of the Board HR & Remuneration Committee are clearly defined in the HR & Remuneration Committee charter which is reviewed and revised annually. The Charter was approved in July 2022.This process ensures that new developments and concerns are adequately addressed.

Role of The Board HR & Remuneration Committee:

The functions of the Committee are geared to assist the Board of Directors in fulfilling its oversight responsibility on Human Resources and Remuneration matters are carried out in transparency in accordance to the relevant directives.

The Committee has been empowered to:

- The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.
- The secretary to the human resource and remuneration committee may preferably be the company secretary.
- The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the company and fees and allowances structure for non-executive directors.
- There shall be a formal and transparent procedure in developing the remuneration policy.
- 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 company. The policy shall be subject to periodic review of the Board, including when material changes are made.
- The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the company. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.
- The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.
- Any other activity deemed necessary for effective functioning of the committee with the approval of the Board of Directors

REGULATORY COMPLIANCE

The Board HR & Remuneration Committee closely scrutinizes the compliancev of mandatory statutory requirements and systems and procedures in place to ensure the compliance of such requirements.

COMMITTEE EVALUATION

An annual evaluation of the Committee is to be carried out by the Board with contributions from individual Committee Members.

Mr. Dushmantha Thotawatta
Chairman
Board Human Resources &
Remuneration Committee

UNITED IN OPPORTUNITY

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

The Directors of Lanka Credit and Business Finance PLC (formerly City Finance Corporation Limited) have pleasure in presenting to the shareholders their Annual Report together with the Audited Financial Statements for the year ended 31st March 2024. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards.

GENERAL

Lanka Credit and Business Finance PLC (formally known as City Finance Corporation Limited) (the "Company) was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company is a domiciled, public limited liability company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office and the principle place of business of the Company is located at No.76, S De S Jayasinghe Mawatha, Kohuwala, Nugegoda.

PRINCIPLE ACTIVITIES

The Company provides a comprehensive range of financial services encompassing accepting deposits and providing credit facilities such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans business/personal loans and other credit facilities.

FINANCIAL STATEMENT

The financial statements of the Company are prepared in accordance with Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions issued under the said Finance Business Act.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 28th June 2024.

The Financial Statements for the year ended 31 March 2024 was completed and was duly signed by the AGM- Finance & Strategic Planning, Director/ Chief Executive Officer and Chairman of the Company.

AUDITORS' REPORT

The Auditors of the Company are Messrs. Ernst & Young, Chartered Accountants. Messrs. Ernst & Young carried out the audit on the Financial Statements of the Company for the year ended 31st March 2024. The Auditors express a clean opinion of the financial position of the Company as at 31st March 2024 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted and changes in accounting policies in the preparation of the Financial Statements are given on pages are as set out in the financial statements.

FINANCIAL RESULTS & APPROPRIATIONS

Interest Income

Total interest income of the Company for the year ended 31 March 2024 was Rs. 1,202.44 Mn (Rs. 1,031.98 Mn in 2023). Components of interest income are given in Note 8 to the Financial Statements.

Profit and Appropriations

The Company has recorded Rs. 137.5 Mn in profit before tax and Rs. 111.77 Mn in profit after tax in 2024 (Profit for the year was Rs. 162.77 Mn in 2023). The Company's Total Comprehensive Income (net of tax) for the year is Rs. 123.30 Mn (Total Comprehensive income was Rs. 162.71 Mn in 2023).

Taxation

The Income Tax rate applicable to the Company's operations is 30% (2023:24% until 30th September 2022 after that 30%). The Company is also liable for VAT on financial services at 18%, and Crop insurance levy at 1% on PAT.

The Company has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

Dividends

The Board of Directors of the company has not recommended dividends for the year ended 31st March 2024.

Reserves

A summary of the Company's reserves is given below.

	2024 Rs "000"	2023 Rs"000"
Statutory Reserve Fund	59,642	54,088
Retained Earnings	320,721	202,969

Donations

The total amount of donations made during the year under review is Rs. 574,864.01/-

Stated Capital

The Stated Capital of the Company as at 31st March 2024 was Rs. 2,539,133,400 represented by 790,168,780 Voting Shares.

Auditors

The Auditors of the Company during the year were Messrs Ernst & Young, Chartered Accountants.

Audit fees paid to Ernst & Young for the year ended 31st March 2024 by the Company amounted to Rs. 2,319,800 (2023: Rs. 1,987,200).

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Directors

The names of the Directors who held office as at the end of the accounting period are given below:

Prof. W. M. A. Bandara (resigned w.e.f. 26.07.2023)
Mr. D. Thotawatte
Mr. A. W. Nanayakkara
Mr. G.K. Nanayakkara
Mr. U. K. H. R. Ranasinghe
Mr. K. G. Leelananda
Mr. R. L. Masakorala
Mr. V. Lokunarangoda
Mr. K.I. Weerasinghe
Mr. Maheen Priyantha Ahalapa Gamage (resigned w.e.f. 23.09.2023)
Mr. M. Katulanda
Mr. J. P. C. Jayalath

Executive Director

Mr. K. G. Leelananda

Non-Executive Directors

Mr. R. L. Masakorala
Mr. U. K. H. R. Ranasinghe
Mr. K. I. Weerasinghe
Mr. G. K. Nanayakara
Mr. V. Lokunarangoda
Mr. A. W. Nanayakkara
Mr. Maheen Priyantha Ahalapa Gamage (resigned w.e.f. 23.09.2023)

Independent Non-Executive Directors

Mr. D. Thotawatte
Mr. M. Katulanda
Mr. J. P. C. Jayalath

Interest Register

The Company maintains an interests register in terms of the Companies Act, which is deemed to form part and parcel of this annual report and available for inspection upon request.

The relevant interests of Directors in the shares of the Company as at 31st March 2024 as recorded in the interests register are given in this report under Directors' shareholding.

Directors' Interest in Shares

	Name of the Director	No. of Directorates/equivalent positions held in companies/ societies/ bodies corporate
1	Mr. D. Thotawatte	Peoples Bank (Director), Sri Lanka Insurance Corporation (Director), Canwill Holding (Pvt) Ltd (Director)
2	Mr. K. G. Leelananda	Lanka Credit and Business Limited
3	Mr. K. I. Weerasinghe	Lanka Credit and Business Limited Transline GMBH- Transport and Packaging–(Managing Director) RKW Courier Service –(Managing Director)
4	Mr. R. L. Masakorala	Hotel Kabalana Pvt Ltd-(Managing Director) Udamullagoda Tea Factory Pvt Ltd-(Managing Director) Lanka Credit and Business Limited-(Director) The Villa Hotel-(Proprietor) Yakkalamulla Tea Factory (Director) Uneth Car Sale –(Proprietor) Niriella Motors Private Limited-(Director) Binelco Marketing Private Limited (-Director)
5	Mr. U. K. H. R. Ranasinghe	L & H Capital Partners (Pvt) Ltd (Director) Lanka Credit and Business Limited (Director) Thalgampala Tea Company (Pvt) Ltd (Director) Sri Lanka Tea Factory Association (Director)
6	Mr. G. K. Nanayakkara	Etambagahawila Tea Factory –(Director) Mahesland Tea Factory –(Director) Wijaya Tea Factory-(Director) Naindawa Tea Factory-(Director)
7	Mr. V. Lokunarangoda	Thurusaviya Fund under Ministry of Plantation –(Chairperson)
8	Mr. A. W. Nanayakkara	NEM Construction Pvt Ltd- (Director)
9	Mr. M. Katulanda	Office on Missing Person (Chairman)

Annual Report of the Board of Directors on the Affairs of the Company *Contd.*

Related Parties' Transactions with the Company

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the interests register in due compliance with the provisions of the Companies Act, LKAS 24.

Transactions of related parties (as defined in LKAS 24 - Related Parties Disclosure) with the Company are set out in Note 46 to the financial statements.

Directors' responsibility for Financial Reporting

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

Appointments during the financial year

Mr. Dushmantha Thotawatta – Chairman – appointed w.e.f. 21.08.2023
Mr. J. P. C. Jayalath - appointed w.e.f. 26.10.2023

Resignations during the financial year

Mr. M. P. A. Gamage – Resigned w.e.f. 23.09.2023
Prof. W. M. A. Bandara – Resigned w.e.f. 26.07.2023

Board sub committees

The Board of Directors of the Company has formed three committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and as per the recommended best practices on Corporate Governance. The following Directors served as members of the Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Credit Committee.

THE BOARD AUDIT COMMITTEE AS AT 31ST MARCH 2024

Mr. D. Thotawatte	Chairman
Mr. G. K. Nanayakkara	Member
Mr. Mahesh Katulanda	Member
Mr. J. P. C. Jayalath	Member

THE BOARD HR REMUNERATION COMMITTEE AS AT 31ST MARCH 2024

Mr. D. Thotawatte	Chairman
Mr. U. K. H. R. Ranasinghe	Member
Mr. Mahesh Katulanda	Member

THE BOARD CREDIT COMMITTEE AS AT 31ST MARCH 2024

Mr. R. L. Masakorala	Chairman
Mr. V. Lokunarangoda	Member
Mr. G. K. Nanayakkara	Member

INTEGRATED RISK MANAGEMENT COMMITTEE AS AT 31ST MARCH 2024

Mr. D. Thotawatte	Chairman
Mr. A. W. Nanayakkara	Member
Mr. Mahesh Katulanda	Member
Mr. J. P. C. Jayalath	Member

BOARD RELATED PARTY TRANSACTION MONITORING COMMITTEE

Mr. D. Thotawatte	Chairman
Mr. V. Lokunarangoda	Member
Mr. Mahesh Katulanda	Member
Mr. J. P. C. Jayalath	Member

BOARD NOMINATION COMMITTEE

Mr. D. Thotawatte	Chairman
Mr. U. K. H. R. Ranasinghe	Member
Mr. Mahesh Katulanda	Member

THE REMUNERATION AND OTHER BENEFITS OF THE DIRECTORS

Director's fees and other emoluments were

Executive Director - Rs. 13,950,000.00
Non - Executive Directors - Rs. 10,420,000.00

ANNUAL GENERAL MEETING

The Virtual Annual General Meeting will be held on 27th September 2024 at 10.00 a.m. at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via Online platform.

Mr. D. Thotawatte
Chairman

Mr. K. G. Leelananda
CEO/Executive Director

Tamarika Rodrigo
Company Secretary

04 August 2024
Colombo

Independent Assurance Report

TO THE BOARD OF DIRECTORS OF LANKA CREDIT AND BUSINESS FINANCE PLC

Report on the Director's Statement on Internal Control Over Financial Reporting included in the Director's Statement on Internal Control

We were engaged by the Board of Directors of Lanka Credit and Business Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 March 2024.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 16 (1) (ix) of the Finance Companies Corporate Governance Direction no. 05 of 2021, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

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

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

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

28 June 2024
Colombo

Director's Statement on Internal Control Over Financial Reporting

REPORTING RESPONSIBILITY

The Board of Directors ("the Board") of Lanka Credit and Business Finance PLC (the Company) presents this report on internal control over Financial Reporting, in compliance with Section 16 (1) (ix) of the Finance Business Act Direction No. 05 of 2021-Corporate Governance.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the system of Internal Control in place at Lanka Credit and Business Finance PLC. ("the Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting which is regularly reviewed and enhanced by the Board taking into account the changes in business environment and regulatory guidelines.

The Board is of the view that the system of Internal Control over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures pertaining to risks and controls over Financial Reporting by identifying and assessing the risks faced, and in the design, operation, and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting.

The key mechanisms that have been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- The Board has appointed various sub-committees to assist in ensuring the effectiveness of the Company's day-to-day operations and to ensure that all such operations are carried out in accordance with the corporate objectives, strategies and the annual budget as well as the policies and the business directions approved by the Board.
- Key functional areas of the company are governed by policies/charters that are approved by the Board. The board appointed committees review and recommend such policies/ charters before seeking the approval of the board. Such policies/charters are regularly reviewed, updated and approved by the board.
- The company's Internal Audit Department checks compliance with policies and procedures and the effectiveness of the internal control systems/ information system controls on an ongoing basis using samples and rotational procedures. This helps to highlight significant findings of non- compliance. Audits are carried out according to the annual audit plan which is reviewed and approved by the Board Audit Committee. The type and frequency of audits of business units/processes are determined by the level of risk assessed, in order to provide an independent and objective report. All significant findings identified by the Internal Audit Department are submitted to the Board Audit Committee.
- The Board Audit Committee reviews internal control issues identified by the Internal Audit Department, regulatory authorities, External Auditors and the Management. The BAC also evaluates the effectiveness of the internal audit function with particular emphasis on the scope, independence of internal audit and resources. The minutes of the Board Audit Committee meetings are forwarded to the Board on a periodic basis. Details of the activities undertaken by the Board Audit Committee are set out in the "Board Audit Committee Report".
- In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of the design, implementation and effectiveness, on an on-going basis.

The Company adopts Sri Lanka Accounting Standards comprising SLFRSs and LKASs and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will continue in its financial reporting and management information.

The Board has given due consideration for requirements of SLFRS 9 "Financial Instruments". The required modules have been implemented and progressive improvements on processes and controls are being made to strengthen the processes and controls around the management information systems and reports required for model validation and compliance in line with SLFRS 9.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The External Auditor has reviewed the above Directors' Statement on Internal Control Over Financial Reporting for the year ended 31 March 2024 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the system of Internal Control of the Company.

STATEMENT ON PRUDENTIAL REQUIREMENTS, REGULATIONS AND LAWS

There are no material non-compliance to prudential requirements regulations, laws and internal controls affecting the Company.

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

CONFIRMATION

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

Dushmantha Thotawatte
Chairman – Board Audit Committee

K.G. Leelananda
CEO/Executive Director

28 June 2024

Independent Auditor’s Report

[redacted]

HLF/TP/AD

TO THE SHAREHOLDERS OF LANKA CREDIT AND BUSINESS FINANCE PLC
Report on the audit of the financial statements

OPINION

We have audited the financial statements of Lanka Credit and Business Finance PLC (“the Company”), which comprise the statements of financial position as at 31 March 2024, statement of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2024, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

[redacted]

Key audit matter	How our audit addressed the key audit matter
Allowances for Impairment Losses of Financial Assets Allowances for impairment losses of financial assets arising from loans and lease receivables of LKR 5.3Bn (Notes 21 & 22) is determined by the management based on the accounting policies described in Note 03. This was a key audit matter due to • the involvement of significant management judgements, assumptions and level of estimation uncertainty associated in management's expectation of future cash flows to recover such financial assets; and • the materiality of the reported amount of allowance of expected credit losses and use of complex calculations in its determination. Key areas of significant judgements, assumptions and estimates used by management included: assumed future occurrence of events and/or transactions and forward-looking macroeconomic scenarios and their associated weightages, which are subject to inherently heightened levels of estimation uncertainty.	In addressing the adequacy of the allowances for expected credit losses of financial assets, our audit procedures included the following key procedures: • Assessed the alignment of the Company's allowances for expected credit losses computations and underlying methodology including responses to economic conditions with its accounting policies, based on the best available information up to the date of our report. • Evaluated the design, implementation and operating effectiveness of controls over estimation of expected credit losses, which included assessing the level of oversight, review and approval of allowances for expected credit losses, policies and procedures by the Board and the management. • Checked the completeness, accuracy and reasonableness of the underlying data used in the expected credit loss computations by cross checking to relevant source documents and accounting records of the Company. • Evaluated the reasonableness of credit quality assessments and related stage classifications. • Assessed the reasonableness of the judgements, assumptions and estimates used by the Management in assumed future occurrence of events and/or transactions including the value and the timing of cash flow forecasts, status of recovery actions of the collaterals, forward-looking macroeconomic scenarios and their associated weightages. • Assessed the adequacy of the related financial statement disclosures set out in notes 21,22 and 42.
Information Technology (IT) systems related internal controls over financial reporting Company's financial reporting process is significantly reliant on multiple IT systems and manual internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.	Our audit procedures included the following key procedures: • Obtained an understanding of the internal control environment of the relevant significant processes and test checked key controls relating to financial reporting and related disclosures. • Involved our internal specialized resources and; Obtained and understanding IT Governance Structure of the Company
Accordingly, IT systems related internal controls over financial reporting were considered a key audit matter.	Identified, evaluated and tested the design and operating effectiveness of IT systems related internal controls over financial reporting, relating to user access and change management Obtained a high-level understanding of the cybersecurity risks relevant to the Company and the actions taken to address these risks primarily through inquiries related to processes and controls implemented to address cyber security risks. Tested source data of the reports used to generate disclosures for accuracy and completeness.

Other information included in the Company's 2024 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2024 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2024 annual report is expected to be made available after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 relevant ethical requirements 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, actions taken to eliminate threats or safeguards applied.

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 3755.

28 June 2024
Colombo

Income Statement

For the year ended 31st March	Note	31.03.2024 Rs.	31.03.2023 Rs.
Income	7	1,368,715,429	1,104,019,440
Interest Income	8	1,202,448,835	1,031,981,246
Less: Interest Expenses	9	(620,158,267)	(427,366,144)
Net Interest Income		582,290,568	604,615,102
Fee and Commission Income	10	47,279,094	39,592,621
Less: Fee and Commission Expenses		-	-
Net Fee and Commission Income		47,279,094	39,592,621
Net Other Operating Income/(Expense)	11	118,987,500	32,445,572
Total Operating Profit		748,557,162	676,653,295
Impairment(Charge)/Reversal	12	(122,568,495)	(90,994,761)
Net Operating Income		625,988,667	585,658,534
Less : Operating Expenses			
Personnel Costs	13	(193,798,307)	(145,811,074)
Depreciation and Amortization	14	(76,799,410)	(61,957,077)
Other Operating expenses	15	(145,509,321)	(117,459,076)
		(416,107,038)	(325,227,227)
Operating Profit before Tax on Financial Services		209,881,629	260,431,307
Taxes on Financial Services	16	(72,323,746)	(47,877,516)
Profit before tax		137,557,883	212,553,791
Less: Income tax (expense)/Reversal	17	(26,464,210)	(49,783,037)
Profit for the Year		111,093,673	162,770,755
Basic earnings per share (Rs.)	18	0.14	0.21

The accounting policies and notes on page 127 to 187 form an integral part of the Financial Statements.

Statement of Comprehensive Income

For the year ended 31st March	Note	31.03.2024 Rs.	31.03.2023 Rs.
Profit for the year		111,093,673	162,770,755
Other comprehensive income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:	36.2	1,733,864	(84,936)
Actuarial gain/(loss) on defined benefit plan		11,000,000	-
Fair Value Gain/(Loss) from Investment Properties	31.0	(520,159)	25,481
Deferred tax effect on actuarial gain/(loss)		12,213,705	(59,455)
Other comprehensive income for the year, net of tax		12,213,705	(59,455)
Total comprehensive income for the year, net of tax		123,307,378	162,711,300
Attributable to :		123,307,378	162,711,300
Equity holders of the Company		123,307,378	162,711,300

The accounting policies and notes on page 127 to 187 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March	Note	31.03.2024 Rs.	31.03.2023 Rs.
Assets			
Cash and Cash Equivalent	19	209,863,402	179,594,556
Financial Investment at amortised Cost	20	909,460,831	809,683,821
Financial assets at amortised Cost - Loans and Receivables	21	3,747,316,490	3,738,803,049
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	22	761,346,056	441,429,394
Other Financial Assets	23	62,789,829	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	24	829,306,147	219,753,524
Financial Investment at Fair value through Other Comprehensive Income	25	315,813	315,813
Other Non Financial Assets	26	48,943,046	56,320,987
Investment Property	27	191,000,000	180,000,000
Property, Plant and Equipment	28	139,078,783	97,223,763
Right of Use Assets	29	67,523,775	69,643,533
Intangible Assets	30	38,439,965	34,907,586
Deferred Tax Asset	31	8,046,744	18,462,799
Total Assets		7,013,430,881	5,877,500,382
Liabilities			
Financial Liabilities at amortised Cost - Due to Banks	32	604,675,532	566,941,929
Financial Liabilities at amortised Cost - Due to customers	33	3,270,214,658	2,380,339,395
Other Financial Liabilities	34	84,833,080	85,609,323
Other Non Financial Liabilities	35	127,406,884	42,055,952
Retirement Benefits Liabilities	36	6,802,916	6,363,350
Total Liabilities		4,093,933,070	3,081,309,949
Equity			
Stated Capital	37	2,539,133,400	2,539,133,400
Reserves	38	59,642,422	54,087,738
Retained Earnings	39	320,721,989	202,969,295
Total Equity		2,919,497,811	2,796,190,433
Total Equity and Liabilities		7,013,430,881	5,877,500,382
Net asset Value per share	37.4	3.69	3.54

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

Kelum Wannige
AGM - Finance & Strategic Planning

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

K. G. Leelananda
Director/CEO

Mr. Dushmantha Thotawatte
Chairman

The accounting policies and notes on page 127 to 187 form an integral part of the Financial Statements.

28 June 2024
Colombo

Statement of Changes of Equity

For the year ended 31st March	Stated Capital Rs. '000 (Note 37)	Retained Earnings Rs. '000 (Note 39)	Statutory Reserve Rs. '000 (Note 38)	Total Equity Rs. '000
Balance as at 01 April 2022	2,539,133,400	95,806,659	45,949,200	2,680,889,259
Net Profit / (Loss) for the Year	-	162,770,755	-	162,770,755
Other Comprehensive Income Net of Tax	-	(59,455)	-	(59,455)
Transfer to Statutory Reserve Fund	-	(8,138,538)	8,138,538	-
Total Comprehensive Income for the Year, Net of Tax	-	154,572,762	8,138,538	162,711,300
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Shares issue during the year	-	-	-	-
Dividend Paid	-	(47,410,127)	-	(47,410,127)
Total Transactions with Equity Holders	-	(47,410,127)	-	(47,410,127)
Balance as at 31 March 2023	2,539,133,400	202,969,295	54,087,738	2,796,190,433
Balance as at 01 April 2023	2,539,133,400	202,969,295	54,087,738	2,796,190,433
Net Profit / Loss) for the Year	-	111,093,673	-	111,093,673
Other Comprehensive Income Net of Tax	-	12,213,705	-	12,213,705
Transfer to Statutory Reserve Fund	-	(5,554,684)	5,554,684	-
Total Comprehensive Income for the Year, Net of Tax	-	117,752,694	5,554,684	123,307,378
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Dividend Paid	-	-	-	-
Total Transactions with Equity Holders	-	-	-	-
Balance as at 31 March 2024	2,539,133,400	320,721,989	59,642,422	2,919,497,811

The accounting policies and notes on page 127 to 187 form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31st March	Note	31.03.2024 Rs.	31.03.2023 Rs.
Cash Flows Used in Operating Activities		137,557,883	212,553,791
Profit before tax from continuing operations			
Adjustments for			
Depreciation and Amortization	14	54,433,515	41,591,568
Amortization of right of use asset		22,365,895	
Provision/(Reversal) for Defined Benefit Plans	36.1	2,740,580	1,871,057
(Gain)/Losses from Change in fair value of Investment Properties	27	-	(20,457,020)
Fair Value (Gain) / Loss from Share Investments & Unit Trust	11	(107,555,761)	(7,189,330)
Dividend Received	11	-	(899,287)
(Gain)/Loss on Termination/Modification of ROU Assets	11	-	(2,648,282)
Impairment (Reversal)/Charges for Loans & receivable and Lease rentals receivables & Hire Purchases		119,974,039	85,073,977
Interest on Lease Liability		12,173,215	
Impairment (Reversal)/Charges for Financial Investments		-	554,874
Write off balances			
Operating Profit before Working Capital Changes		241,689,365	310,451,349
Working Capital Adjustments			
(Increase) / Decrease Lease Rentals Receivables and Hire Purchases		(329,033,350)	(64,566,778)
(Increase) / Decrease Loans and Receivables		(119,370,791)	(1,312,267,120)
(Increase) / Decrease Other Financial Assets		(31,428,272)	(14,442,043)
(Increase) / Decrease Other Non Financial Assets		(13,520,710)	(975,969)
Increase / (Decrease) in Other Liabilities		89,608,065	6,923,343
Increase / (Decrease) in Due to Customers		889,875,263	1,417,703,812
Cash Flow from/(used in) Operating Activities		727,819,571	342,826,594
Gratuity Paid	36	(567,150)	(480,313)
Income Tax Paid		(2,927,527)	(3,528,900)
Net Cash from Operating Activities		724,324,894	338,817,381
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	28.1	(93,499,983)	(49,208,365)
Acquisition of Intangible Assets	30	(10,818,726)	(1,283,800)
Proceeds from Sales of Investment Properties and PPE		4,497,797	-
Net Investment Acquisition		(99,777,011)	(63,379,714)
Net Investments in Shares & Unit Trust		(501,996,861)	(193,055,478)
Dividend Received		652,512	899,287
Net Cash Flows from/(Used in) Investing Activities		(700,942,272)	(306,028,069)
Cash Flows from (used in) Financing Activities			
Dividend Paid		-	(46,074,752)
Net Proceeds from Interest Bearing Loans & Borrowings	32.2	37,733,602	8,326,228
Payment of Capital portion of Lease Liabilities	29.2	(30,847,376)	(14,480,696)
Net Cash used in Financing Activities		6,886,226	(52,229,219)
Net Increase in Cash and Cash Equivalents		30,268,848	(19,439,908)
Cash and Cash Equivalents at the beginning of the year		179,640,236	199,080,144
Cash and Cash Equivalents at the end of the year		209,909,086	179,640,236

The accounting policies and notes on page 127 to 187 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

Lanka Credit and Business Finance PLC (formally known as City Finance Corporation Limited) (the "Company) was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company is a domiciled, public listed company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office and the principle place of business of the Company is located at No.76, S De S Jayasinghe Mawatha, Kohuwala, Nugegoda.

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits and providing credit facilities such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans business/personal loans and other credit facilities.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking /ultimate parent and the controlling party is the Lanka Credit and Business Limited, which is incorporated in Sri Lanka.

1.4 Approval of Financial Statements by Directors

The Financial Statements of the Lanka Credit and Business Finance PLC for the year ended 31 March 2024 was authorized for issue in accordance with a Resolution of the Board of Directors on 28 June 2024.

1.5 Directors' Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards comprising LKASs and SLFRSs (hereafter "SLFRS").

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, and Accounting policies and Notes to the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and Finance Business Act No.42 of 2011 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, and applied consistently, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following.

- Financial Assets at fair value through profit or loss at fair value (Note 24)
- Financial Assets at fair value through other comprehensive income (applicable from 1stApril 2018) at fair value (Note 25)
- Investment properties, which is measured at cost at the time of acquisition subsequently, measured at fair value, which reflects market conditions at the reporting date (Note 27)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation based on actuarial valuation (Note 36)

2.3 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is also the Company's functional and presentation currency.

2.4 Presentation of Financial Statements

The assets and liabilities of the Company presented 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. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non - current) is presented in Note 47.

2.5 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard -LKAS 01(Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an Accounting Standard or interpretations and as specifically disclosed in the accounting policies.

2.6 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation as set out in the Financial Statements.

2.7 Statement of Cash Flow

The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately 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.

For the purpose of the cash flow statement, Cash and cash equivalents include cash in hand, balances with banks net of unfavorable bank balances and securities purchased under repurchase agreement (less than three months).

2.8 Events after the Reporting Date

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorized for issue.

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, which is disclosed in Note 45 to the Financial Statements.

2.9 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 - "Presentation of Financial Statements".

2.10 Going Concern Basis for Accounting

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. Therefore, the Financial Statements of the Company continue to be prepared on a going concern basis.

The ongoing economic crisis in the country has increased the estimation uncertainty in the preparation of these Financial Statements. The estimation uncertainty is associated with the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP and unemployment). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn. However, in light of the ongoing economic crisis, the Company has assessed its going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

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

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Company are as follows.

3.1 Impairment losses on loans and receivables

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes which can result in different levels of allowances.

Accordingly, the Company reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics.

As per SLFRS 09, the Company's expected credit loss (ECL) calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their fair values and their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).
- Selection of forward – looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

3.2 Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 40 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 40 to the Financial Statements.

3.3 Taxation

The Company is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The Company has adopted the requirements of the New Inland Revenue Act and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Further, deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

3.4 Defined Benefit Plans

The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 36 to the Financial Statements.

3.5 Useful Life-time of the Property, Plant, Equipment and Intangible Assets

The Company reviews the residual values, useful lives and methods of depreciation and amortization of property, plant, equipment and intangible assets at each reporting date. The judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

3.6 Provisions, 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. Details of commitments and contingencies are given in Note 44 to the Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

4.1 Financial Instruments- Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

All financial assets and liabilities are initially recognized on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets within the time frame generally established by regulation or convention in the market place.

4.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

4.1.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the Income Statement when the inputs become observable, or when the instrument is derecognized.

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

On initial recognition, a financial asset is classified as measured at,

- Amortized cost,
- Fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss. (FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

a) Financial Assets at Amortized cost:

The Company only measures loans, receivables, and other financial investments at amortized cost if both of the following conditions are met:

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

Financial Assets consist of cash and bank balances, securities purchased under repurchase agreements, placement with banks, lease rentals receivable & stock out on hire, loan receivables, and other financial assets.

The details of the above conditions are outlined below.

Business model assessment

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

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

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

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

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

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

In contrast, contractual terms that introduce a more than minimize exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

b) Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Previous years, the Company has recorded its non- quoted equity investments as FVPL. However current year onwards it has recorded as FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 25 to the Financial Statements.

c) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortized Cost in the form of term loans, short term loans and Reverse Repo.

4.1.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
   a) Financial liabilities held for trading
   b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortized cost, when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

ii. Financial Liabilities at Amortized Cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortized cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortized cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortization is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are de recognized as well as through the EIR amortization process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortized Cost in the form of term loans, short term loans and debentures.

4.1.6 Reclassifications of Financial assets and Financial Liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018.

4.1.7 De recognition of Financial Assets and Financial Liabilities

a) De recognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Company also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de recognition.

The Company has transferred the financial asset, if and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de recognition if either:

- The Company has transferred substantially all the risks and rewards of the asset or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On De recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de recognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Company's continuing involvement, in which case, the Company also recognizes as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

b) De recognition - Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as de recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1 —** Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- **Level 2 —** Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- **Level 3 —** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The disclosure of fair value of financial instruments is disclosed in Note 39 to the Financial Statements.

4.1.8 Impairment of Financial Assets

4.1.8.1 Expected Credit Loss Principles

a. Overview of the expected credit loss (ECL) principles

The Company recognizes expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 42.4.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 1: When loans are first recognized, the Company recognizes allowance based on 12 month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage3.

Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered (partial) de recognition of the financial asset.

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR.A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD: The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de recognized and is still in the portfolio.

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

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method is summarized below

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

c. Loan Commitments:

When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

d. Financial Guarantee contracts:

The Company's liability under each guarantee is measured at the higher of the initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognized within provisions.

e. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognized in OCI is recycled to the profit or loss upon de recognition of the assets.

f. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behavior, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

g. Forward looking information

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

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation
- Exchange Rate

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

4.1.8.2 Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognized in the income statement.

4.1.8.3 Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan reinitiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. De recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not de recognized, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 42.4.1. The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is de recognized as explained in Note 4.1.7(a).

4.1.8.4 Write-off of Financial Assets at Amortized Cost

Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.1.8.5 Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral.

Other financial assets which do not have readily determinable market value are valued using models. Non- financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

4.1.8.6 Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.1.8.7 Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

Income and expenses are presented on a net basis only when permitted under LKAS/SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

4.2 Leases

The Company applied Sri Lanka Accounting Standard -SLFRS 16 (Leases) with effect from 1 April 2019.

At the commencement date of a lease, the Company recognise a liability to make future lease payments (i.e., the lease liabilities) and an asset representing the right to use of the underlying asset during the lease term (i.e., the right-of-use asset), the interest expense on the lease liabilities and the depreciation expense on the right-of-use asset are recognized separately in line with the requirements of SLFRS 16-Leases.

Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Company will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

For the contracts entered on or after the effective date of transition, the Company assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used. After the assessment of whether a contract is, or contains, a lease, the Company determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

(a) Separating components of a contract

The Company determines, the right to use an underlying asset is a separate lease component if both of the following criteria are met.

- The lessee can benefit from use of the asset either on its own or together with other resources that are available to the lessee.
- The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

For contracts in which the Company becomes the lessee, the consideration in the contract is allocated to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components. On the other hand, when the Company is the lessor, the guidance given in Sri Lanka Accounting Standard – SLFRS 15 on "Revenue from Contracts with Customers" (SLFRS 15) is applied to allocate transaction price to separate components.

(c) Determination of lease term

All lease liabilities are to be measured with reference to the estimate of lease term. Accordingly, the Company determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. In this assessment, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Company reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, only upon the occurrence of a significant event or significant change in circumstances that are within the control of the Company as a lessee. In addition, as per SLFRS 16, the Company revises lease term only if there is a change in the non-cancellable period of lease.

d) Amortization of Right to Use Asset

Company amortized it's Right to Use Assets over the lease period of the respective asset

4.3 Property, Plant &Equipment

4.3.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

4.3.2 Measurement

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 an item of property, plant & equipment. 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. Purchased software that is integral to the functionality of the related equipment is capitalized as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4.3.3 Cost Model

An item of property, plant & equipment that qualifies or recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it.

The cost of self- constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs.

When parts of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant& equipment.

The Company applies the cost model to property, plant & equipment and records at cost of purchase or construction together with any incidental expense thereon less accumulated depreciation and any accumulated impairment losses.

Changes in the expected useful life are accounted by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

4.3.4 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of the day to day servicing o property, plant and equipment are charged to the Statement of Comprehensive Income.

4.3.5 Repairs and Maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

4.3.6 Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on ‘Borrowing Costs’, the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized in the profit or loss in the period in which they occur.

4.3.7 De-recognition

Property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in ‘Other operating income’ in the income statement in the year the asset is de recognized.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.3.8 Depreciation

Depreciation is recognized in income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant &equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The rates of depreciations based on the estimated useful lives are as follows:

Category of Asset	Rate of Depreciation (per annum)
Office Equipment	25%
Computer Equipment	20%
Office furniture & Fittings	20%
Motor vehicles	25%
Name Board	50%
Machinery	25%
Computer Software	25%
Computer Software- E-finance system	10%

4.3.9 Change in Estimates

The asset’s residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

4.4 Intangible Assets

The Company’s intangible assets include the value of computer software.

4.4.1 Basis of Recognition

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses if any.

4.4.2 Subsequent Expenditure

Subsequent expenditure on Intangible Asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.4.3 Useful Economic life, Amortization and Impairment

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

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The Class of Intangible Assets	Useful Life	Amortization Method
Computer software	4 Years	Straight line method
Computer software (new e-finance system)	10 Years	Straight line method

The residual value of the intangible asset is zero.

The unamortized balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognized in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

4.4.5 De recognition

Intangible assets are de recognized on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on de recognition of the asset, Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss in the year the asset is de recognized.

4.5 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

4.6 Investment Property

Investment properties are properties held either to earn rental income or for capital appreciation or both, Investment properties are initially measured at cost and the fair value model is used for subsequent measurement in accordance with Sri Lanka Accounting Standard (LKAS 40) – Investment Property. The cost of the investment property comprises of its purchase price and any directly attributable expenditure.

Fair valuations of the properties are carried out by independent valuer/valuers having appropriate professional qualifications, the difference between the carrying amount of the item and its fair value is recognized directly to the Income Statement, if it is a gain or a decline in value

4.7 Dividend Payable

Dividends on ordinary shares are recognized as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

4.8 Retirement Benefit Obligations

4.8.1 Defined Benefit Plan -Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No.12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The item is stated under other liabilities in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses

The Company recognizes the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Interest Cost

Interest cost is the expected increase due to interest at the end of the year. (The benefits are one year closer to settlement).

Funding Arrangements

The Gratuity liability is not externally funded.

4.8.2 Defined Contribution Plans

The Company also contributes defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.
The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

Employees' Trust Fund

The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

4.9 Statutory Reserve Fund

The reserves recorded in the equity on the Company's Statement of Financial Position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'provision, contingent liabilities and contingent assets'.

The amount recognized 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 obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

4.11 Recognition of Interest Income Interest Expense

4.11.1 Interest Income Interest Expense

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 is also recorded by using the EIR method. The EIR is 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.

The EIR (and therefore, the amortized cost of the asset/ liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognizes interest income/ expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortized through Interest income/Interest expense in the income statement.

When a financial asset becomes credit-impaired (as set out in Note '42.4.1 and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognized using the contractual interest rate under net interest income.

4.11.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

4.12 Fee and Commission Income and Expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Company'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 Company 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.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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

a) Fee Income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.

b) Fee Income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

4.13 Other operating income

(a) Dividend Income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex- dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

(b) Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognized when received.

(c) Other Income

Other income is recognized on an accrual basis.

4.14 Personnel Expenses

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

4.15 Taxes

As per Sri Lanka Accounting Standard –LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the Income Statement, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income.

4.15.1 Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 17 to the Financial Statements.

4.15.2 Deferred tax

Deferred tax is recognized using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 17 and Note 31 to the Financial Statements respectively.

4.15.3 Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

4.15.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

As per Notice published by the Department of Inland Revenue dated November 29, 2019, NBT was abolished with effect from December 1, 2019.

4.15.5 Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 1, 2020

4.15.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognized at the time of liability to pay the related dividend is recognized. At present, the rate of 14 % is deducted at source.

As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective January 1, 2020.

4.15.7 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

ESC is not payable on turnover on which income tax is payable.

As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 1, 2020.

4.16 Regulatory provisions

4.16.1 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly, 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

4.16.2 Deposit Insurance and Liquidity Support Scheme

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

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

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Silence

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

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

4.16.3 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011, and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

4.17 Earnings per Share (EPS)

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company 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 if any.

4.18 Segment Reporting

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

- Term Loans
- Leasing & Hire Purchase
- Others

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

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

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Company.

4.19 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent liabilities and Contingent assets'.

Financial guarantees and undrawn loan commitments

Currently the Company has issued financial guarantees. The company has established a policy to recognize and measure its financial guarantees and undrawn loan commitments, Accordingly, the financial guarantees are initially recognized in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and - under LKAS 39 - the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under SLFRS 9 - an ECL provision.

The premium received is recognized in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

Currently the company has a commitment to settle the City Finance Fixed Deposits (FD) liability to its customers. It is required to settle the final 45% commencing from 30 September 2020.

5. CHANGES IN ACCOUNTING POLICIES

The Company applied for the first-time certain standards and amendments, if applicable, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5.1 Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

On 4 December 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued COVID-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, On 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 01 April 2021.

However, the amendments to Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions also did not have a material impact on the Financial Statements of the Company.

5.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

- **IBOR reform Phase 1**

On 15 January 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

Highly Probable Requirement:

According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

Prospective assessments:

A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

LKAS 39 retrospective assessment:

To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

Separately identifiable risk components:

While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

- **IBOR reform Phase 2**

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients.

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021.

The requirements under phase 1 amendments have to be applied retrospectively. However, the reliefs only apply to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. It follows that it is not possible to apply the reliefs retrospectively to hedge relationships that were not previously designated as such.

The requirements under phase 2 amendments have to be applied retrospectively. Hedge relationships are not designated retrospectively. However, discontinued hedging relationships must be reinstated if, and only if,

The hedging relationship was discontinued solely due to changes required by the Reform, and, therefore, the entity would not have been required to discontinue that hedging relationship if the Phase 2 Amendments had been applied at that time and;

At the date of initial application of the Phase 2 Amendments, that discontinued hedge relationship continues to meet all the qualifying criteria for hedge accounting, after taking account of the Phase 2 Amendment.

The Company is in the process of assessing potential impact of implementation of the aforementioned amendments.

The Company has applied all relevant accounting standards which have been issued up to 31 March 2024 in the preparation of the Financial Statements for the year ended 31 March 2024.

6. SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.1 ACCOUNTING STANDARDS ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.2 SLFRS 17 Insurance Contracts

On 8 January 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 - Insurance Contracts, issued on 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted; provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

6.3 Amendments to LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

6.4 Amendments to LKAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgment is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

6.5 Amendments to LKAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

6.6 Amendments to LKAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify -

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures

The amendments are effective for annual reporting periods beginning on or after 01 January 2023.

Notes to the Financial Statements *Contd.*

7. INCOME

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Interest Income (Note 8)	1,202,448,835	1,031,981,246
Fee and Commission Income (Note 10)	47,279,094	39,592,621
Other Operating Income (Note 11)	118,987,500	32,445,572
	1,368,715,429	1,104,019,440

8. INTEREST INCOME

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Interest Income on Loans and Receivables (Note 8.1)	866,018,552	710,915,003
Interest Income on Lease rentals receivables and Hire Purchases (Note 8.2)	110,181,971	82,127,242
Interest Income on Financial Investments	195,073,771	212,432,725
Penalty Interest	31,174,540	26,506,276
	1,202,448,835	1,031,981,246

8.1 Interest Income on Loans and Receivables

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Interest Income on Term Loans	720,240,438	571,165,487
Interest Income on Housing Loans	45,975,302	49,810,067
Interest Income on Gold Loans	99,802,813	89,939,449
	866,018,552	710,915,003

8.2 Interest Income on Lease rentals receivables and Hire Purchases

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Interest Income on Lease rentals receivables	109,017,990	78,940,496
Interest Income on Hire Purchases	1,163,981	3,186,747
	110,181,971	82,127,242

9. INTEREST EXPENSE

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Due to Banks	118,987,123	117,951,320
Due to Customers (Note 9.1)	478,930,549	295,865,294
Interest Expenses on Lease Liability (Note 29.2)	12,173,215	13,549,530
Borrowing Processing Fees	10,067,380	-
	620,158,267	427,366,144

9.1 Due to Customers

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Interest Expense on Fixed deposits	454,612,095	284,850,166
Interest Expense on Savings	24,318,454	11,015,128
	478,930,549	295,865,294

10. NET FEE AND COMMISSION INCOME

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Documentation and processing fees	47,279,094	39,592,621
	47,279,094	39,592,621

11. NET OTHER OPERATING INCOME/(EXPENSE)

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Foreign Currency Exchange Income	(94,182)	-
Dividend Income	652,512	899,287
Other Income	735,276	1,251,654
Fair Value gain/(loss) from Share Investments	1,131,005	2,751,307
Adjustment for change in fair value of Unit trust	106,424,756	4,438,023
Gain/(Loss) from change in fair value of Investment Properties	-	20,457,020
Gain/(Loss) on Termination of ROU Assets	-	503,577
Gain/(Loss) on Modification of ROU Assets	-	2,144,705
Gain/(Loss) on Disposal of Fixed Assets	7,143,633	-
Rent Income	2,994,500	-
	118,987,500	32,445,572

12. IMPAIRMENT CHARGE/(REVERSAL)

12.1 Collective

For the year ended 31st March	Note	31.03.2024 Rs.	31.03.2023 Rs.
Loans and Receivables	21.2	(67,877,031)	60,561,186
Lease rentals receivables and Hire Purchases	22.2	(9,780,939)	(4,327,469)
Other Financial Assets		-	2,965,642
		(77,657,970)	59,199,359

12.2 Individual

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Loans and Receivables	176,888,335	22,238,950
Lease Rentals Receivable & Hire Purchases	23,338,130	9,556,453
	200,226,465	31,795,402
Total Impairment charges/ (Reversal) for Loans and Receivables, Cash at Bank & Other Financial assets	122,568,495	90,994,761

12.3 The table below shows the allowance for impairment on financial instruments for the year 2023/2024 recorded in the income statement.

For the year ended 31st March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Receivables	(6,071,537)	10,062,314	(71,867,809)	173,159,880	105,282,848
Lease rentals receivables and Hire Purchases	5,886,499	(5,108,345)	(10,559,093)	23,338,130	13,557,191
Write off	-	-	-	3,728,455	3,728,455
Other Receivables	-	-	-	-	-
	(185,038)	4,953,969	(82,426,901)	200,226,465	122,568,495

12.4 The table below shows the allowance for impairment on financial instruments for the year 2022/2023 recorded in the income statement.

For the year ended 31st March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Receivables	1,126,811	2,064,624	57,369,750	21,578,929	82,140,114
Lease rentals receivables and Hire Purchases	(81,894)	(710,277)	(3,535,297)	9,556,453	5,228,984
Write off	-	-	-	660,021	660,021
Other Receivables	2,965,642	-	-	-	2,965,642
	4,010,559	1,354,347	53,834,453	31,795,402	90,994,761

13. PERSONNEL COSTS

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Salaries and Other Related Expenses	168,635,699	125,104,794
Defined Contribution Plan cost EPF and ETF	12,002,028	8,705,223
Directors' Emoluments	10,420,000	10,130,000
Provision for Gratuity	2,740,580	1,871,057
	193,798,307	145,811,074

14. DEPRECIATION AND AMORTIZATION

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Depreciation of Property Plant & Equipment	47,147,167	36,093,489
Amortization of intangible assets	7,286,348	5,498,079
Depreciation of ROU Assets	22,365,895	20,365,509
	76,799,410	61,957,077

15. OTHER OPERATING EXPENSES

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Audit Related Fees and Expenses	1,725,000	1,987,200
Professional & Legal Expenses	9,726,239	11,167,323
Office Administration & Establishment Expenses	105,806,104	76,303,613
Advertising & Business Promotion Expenses	20,376,605	19,812,977
Other Operating Expenses	7,875,373	8,187,964
	145,509,321	117,459,076

16. TAXES ON FINANCIAL SERVICES

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Value Added Tax on Financial Services	64,556,613	44,227,355
Social Security Contribution Levy on Financial Services	7,767,133	3,650,160
	72,323,746	47,877,516

17. TAXATION

17.1 The major components of income tax expense for the years ended 31 March are as follows.

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
(A) Statement of Profit or Loss		
Current Income Tax		
Income Tax for the year	16,568,313	3,528,900
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 31)	9,895,896	46,254,137
	26,464,210	49,783,037
(B) Other Comprehensive Income		
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 31)	520,159	(25,481)
	520,159	(25,481)
(C) Total Tax Expense for the year	26,984,369	49,757,556

17.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2024 and 2023 is as follows.

For the year ended 31st March	31.03.2024 Rs.	31.03.2023 Rs.
Accounting Profit Before Income Taxation	137,557,883	212,553,791
Adjustments		
Non-Taxable (Income)/ Losses	(115,314,407)	(31,193,919)
Disallowable Expenses	292,060,224	208,519,333
Allowable Expenses	(234,647,798)	(169,886,440)
Total Statutory Income	79,655,903	219,992,765
Claim on Carried Forward Tax Losses	-	(206,922,765)
Taxable Income	79,655,903	13,070,000
Income Tax Rate (%)	30%	30% & 24%
Income Tax	16,568,313	3,528,900
Deferred Taxation Charge/(Reversal)	10,416,056	46,228,656
Total Tax Expense	26,984,369	49,757,556
Effective tax rate	20%	23%

17.2 (A) Inland Revenue (Amendment) Act, No. 45 of 2022 certified on December 19, 2022 effected several tax changes including increase in corporate tax rates with effect from 01st October 2022. the income tax rate applicable on the domestic period is 30% for the year of assessment 2023/2024. As per the amendment, for the period from 01st April 2022 to 30th September 2022 (first six months) shall be taxed at the rate of 24% and for the period from 01st October 2022 to 31st March 2023 (second six months) shall be taxed at the rate of 30%.

17.2 (B) As a result of the Company's shares been listed on the Colombo Stock Exchange in November 2021, the Company was eligible for tax benefits as follows in terms of the Inland Revenue (Amendment) Act No 10 of 2021,

i. Income tax payable calculated shall be reduced by 50% for the year of assessment 2021/2022

ii. Gains and profits for 3 Years of assessment from 01.04.2022 will be taxable at the reduces rate of 14%

However, such exemption was removed by the Inland Revenue (Amendment) Act, No. 45 of 2022 certified on December 19, 2022.

18. EARNINGS PER ORDINARY SHARE

The Company presents basic Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity share holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	31.03.2024 Rs.	31.03.2023 Rs.
18.1 Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as at 01 April	790,168,780	790,168,780
Add : Weighted Average Number of shares issued under private placement	-	-
Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as 31 March	790,168,780	790,168,780
Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as 31 March (After consolidation of shares)	790,168,780	790,168,780
Profit Attributable to Ordinary share holders	111,093,673	162,770,755
Basic/Diluted Earnings per Ordinary Share (Rs.)	0.14	0.21

19. CASH AND CASH EQUIVALENT

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Cash in hand	43,076,384	29,681,117
Balances with banks	166,832,702	149,959,121
Securities purchased under repurchase agreement maturing with in 3 months	-	-
Cash and Cash Equivalent before impairment	209,909,086	179,640,237
Less: Allowance for Impairment	(45,684)	(45,684)
Cash and Cash Equivalent after impairment	209,863,402	179,594,554

19.1 Cash and Cash Equivalent - Cash Flow Purpose

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Cash and Cash Equivalent before allowance for impairment	209,909,086	179,640,237
Bank Overdraft	-	-
	209,909,086	179,640,237

20. FINANCIAL INVESTMENTS AT AMORTISED COST

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Fixed Deposits & Commercial Papers	652,970,550	402,525,682
Treasury Bills	257,293,738	407,961,595
Less: Allowance for Impairment Losses	(803,457)	(803,457)
	909,460,831	809,683,821

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Term Loans	3,579,962,106	3,164,401,077
Housing Loans	187,436,760	218,215,850
Gold Loans	286,957,490	576,906,978
Factoring Loans	18,259,000	18,679,000
Staff Loans	32,212,906	12,829,068
	4,104,828,262	3,991,031,973
Less : Allowance for Impairment Losses (Note 21.1)	(357,511,772)	(252,228,923)
Less : Day 1 loss Moratorium interest income (Note 21.1)	-	-
	3,747,316,490	3,738,803,049

21.1 Analysis of Loans and Receivables on Maximum Exposure to Credit Risk as at 31 March 2024

As at 31 March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Loans and Receivables	-	-	598,653,599	598,653,599
Loans and Receivables subject to Collective Impairment	2,514,873,443	706,258,093	285,043,127	3,506,174,663
Allowance for Impairment Losses	(54,820,796)	(31,499,739)	(271,191,238)	(357,511,772)
	2,460,052,647	674,758,354	612,505,488	3,747,316,490

Analysis of Loans and Receivables on Maximum Exposure to Credit Risk as at 31 March 2023

As at 31 March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Loans and Receivables	-	-	246,735,812	246,735,812
Loans and Receivables subject to Collective Impairment	2,546,350,195	452,616,053	745,329,913	3,744,296,161
Allowance for Impairment Losses	(60,892,331)	(21,437,425)	(169,899,167)	(252,228,923)
Moratorium Loan Impairment				
	2,485,457,864	431,178,628	822,166,558	3,738,803,049

21.2 Allowance for Impairment Losses

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Movement in Individual Impairment Allowance for Loans and Receivables		
As at 01 April	36,897,482	15,318,553
Net Impairment Charge / (Reversal) for the year	173,159,880	21,578,929
Balance as at 31 March	210,057,362	36,897,482
Movement of Collective Impairment Allowance for Loans and Receivables		
As at 01 April	215,331,442	154,770,256
Net Impairment Charge / (Reversal) for the year	(67,877,031)	60,561,186
Balance as at 31 March	147,454,411	215,331,442
Individual Impairment	210,057,362	36,897,482
Collective Impairment	147,454,411	215,331,442
	357,511,772	252,228,923

21.3 Movement in Allowance for Impairment Losses

As at 31 March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2023	60,892,331	21,437,425	169,899,167	252,228,924
Charge/(Reversal) to Income Statement (Note 12.3)	(6,071,537)	10,062,314	101,292,071	105,282,848
Balance as at 31 March 2024	54,820,794	31,499,739	271,191,238	357,511,772

22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES & HIRE PURCHASES

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Gross rentals receivables	1,211,475,262	690,206,506
-Lease Rentals Receivables	1,208,094,966	677,806,921
-Amounts Receivable from Hire Purchases	3,380,295	12,399,585
	1,211,475,262	690,206,506
Less: Unearned Income	(378,354,285)	(190,559,382)
Net rentals receivables	833,120,977	499,647,124
Less : Allowance for Impairment Losses (Note 22.1)	(71,774,921)	(58,217,730)
Total net rentals receivable	761,346,056	441,429,394

22.1 Analysis of Lease Rentals Receivables & Hire Purchases on Maximum Exposure to credit Risk as at 31 March 2024

As at 31 March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Rentals Receivables & Hire Purchases	-	-	78,090,826	78,090,826
Lease Rentals Receivables & Hire Purchases subject to Collective Impairment	632,131,690	89,041,938	33,856,523	755,030,151
Allowance for Impairment Losses	(23,687,850)	(5,588,347)	(42,498,725)	(71,774,921)
	608,443,840	83,453,591	69,448,625	761,346,056

Analysis of Lease Rentals Receivables & Hire Purchases on Maximum Exposure to credit Risk as at 31 March 2023

As at 31 March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Rentals Receivables & Hire Purchases	-	-	71,501,778	71,501,778
Lease Rentals Receivables & Hire Purchases subject to Collective Impairment	250,748,972	93,189,953	84,206,422	428,145,347
Allowance for Impairment Losses	(17,801,351)	(10,696,692)	(29,719,687)	(58,217,730)
	232,947,621	82,493,261	125,988,512	441,429,394

22.2 Allowance for Impairment Losses

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Movement In Individual Impairment Allowance for - Lease Rentals Receivables & Hire Purchases		
As at 01 April	10,424,951	868,498
Net Impairment Charge / (Reversal) for the year	23,338,130	9,556,453
Balance as at 31 March	33,763,081	10,424,951
Movement in Collective Impairment Allowance for- Lease Rentals Receivables & Hire Purchases		
As at 01 April	47,792,779	52,120,248
Net Impairment Charge / (Reversal) for the year	(9,780,939)	(4,327,469)
Balance as at 31 March	38,011,840	47,792,779
Individual Impairment	33,763,081	10,424,951
Collective Impairment	38,011,840	47,792,779
	71,774,921	58,217,730

22.3

As at 31 March 2024	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
-Lease Rentals Receivables	466,994,529	741,100,437	-	1,208,094,966
-Amounts Receivable from Hire Purchases	2,841,002	539,294	-	3,380,296
	469,835,531	741,639,731	-	1,211,475,262
Less: Unearned Income	(168,991,806)	(209,362,479)	-	(378,354,285)
Net rentals receivables	300,843,725	532,277,252	-	833,120,977
Less : Allowance for Impairment Losses				(71,774,921)
Total net rentals receivable				761,346,056

As at 31 March 2023	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
-Lease Rentals Receivables	306,292,941	371,513,980	-	677,806,921
-Amounts Receivable from Hire Purchases	5,974,511	6,425,074	-	12,399,585
	312,267,452	377,939,054	-	690,206,506
Less: Unearned Income	(88,076,579)	(102,482,803)	-	(190,559,382)
Net rentals receivables	224,190,873	275,456,251	-	499,647,125
Less : Allowance for Impairment Losses				(58,217,730)
Total net rentals receivable				441,429,395

22.4 Movement in Allowance for Expected Credit Loss (ECL)

As at 31 March	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2023	17,801,351	10,696,692	29,719,687	58,217,730
Charge/(Reversal) to Income Statement (Note 12.3)	5,886,499	(5,108,345)	12,779,037	13,557,191
Balance as at 31 March 2024	23,687,850	5,588,347	42,498,725	71,774,921

23. OTHER FINANCIAL ASSETS

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Other Receivables	62,789,829	31,361,557
	62,789,829	31,361,557

24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OF LOSS

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Unit Trust	813,442,612	205,018,109
Investment in Shares	15,863,535	14,735,415
	829,306,147	219,753,524

25. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Investment in CRIB	315,813	315,813
	315,813	315,813

26. OTHER NON FINANCIAL ASSETS

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
WHT Receivable	7,328,457	1,009,123
Advance & Prepayments	17,625,871	42,737,486
Stationary and Gift stock	8,297,299	7,382,958
Other Non Financial Assets	15,691,420	5,191,420
NBT on Financial Services	-	-
	48,943,046	56,320,987

27. INVESTMENT PROPERTY

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Balance as at 1st April	180,000,000	-
Additions to Investment Properties from foreclosure of contracts	-	129,384,000
Additions;		
On Improvements	-	30,158,980
Net Gain/(Losses) from change in fair value	11,000,000	20,457,020
Balance as at 31st March	191,000,000	180,000,000

Investment Properties includes land and building acquired by the Company from clients who defaulted on accommodations granted. These properties were held by the Company for Capital appreciation and rental purposes.

27.1 Measurement of Fair Values

1) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31st March 2024.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio is depicted in note no.2.1 below	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used. (Note 2.1)	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

2.1) Value

Property	Description	Name of the Valuer	Value per Perch /Sqft	Extent (Perches/ Sqft)	Value
01. Commercial Building Situated at No.634, Galle Road, Rajgama	Land Area	Vlr Gunasekara.A.A.P.D			
	Front	AIV (Sri Lanka)	1,500,000	20.00 Perches	30,000,000
	Rear	Incorporated Valuer	950,000	15.28 Perches	14,516,000
	Building				
	Ground Floor		7,500	4,986 Sqft	37,395,000
	First Floor		7,000	4,986 Sqft	34,902,000
	Second Floor		6,500	4,986 Sqft	32,409,000
	Value of Property after depreciation for building @ 15%				130,000,000
	Market value				130,000,000
02. Commercial Building Mahaedanda, Karandeniya.	Land Area	Vlr Gunasekara.A.A.P.D	2,850,000	14.35 Perches	40,897,500
	Building	AIV (Sri Lanka)			
	Ground Floor	Incorporated Valuer	9,500	1,471 Sqft	13,974,500
	Upper Floor		8,500	1,330 Sqft	11,305,000
	Value of Property after depreciation for building @ 15%				60,000,000
	Market value				61,000,000
			Total value of the property		191,000,000

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Gross Carrying Amounts

Cost	Balance As at 01.04.2023 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2024 Rs.
Freehold Assets				
Motor Vehicles	50,467,895	2,844,120	(29,935,000)	23,377,015
Machinery	41,290,828	1,313,000	-	42,603,828
Office Equipment	24,306,890	13,630,866	(81,300)	37,856,456
Furniture and Fittings	52,803,952	32,544,154	-	85,348,106
Fixture & Fittings	2,535,919	228,000	-	2,763,919
Name Board	20,016,264	30,891,558	(375,480)	50,532,342
Computer Equipment & Accessories	25,280,922	12,048,285	(626,198)	36,703,009
Total Value of Depreciable Assets	216,702,670	93,499,983	(31,017,978)	279,184,675

28.2 Depreciation

	Balance As at 01.04.2023 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance As at 31.03.2024 Rs.
Motor Vehicles	40,009,396	3,242,634	(25,958,068)	17,293,961
Machinery	11,770,806	10,562,603	-	22,333,409
Office Equipment	13,008,873	6,040,107	(81,500)	18,967,480
Furniture and Fittings	27,305,216	10,641,379	-	37,946,596
Fixtures & Fittings	667,530	495,776	-	1,163,306
Name Board	14,427,856	10,672,462	-	25,100,318
Computer Equipment & Accessories	12,289,229	5,492,205	(480,613)	17,300,821
	119,478,906	47,147,167	(26,520,181)	140,105,892

28.3 Net Book Values

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
At Cost		
Motor Vehicles	6,083,053	10,458,499
Machinery	20,270,418	29,520,022
Office Equipment	18,888,976	11,298,017
Furniture and Fittings	47,401,510	25,498,736
Fixture & Fittings	1,600,613	1,868,389
Name Board	25,432,024	5,588,408
Computer Equipment & Accessories	19,402,188	12,991,694
Total Carrying Amount of Property, Plant & Equipment	139,078,783	97,223,763

28.4 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 93,499,983/- (2022/23 - Rs.49,208,365/-).

28.5 Cost of fully depreciated assets of the company as at 31 March 2024 is Rs. 71,018,606/- (2022/23 - Rs.70,851,152/-).

29. RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use-assets recognised and movements during the year.

29.1 Cost

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Balance as at 01 April	125,045,697	121,431,246
Additions and Improvements	20,246,138	27,616,525
Adjustment on Terminations & Modifications	-	(24,002,074)
Cost as at 31 March	145,291,835	125,045,697
Accumulated Amortisation		
Balance as at 01 April	(55,402,164)	(47,987,903)
Charge for the year	(22,365,895)	(20,365,509)
Adjustment on Terminations & Modifications	-	12,951,249
Accumulated Amortisation as at 31 March	(77,768,059)	(55,402,164)
Net Book Value as at 31 March	67,523,775	69,643,533

29.2 Lease Liability

Set out below are the carrying amounts of Lease Liabilities (Included under Other Financial Liabilities in Note 34) and movements during the year.

	31.03.2024 Rs.	31.03.2023 Rs.
Balance as at 01 April	71,663,438	72,804,080
Additions	17,756,138	22,341,213
Accretion of Interest	12,173,215	13,549,530
Payments	(30,847,376)	(28,030,226)
Derecognition on Termination		(6,086,243)
Corrections & modifications		(2,914,917)
Balance as at 31 March	70,745,414	71,663,438

29.3 Maturity Analysis of Lease Liability

	31.03.2024 Rs.	31.03.2023 Rs.
As at 31 March		
Less than 01 year	13,500,940	17,964,636
02 to 05 years	32,072,220	33,418,762
More than 05 years	25,172,254	20,280,040
	70,745,414	71,663,438

29.4 Undiscounted Maturity Analysis of Lease Liability

	31.03.2024 Rs.	31.03.2023 Rs.
Up to 03 Months	6,772,919	7,016,869
03 to 12 Months	17,528,388	21,069,007
01 to 03 Years	31,369,750	33,192,807
03 to 05 Years	29,810,350	23,146,150
Over 05 Years	33,700,556	24,807,458
Total	119,181,963	109,232,291

29.5 Reconciliation of Operating Lease Commitments

	31.03.2024 Rs.	31.03.2023 Rs.
Operating Lease Commitments as at 31 March	71,663,438	72,804,080
Impact on discounting	(18,674,162)	(15,329,645)
Impact on Derecognition & Modifications	-	(8,152,210)
New branches opening during the period	17,756,138	22,341,213
Lease Liability as at 31 March	70,745,414	71,663,438

29.6 Sensitivity of Right-of use Assets /Lease Liability to Key Assumptions

Sensitivity to Discount Rates

1% increase/(Decrease) in discount rate as at 31 March 2024 would have impact the lease liability by approximately Rs.1,780,391/(Rs. 1,860,544) respectively with a similar increase/(decrease) in the Right- of-use Assets. The impact on company's profit before tax for the year would (decrease)/increase by approximately (Rs.74,359)/Rs. 73,283 respectively.

30. INTANGIBLE ASSETS

	31.03.2024 Rs.	31.03.2023 Rs.
Computer Software		
Cost		
As at 01 April	51,207,336	49,923,536
Additions	10,818,726	1,283,800
Cost as at end of the year	62,026,062	51,207,336
Amortisation & impairment		
As at 01 April	(16,299,750)	(10,801,671)
Charge for the year	(7,286,348)	(5,498,079)
Amortisation as at end of the year	(23,586,098)	(16,299,750)
Net book value as at end of the year	38,439,965	34,907,586

Nature and Amortization Method

Intangible Assets represent acquisition of computer softwares from third parties. These softwares are amortized over the estimated useful life as mentioned in the accounting policies in note no. 4.4.4

31. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings.

As at 31 March	Statement of Financial Position		Recognized in Statement of Other Comprehensive Income		Recognized in Statement of Profit or Loss	
	31.03.2024 Rs.	31.03.2023 Rs.	31.03.2024 Rs.	31.03.2023 Rs.	31.03.2024 Rs.	31.03.2023 Rs.
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
- Property Plant & Equipment	10,972,171	4,232,269	-	-	6,739,901	3,495,504
- Intangible Assets	8,710,206	6,681,765	-	-	2,028,441	4,369,542
Define Benefit Plan- Other Comprehensive Income	520,159	25,481	520,159	25,481	494,677	25,481
Investment Property	9,437,106	6,137,106	-	-	3,300,000	6,137,106
	29,639,642	17,076,621	520,159	25,481	12,563,021	14,027,633
Deferred Tax Assets						
Right of Use Assets	966,492	605,972	-	-	360,520	(121,660)
Allowance for Impairment Losses	34,679,019	32,998,963	-	-	1,680,057	28,907,333
Defined Benefit Plans	2,040,875	1,934,486	-	-	106,389	977,770
Defined Benefit Plan- Other Comprehensive Income			-	-	-	(1,952)
Brought Forward Tax Losses	-	-	-	-	-	(61,987,994)
	37,686,386	35,539,420	-	-	2,146,965	(32,226,503)
Deferred income tax charge/ (reversal)			520,159	(25,481)	10,416,056	46,254,137
Net Deferred Tax Liability/ (Asset)	(8,046,744)	(18,462,799)				

32. DUE TO BANKS

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Bank Overdrafts	-	-
Securitised Borrowings and Other Bank Facilities (Note 32.1)	604,675,532	566,941,929
	604,675,532	566,941,929

32.1 Due to Banks

As at 31 March	31.03.2024			31.03.2023		
	Amount repayable within 1 year Rs.	Amount repayable after 1 year Rs.	Total Rs.	Amount repayable within 1 year Rs.	Amount repayable after 1 year Rs.	Total Rs.
Bank Overdrafts	-	-	-	-	-	-
Term Loan facilities from Banks	371,267,209	233,408,323	604,675,532	371,267,209	195,674,720	566,941,929
	371,267,209	233,408,323	604,675,532	371,267,209	195,674,720	566,941,929

32.2 Term Loan facilities from Banks

Direct Bank Borrowings	As at 01.04.2023 Rs.	Loans Transferred Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2024 Rs.	Period	Security
Term Loans									
Term Loan 01 - Sampath Bank PLC	152,705,305	-	150,000,000	14,874,784	(126,872,020)	(14,874,784)	175,833,285	5 Years	Personal Guarantee
Term Loan 01 - Cargills Bank	26,665,200	-	-	3,619,389	(20,000,400)	(3,619,389)	6,664,800	5 years	Personal Guarantee
Pan Asia Bank	186,825,397	-	-	31,764,131	(101,904,762)	(31,764,131)	84,920,635	3 years	Loan / Lease Portfolio Mortgage
Secutization Loan			367,000,000	68,306,127	(80,000,000)	(18,049,315)	337,256,812	14 Months	Lease/HP Portfolio Mortgage
	366,195,902	-	517,000,000	118,564,431	(328,777,182)	(68,307,619)	604,675,532		
Repurchase Agreements (REPO)	200,746,027	-	-	422,492	(200,746,027)	(422,492)	-		Treasury Bills
Bank Overdrafts		-	-	-	-	-	-		
	566,941,929	-	517,000,000	118,986,923	(529,523,209)	(68,730,111)	604,675,532		

Direct Bank Borrowings	As at 01.04.2022 Rs.	Loans Transferred Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2023 Rs.	Period	Security
Term Loans									
Term Loan 01 - Sampath Bank PLC	114,202,359	-	100,000,000	38,879,384	(63,270,020)	(37,106,418)	152,705,305	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	7,224,681	-	-	893,521	(7,224,681)	(893,521)	-	5 Years	Personal Guarantee
Term Loan 01 - Cargills Bank	46,579,501	-	-	9,648,104	(20,000,400)	(9,562,005)	26,665,200	5 years	Personal Guarantee
Term Loan 02 - Cargills Bank	99,273,908	-		882,809	(99,273,908)	(882,809)	-	5 years	FD Against
Pan Asia Bank	288,730,159	-	-	62,761,412	(101,904,762)	(62,761,412)	186,825,397	3 years	Loan / Lease Portfolio Mortgage
	556,010,608	-	100,000,000	113,065,231	(291,673,772)	(111,206,166)	366,195,902		
Repurchase Agreements (REPO)	-	-	200,000,000	746,027	-	-	200,746,027		Treasury Bills
Bank Overdrafts	30,360,385	-	-	-	-	-	-		
	586,370,993	-	300,000,000	113,811,258	(291,673,772)	(111,206,166)	566,941,929		

33. FINANCIAL LIABILITIES AT AMORTISED COST- DUE TO CUSTOMERS

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Fixed Deposits	2,661,708,407	1,958,300,564
Savings Deposits	358,259,799	254,699,944
Interest Payable	250,246,452	167,338,886
	3,270,214,658	2,380,339,395

34. OTHER FINANCIAL LIABILITIES

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Lease Creditors (Note 29.2)	70,745,414	71,663,438
Other Payables	6,922,132	9,056,569
Provisions and Accruals (Note 34.1)	7,165,534	4,889,315
	84,833,080	85,609,323

34.1 Provisions and Accruals

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Salary Payable	974,550	342,285
Professional Fee Payable	3,406,654	2,470,981
Other Expenses Payable	2,784,330	2,076,049
	7,165,534	4,889,315

35. OTHER NON FINANCIAL LIABILITIES

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Payable - EPF	1,723,962	1,095,607
Payable - ETF	257,542	161,286
Payable - PAYE Tax	796,903	574,006
Payable - WHT	965,926	916,035
Payable for Tax on Financial & Non Financial Services	-	8,020,300
Payable - Income Tax	13,640,786	-
Other Payable	105,460,060	28,441,253
Other Tax Payable	4,561,705	2,847,466
	127,406,884	42,055,952

36. RETIREMENT BENEFIT OBLIGATIONS

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Balance at the beginning of the year	6,363,350	4,887,670
Past Service Cost	-	-
Current Service Cost	1,272,670	1,186,783
Payments made during the year	(567,150)	(480,313)
Interest Charged/(Reversed) for the year	1,467,910	684,274
(Gain)/Loss arising from changes in the assumption	(1,733,865)	84,936
Balance at the end of the year	6,802,916	6,363,350

36.1 Expenses on Defined Benefit Plan

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
Current Service Cost for the year	1,272,670	1,186,783
Interest Charge for the year	1,467,910	684,274
Past Service Cost	-	-
	2,740,580	1,871,057

36.2 Amount Recognized in the Other Comprehensive Income

As at 31 March	31.03.2024 Rs.	31.03.2023 Rs.
(Gain)/Loss arising from changes in the assumption (Note 36)	(1,733,865)	84,936
	(1,733,865)	84,936

Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2023 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

36.3 Assumptions

36.3.1Financial Assumptions

	31.03.2024	31.03.2023
Discount Rate	12.00%	20.00%
Salary Increment Rate	8%	17% p.a.

36.3.2Demographic Assumptions

	31.03.2024	31.03.2023
Staff Turnover	21%	17%
Retirement Age	60 years	60 years
Mortality	A 1967/70 Mortality table	A 1967/70 Mortality table

Expected average future working life of the active participants is 4.1 years (2023: 5.12 years)

36.4 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement. The sensitivity of the Statement of Financial position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retiring Gratuity obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2024		2023	
		Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
1%	-	(197,717)	197,717	(364,764)	364,764
-1%	-	210,411	(210,411)	403,148	(403,148)
-	1%	197,978	(197,978)	430,699	(430,699)
-	-1%	(189,066)	189,066	(394,253)	394,253

36. RETIREMENT BENEFIT OBLIGATIONS (CONTD.)

36.5 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

	31.03.2024 Years	31.03.2023 Years
Weighted Average Duration of the Defined Benefit Obligation	3.30	7.20
Average Time to Benefit Payout	5.12	5.12
(Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payments		
within the next 12 months	951,158	861,532
between 2 to 5 years	4,514,385	1,853,166
between 6 to 10 years	1,069,719	1,401,340
beyond 10 years	267,654	2,247,311
	6,802,916	6,363,350

37. STATED CAPITAL

37.1 Issued and Fully Paid-Ordinary Shares

	31.03.2024		31.03.2023	
	No. of Shares	Rs.	No. of Shares	Rs. '000
At the Beginning of the Year	790,168,780	2,539,133,400	790,168,780	2,539,133,400
New share issued during the Year	-	-	-	-
At the End of the Year	790,168,780	2,539,133,400	790,168,780	2,539,133,400

37.2 Rights of Shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

37.3 Net Asset Value per Share

As at 31st March	2024	2023
Equity Holders Funds	2,919,497,811	2,796,190,433
Total No. of Shares	790,168,780	790,168,780
Net Asset Value per ordinary share	3.69	3.54

38. RESERVES

	Statutory Reserve	
	2024	2023
As at 31 March 2023	54,087,738	45,949,200
Transfers During the Year	5,554,684	8,138,538
As at 31 March 2024	59,642,422	54,087,738

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

39. RETAINED EARNINGS

	31.03.2024 Rs.	31.03.2023 Rs.
Balance as at 01 April	202,969,295	95,806,659
Dividend Paid		(47,410,127)
Profit for the Year	111,093,673	162,770,755
Other Comprehensive Income not to be Reclassified to Profit or Loss	12,213,705	(59,455)
Transfers During the Year	(5,554,684)	(8,138,538)
Share Issue Cost		-
Balance as at 31 March	320,721,989	202,969,295

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividend payable.

40. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by Valuation techniques.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities in the active Market.

Level 2: Valuation technique using observable inputs: Quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in active markets are valued using models where all significant inputs are observable.

Level 3: Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

Key methodologies and assumptions used are as follows.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Equity instruments at fair value through OCI

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

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

Variable rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorized.

	31-Mar-24 Fair value measurement using					31-Mar-23 Fair value measurement using				
	Carrying value	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total	Carrying value	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total
Financial Assets										
Financial Assets Measured at Fair value through Profit or Loss	829,306,147	-	829,306,147	-	829,306,147	219,753,524	-	219,753,524	-	219,753,524
Financial Investments at Fair Value through Other Comprehensive Income	315,813	-	-	315,813	315,813	315,813	-	-	315,813	315,813
Total Financial Assets	829,621,960	-	829,306,147	315,813	829,621,960	220,069,337	-	219,753,524	315,813	220,069,337

Set out below is the comparison, by class, of the carrying amounts and fair values of the Company's Financial Instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of Non- Financial Assets and Non-Financial Liabilities.

	31-Mar-24 Fair value measurement using					31-Mar-23 Fair value measurement using				
	Carrying value	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total	Carrying value	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total
Financial Assets										
Financial Investment at amortised Cost	909,460,831	-	909,460,831	-	909,460,831	809,683,821	-	809,683,821	-	809,683,821
Financial assets at amortised Cost - Loans and Receivables	3,747,316,490	-	-	-	-	3,738,803,049	-	-	-	-
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	761,346,056	-	-	-	-	441,429,394	-	-	-	-
	5,418,123,377	-	909,460,831	-	909,460,831	4,989,916,264	-	809,683,821	-	809,683,821
Financial Liabilities										
Due to Customers	3,270,214,658	-	-	-	-	2,380,339,395	-	-	-	-
	3,270,214,658	-	-	-	-	2,380,339,395	-	-	-	-

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

	2024		2023	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Cash Equivalent	209,863,402	209,863,402	179,594,556	179,594,556
Financial Investment at amortised Cost	909,460,831	909,460,831	809,683,821	809,683,821
Other Financial Assets	62,789,829	62,789,829	31,361,557	31,361,557
Total Financial Assets	1,182,114,063	1,182,114,063	1,020,639,934	1,020,639,934
Financial Liabilities				
Financial Liabilities at amortised Cost - Due to Banks	604,675,532	604,675,532	566,941,929	566,941,929
Other Financial Liabilities	84,833,080	84,833,080	85,609,323	85,609,323
	689,508,612	689,508,612	652,551,252	652,551,252

The management of the company believes that the fair value of the financial assets which matured within one year is equal to its amortized cost.

It has taken the amortized cost of deposits liability of City Finance Corporation Limited as the fair value of it, Since the Company has started to settle the Fixed Deposits of the City Finance Corporation within next year.

41. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	2024 Rs.	2023 Rs.
Loan Lease Portfolio	595,878,069	450,000,000
Treasury Bills	-	259,000,000

42. RISK MANAGEMENT

42.1 Introduction

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

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

42. RISK MANAGEMENT CONTD.

42.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies. Integrated Risk Management committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 3 Directors, Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, Risk Management function is managed by Risk Management Department (RMD). RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Above committees closely monitors any developments related to face for the economic crisis and reviews measures undertaken by the company in response to resulting risk. These actions has helped the company mitigating any adverse effect on its asset liability position that may arise due to the continuously evolving nature of the economic crisis.

42.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defence". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

	Financial Risks	Risk Measures	Mitigates
			⦿ Board approved credit policies/ procedures/ framework and annual review
			⦿ Delegated authority levels/ segregation of duties
			⦿ Setting Prudential limits on maximum exposure
	1.Default Risk	⦿ Probability of Default	⦿ Overall NPL Ratio setting based on risk appetite
	Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations	⦿ Loss Given Default	⦿ Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios
		⦿ Sector / Asset / Client / Branch Concentrations of Lending Portfolio	⦿ Concentration limits for clients/ groups, asset types
	2. Concentration Risk	⦿ Concentrations in Repossessed assets	⦿ Monitoring of exposures against the limits
	Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	⦿ Macro Credit Portfolio risk measures such as	⦿ Trend analysis reported to BIRMC
Credit Risk		a) Provision Coverage	Strict compliance with CBSL Guidelines
		b) Net NPL as a % of Equity Funds	
Interest rate risk		⦿ Net Interest Yield and Movement in Net Interest Yield	
		⦿ Lending to Borrowing Ratio	
		⦿ Tracking of Movements in Money Market rates	
		⦿ Marginal Cost of funds / Risk based Pricing	
		⦿ Gaps in asset Liability Re-Pricing	⦿ Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets
	Adverse effect on Net Interest Income	⦿ Cumulative Gaps as a % of Cumulative Liabilities	⦿ Setting of Lending to Borrowing ratios
			⦿ Gaps limits for structural liquidity,
			⦿ Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets
Liquidity Risk	Inability to meet obligations as they fall due	⦿ Gaps in dynamic liquidity flows	⦿ Volatile Liability Dependency measures
		⦿ Stocks of high quality liquid assets	⦿ Balance sheet ratios

42. RISK MANAGEMENT CONTD.

42.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Stressed macroeconomic conditions in 2022 have an impact on the Credit risk of the company. Since importers continued to be stymied by the restriction of non-essential imports, while the ban on the import of chemical fertilisers had a direct impact on some of the agriculture sector customers. At the same time, construction sector ,Transport sector and consumer sector customers appeared to be under stress due to the prolonged economic downturn attributed.For the mittigation of Credit risk arise due to the above stress situation the management has decided to reduce 50% monthly Credit disbursement and further limit to disburse to stress sectors while increasing interest rates.

Management of Credit Risk

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

42.4.1Assessment of Expected Credit Losses

The methodology of the impairment assessment is explained in Note 4.1.8 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

42.4.1. (a) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal assessment of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Company
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Company
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

42.4.1.(b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

42.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

As at 31st March	2024			
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Cash and Cash Equivalent	849,141	-	-	849,141
Term loan Personal Guarantees	26,176,649	8,248,785	97,812,101	132,237,536
Term loan Property Mortgage	28,406,253	17,220,730	148,411,078	194,038,060
Gold Loans	97,519	40,129	58,312	195,960
Factoring Loans			18,259,000	18,259,000
Government Undertake Loan	140,375	5,990,095	6,650,746	12,781,215
Lease rentals receivables and Hire Purchases	23,687,850	5,588,347	42,498,725	71,774,922
Sundry Debtors			500,000	500,000
Total allowance for expected credit losses	79,357,786	37,088,086	314,189,962	430,635,834

The methodology used in the determination of expected credit losses is explained in Note 4.1.8 to Financial Statements.

42.4.1(d) Movement of the total allowance for expected credit losses during the period

	31-Mar-24 Rs.
Balance as at 01st April 2023	311,795,794
Net Charge/(Reversal) Profit and loss	118,840,038
Balance as at 31 Mar 2024	430,635,832

42. RISK MANAGEMENT CONTD.

42.4.1(e) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses

The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	Stage 1 and 2 Actual ECL Rs.	ECL - If all performing loans in Stage 1 Rs.	Impact of staging Rs.
Total allowance for expected credit losses	86,320,534	71,567,868	(14,752,667)

	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 2 Rs.000	Impact of staging Rs.000
Total allowance for expected credit losses	86,320,534	139,457,733	53,137,199

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

42.4.1(f) A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st March	2022		
	31- 60 Days Rs	61- 90 Days Rs	Total Rs
Gold loan receivables	16,122,623	4,948,483	21,071,106
Term loan Personal Guarantees	26,694,992	37,087,742	63,782,734
Term loan Property Mortgage	238,865,875	159,824,133	398,690,007
Government Undertake	48,490,270	437,223	48,927,492
Lease rentals receivables and Hire Purchases	57,445,766	43,275,381	100,721,147
	387,619,525	245,572,961	633,192,487

42.4.1(g) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

As at 31st March	2024						Net Carrying Value Rs.
	Gross Carrying Value			Allowance for ECL			
	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	
Term loan Property Mortgage	17,138,302	36,168,791	53,307,093	333,989	5,436,797	5,770,786	47,536,307
Term loan Personal Guarantees	5,191,214	9,740,862	14,932,076	211,005	2,875,502	3,086,507	11,845,569
	22,329,516	45,909,652	68,239,169	544,993	8,312,300	8,857,293	59,381,876

As at 31st March	2023						Net Carrying Value Rs.
	Gross Carrying Value			Allowance for ECL			
	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	
Term loan property mortgage	8,393,316	26,434,513	34,827,829	582,080	4,320,150	4,902,230	29,925,599
Term loan Personal Guarantees	547,763	6,246,739	6,794,502	78,103	1,792,015	1,870,118	4,924,384
	8,941,079	32,681,252	41,622,331	660,183	6,112,165	6,772,348	34,849,983

42.4.1(h) Sensitivity of Impairment Provision on Loans and Advances to Customers

The Company has estimated the impairment provision on Loan and advances to customers as at 31st March 2024,subject to various assumptions. The Changes to such assumption may lead to changes in the Impairment provision recorded in the Financial Position.

The following table demonstrates the sensitivity of Impairment provision of the company as at 31st March 2024 to feasible changes in PD LGD and forward looking macro economic information.

	Sensitivity effect on statement of financial position				Sensitivity Impact of Income statement
	Increase/Decrease in Impairment Provision				
	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.	Rs.
PD/LGD					
PD 1% Increment across all Buckets	3,135,541	1,270,139	-	4,405,680	(4,405,680)
PD 1% Decrease across all Buckets	(3,135,541)	(1,270,139)	-	(4,405,680)	4,405,680
LGD 5% Increment	14,042,979	7,850,472	13,843,912	35,737,363	(35,737,363)
LGD 5% Decrease	(14,042,979)	(7,850,472)	(13,843,912)	(35,737,363)	35,737,363
Probability Weighted forward looking Macro Economic Indicators				-	
Best Case 10% increase, Worst case 5% decrease and base case 5% decrease	(1,089,104)	(633,200)	-	(1,722,304)	1,722,304
Best Case 10% decrease, Worst case 5% increase and base case 5% increase	1,089,104	633,200	-	1,722,304	(1,722,304)

42.4.1(i) Sensitivity of Impairment Provision on Lease and Hire Purchases to Customers

The Company has estimated the impairment provision on Lease and Hire Purchases to customers as at 31st March 2024, subject to various assumptions. The Changes to such assumption may lead to changes in the Impairment provision recorded in the Financial Position.

The following table demonstrates the sensitivity of Impairment provision of the company as at 31st March 2024 to feasible changes in PD LGD and forward looking macro economic information.

	Sensitivity effect on statement of financial position				Sensitivity Impact of Income statement
	Increase/Decrease in Impairment Provision				
	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.	Rs.
PD/LGD					
PD 1% Increment across all Buckets	1,298,937	168,415	-	1,467,353	(1,467,353)
PD 1% Decrease across all Buckets	(1,298,937)	(168,415)	-	(1,467,353)	1,467,353
LGD 5% Increment	6,436,916	1,518,572	2,373,817	10,329,305	(10,329,305)
LGD 5% Decrease	(6,436,916)	(1,518,572)	(2,373,817)	(10,329,305)	10,329,305
Probability Weighted forward looking Macro Economic Indicators					
Best Case 10% increase, Worst case 5% decrease and base case 5% decrease	(482,540)	(114,746)	-	(597,285)	597,285
Best Case 10% decrease, Worst case 5% increase and base case 5% increase	482,540	114,746	-	597,285	(597,285)

42. RISK MANAGEMENT (CONTD.)

42.4.2Credit Quality by Class of Financial Assets

As at 31 March	31-Mar-24					31-Mar-23				
	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.	Percentage	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.	Percentage
Assets										
Cash and bank balances	209,863,402	-	-	209,863,402	3.22%	179,594,556	-	-	179,594,556	3.31%
Financial instruments at amortised cost	909,460,831	-	-	909,460,831	13.95%	809,683,821	-	-	809,683,821	14.94%
Financial assets at amortised Cost - Loans and Receivables	2,458,210,962	1,066,222,701	580,394,599	4,104,828,262	62.95%	2,390,178,967	1,372,796,194	228,056,812	3,991,031,973	73.62%
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	496,469,120	258,561,030	78,090,826	833,120,977	12.78%	199,226,495	229,196,489	71,224,141	499,647,124	9.22%
Other Financial Assets	62,789,829	-	-	62,789,829	0.96%	31,361,557	-	-	31,361,557	0.58%
Financial Assets Measured at Fair value through Profit or Loss	829,306,147	-	-	829,306,147	12.72%	219,753,524	-	-	219,753,524	4.05%
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	0.00%	315,813	-	-	315,813	0.01%
Allowance for impairment				(429,286,693)	-6.58%				(310,446,653)	-5.73%
Total	4,966,416,105	1,324,783,731	658,485,426	6,520,398,568	100.00%	3,830,114,733	1,601,992,683	299,280,952	5,420,941,714	100.00%

- **Past due but not impaired Leases & Loans**

  Past due but not impaired Leases & Loans are those for which contractual interest or principal payments are past due up to 90 days, however as per the Company's assessment do not need to be impaired.

- **Past due and impaired Leases & Loans**

  Past due and impaired Leases & Loans are those for which contractual interest or principal payments are past due over 90 days, however as per the Company's assessment need to be impaired.

42.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

As at 31 March	Past due				
	Less than 30 days 2024 Rs.	31 to 60 days 2024 Rs.	61 to 90 days 2024 Rs.	More than 90 days 2024 Rs.	Total 2024 Rs.
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	140,783,910	41,268,756	43,275,381	110,852,835	336,180,882
Financial assets at amortised Cost - Loans and Receivables	260,752,340	346,350,769	202,297,580	837,216,611	1,646,617,300
	401,536,250	387,619,525	245,572,961	948,069,446	1,982,798,182

42.4.3Maximum Exposure to Credit Risk

The following tables shows the maximum exposure to credit risk by class of financial assets. It further shows the net exposure to credit risk.

As at 31 March	Note	2024		2023	
		Maximum Exposure To Credit Risk Rs.	Net Exposure Rs.	Maximum Exposure To Credit Risk Rs.	Net Exposure Rs.
Financial Assets					
Cash and Cash Equivalent	19	209,863,402	209,863,402	179,594,556	179,594,556
Financial Investment at amortised Cost	20	909,460,831	909,460,831	809,683,821	809,683,821
Financial assets at amortised Cost ;					
Loans & Receivables	21	3,747,316,490	1,311,325,162	3,738,803,049	1,151,985,536
Lease rentals receivables and Hire Purchases	22	761,346,056	754,246,056	441,429,394	419,214,394
Other Financial Assets	23	62,789,829	62,789,829	31,361,557	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	24	829,306,147	829,306,147	219,753,524	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	25	315,813	315,813	315,813	315,813
Total Financial Assets		6,520,398,568	4,077,307,241	5,420,941,714	2,811,909,201

42.4.4Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting disclosed as follows.

As at 31 March	2024			2023		
	Gross amount Rs.	Amount subject to netting but do not qualify for offsetting Rs.	Net amount Rs.	Gross amount Rs.	Amount subject to netting but do not qualify for offsetting Rs.	Net amount Rs.
Financial Assets						
Financial assets at amortised Cost - Loans and Receivables	301,605,268	450,256,786	(148,651,518)	373,573,229	482,365,181	(108,791,952)
	301,605,268	450,256,786	(148,651,518)	373,573,229	482,365,181	(108,791,952)
Financial Liabilities						
Repurchase Agreements (REPO)			-	200,746,027	262,547,656	(61,801,629)
	-	-	-	200,746,027	262,547,656	(61,801,629)

42. RISK MANAGEMENT (CONTD.)

42.4.5 Analysis of Risk Concentration

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

As at 31 March 2024	Manufacturing Rs.	Tourism Rs.	Agriculture Rs.	Trade Rs.
Cash and Cash Equivalent	-	-	-	-
Financial Investment at amortised Cost	-	-	-	-
Financial assets at amortised Cost - Loans and Receivables	146,946,991	91,775,005	341,110,271	665,609,890
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	88,775,205	46,464,512	127,790,711	96,132,289
Other Financial Assets	-	-	-	-
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-
Allowance for Impairment				
Total	235,722,196	138,239,518	468,900,982	761,742,179

As at 31 March 2024	Manufacturing Rs.	Tourism Rs.	Agriculture Rs.	Trade Rs.
Cash and bank balances	-	-	-	-
Financial Investment at amortised Cost	-	-	-	-
Financial assets at amortised Cost - Loans and Receivables	127,869,333	100,331,334	156,658,272	693,376,162
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	52,694,007	593,053	145,429,298	41,498,242
Other Financial Assets	-	-	-	-
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-
Allowance for Impairment				
Total	180,563,340	100,924,387	302,087,570	734,874,405

Construction Rs.	Transport Rs.	Services Rs.	Government Rs.	Financial Institutions Rs.	Consumers Rs.	Others Rs.	Total Rs.
-	-	-	-	209,863,402	-	-	209,863,402
-	-	-	-	909,460,831	-	-	909,460,831
361,452,903	11,004,410	1,209,537,425	-	-	-	1,277,391,366	4,104,828,262
41,370,962	168,614,354	43,191,345	-	-	-	220,781,599	833,120,977
-	-	-	-	-	-	62,789,829	62,789,829
-	-	-	-	829,306,147	-	-	829,306,147
-	-	-	-	315,813	-	-	315,813
							(429,286,693)
402,823,865	179,618,765	1,252,728,770	-	1,948,946,193	-	1,560,962,794	6,520,398,568

Construction Rs.	Transport Rs.	Services Rs.	Government Rs.	Financial Institutions Rs.	Consumers Rs.	Others Rs.	Total Rs.
-	-	-	-	179,594,556	-	-	179,594,556
-	-	-	-	809,683,821	-	-	809,683,821
373,796,834	46,486,013	869,489,074	-	-	-	1,623,024,950	3,991,031,973
19,740,795	57,012,111	25,295,319	-	-	-	157,384,300	499,647,124
-	-	-	-	-	-	31,361,557	31,361,557
-	-	-	-	219,753,524	-	-	219,753,524
-	-	-	-	315,813	-	-	315,813
							(310,446,653)
393,537,629	103,498,123	894,784,393	-	1,209,347,714	-	1,811,770,807	5,420,941,714

42. RISK MANAGEMENT (CONTD.)

42.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.
- Setting the Lending to Borrowing ratio in order to maintain gearing at the desired levels

42.5.1Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

Currency of Borrowings/ Advance	Increase (Decrease) in basis points 2024	Sensitivity of Profit or Loss 2024 Rs'000	Sensitivity of Equity 2024
Long Term Loans linked to AWPLR	1/ (-1)	2,674/(2,674)	0.09%
	0.5 / (0.5)	1,337/(1,337)	0.05%
	0.25 / (0.25)	668/(668)	0.02%

Currency of Borrowings/ Advance	Increase (Decrease) in basis points 2023	Sensitivity of Profit or Loss 2024 Rs'000	Sensitivity of Equity 2023
Long Term Loans linked to AWPLR	1/ (-1)	3,661/(3,661)	0.13%
	0.5 / (0.5)	1,830/(1,830)	0.07%
	0.25 / (0.25)	915/(915)	0.03%

The base ratio considers in the Interest Rate Sensitivity Analysis is the existing Loan rates. Since only 44% (2023-65%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

Interest Rate Risk Exposure on Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2024	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets							
Cash and cash Equivalents	166,787,019	-	-	-	-	43,076,384	209,863,402
Financial Investment at amortised Cost	359,757,279	549,703,552	-	-	-	-	909,460,831
Financial assets at amortised Cost - Loans and Receivables	954,067,358	1,254,900,903	1,119,178,222	304,593,777	114,576,230	-	3,747,316,489
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	71,296,874	157,771,931	364,022,682	168,254,570	-	-	761,346,057
Other Financial Assets	-	-	-	-	-	62,789,829	62,789,829
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	829,306,147	829,306,147
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	1,551,908,529	1,962,376,386	1,483,200,904	472,848,347	114,576,230	935,488,173	6,520,398,569
Financial Liabilities							
Financial Liabilities at amortised Cost - Due to Banks	377,733,107	91,109,159	75,833,265	60,000,000	-	-	604,675,532
Financial Liabilities at amortised Cost - Due to customers	1,981,904,414	1,237,201,631	24,397,261	26,711,352	-	-	3,270,214,658
Other Financial Liabilities	3,865,792	9,635,148	14,292,119	27,122,991	15,829,363	14,087,666	84,833,080
Total Financial Liabilities	2,363,503,314	1,337,945,939	114,522,645	113,834,344	15,829,363	14,087,666	3,959,723,270
Interest Sensitivity Gap	(811,594,784)	624,430,447	1,368,678,259	359,014,003	98,746,866	921,400,507	2,560,675,299

As at 31 March 2023	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets							
Cash and cash Equivalents	149,913,437	-	-	-	-	29,681,117	179,594,554
Financial Investment at amortised Cost	621,989,164	187,694,656	-	-	-	-	809,683,820
Financial assets at amortised Cost - Loans and Receivables	1,163,525,226	1,248,104,377	849,489,103	336,421,320	141,263,023	-	3,738,803,050
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	68,865,516	97,107,627	204,312,486	71,143,765	-	-	441,429,394
Other Financial Assets	-	-	-	-	-	31,361,557	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	219,753,524	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	2,004,293,344	1,532,906,660	1,053,801,590	407,565,085	141,263,023	281,112,011	5,420,941,712
Financial Liabilities							
Financial Liabilities at amortised Cost - Due to Banks	243,376,323	127,890,887	161,522,475	34,152,245	-	-	566,941,929
Financial Liabilities at amortised Cost - Due to customers	1,626,448,536	626,134,507	98,045,000	29,711,352	-	-	2,380,339,395
Other Financial Liabilities	4,234,211	13,730,425	19,388,933	14,029,829	20,280,039	13,945,884	85,609,321
Total Financial Liabilities	1,874,059,069	767,755,819	278,956,408	77,893,426	20,280,039	13,945,884	3,032,890,645
Interest Sensitivity Gap	130,234,275	765,150,841	774,845,182	329,671,659	120,982,984	267,166,127	2,388,051,067

42. RISK MANAGEMENT (CONTD.)

42.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

Management of the Company has been maintaining a stable liquidity position to meet strongly any liquidity shock will arise due to any economic crises since the COVID 19 pandemic period and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigor to the processes already in place to manage its liquid assets. These actions taken will help to maintain suitable liquidity position while ensuring the interest of company's stakeholders despite of disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

42.6.1Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013 and Direction No.07 of 2020.

The Company's liquid asset ratio is 11.66% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Such Liquid assets are maintained in the form of Sri Lanka Government securities.

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 March 2024.

As at 31 March 2024	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	209,863,402	-	-	-	-	209,863,402
Financial Investment at amortised Cost	365,098,675	578,175,771	-	-	-	943,274,447
Financial assets at amortised Cost - Loans and Receivables	1,091,110,362	1,570,107,319	1,562,186,124	422,218,194	167,909,763	4,813,531,761
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	142,561,472	277,674,567	537,941,067	203,698,664	-	1,161,875,771
Other Financial Assets	62,789,829	-	-	-	-	62,789,829
Financial Assets Measured at Fair value through Profit or Loss	829,306,147	-	-	-	-	829,306,147
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Financial Assets	2,700,729,888	2,425,957,657	2,100,127,190	625,916,858	168,225,576	8,020,957,170
Financial Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	97,736,428	132,501,674	104,162,522	69,076,547	-	403,477,172
Financial Liabilities at amortised Cost - Due to customers	2,173,696,755	1,452,684,731	52,353,585	56,319,094	-	3,735,054,164
Other Financial Liabilities	20,860,585	17,528,388	31,369,750	29,810,350	33,700,556	133,269,629
Total Financial Liabilities	2,292,293,768	1,602,714,793	187,885,857	155,205,991	33,700,556	4,271,800,965
Net Financial Asset/Liabilities	408,436,120	823,242,864	1,912,241,333	470,710,867	134,525,020	3,749,156,204

42. RISK MANAGEMENT (CONTD.)

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

As at 31 March 2023	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	179,594,554	-	-	-	-	179,594,554
Financial Investment at amortised Cost	646,474,877	205,159,259	-	-	-	851,634,135
Financial assets at amortised Cost - Loans and Receivables	1,486,825,369	1,563,728,200	1,300,546,374	492,459,821	210,647,955	5,054,207,720
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	134,162,876	159,920,537	291,839,958	86,099,096	-	672,022,468
Other Financial Assets	29,097,527	-	-	-	-	29,097,527
Financial Assets Measured at Fair value through Profit or Loss	219,753,524	-	-	-	-	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Financial Assets	2,695,908,727	1,928,807,996	1,592,386,333	578,558,917	210,963,768	7,006,625,741
Financial Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	266,165,665	178,688,901	206,049,707	40,046,660	-	690,950,933
Financial Liabilities at amortised Cost - Due to customers	1,760,974,624	759,472,255	122,910,355	44,242,063	-	2,687,599,297
Other Financial Liabilities	20,962,753	21,069,007	33,192,807	23,146,150	24,807,458	123,178,175
Total Financial Liabilities	2,048,103,042	959,230,163	362,152,869	107,434,873	24,807,458	3,501,728,405
Net Financial Asset/Liabilities	647,805,685	969,577,833	1,230,233,464	471,124,045	186,156,310	3,504,897,336

42.7 Exchange Rate Risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange risk could materialize as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk. The Sri Lankan Rupee witnessed a sharp depreciation against the US Dollar in March 2020 on the back of economic fallout, resulting from the COVID-19 pandemic. Management analyses the market condition of foreign exchange and its likely impact to the company However, the impact on Exchange rate risk is minimal as the company does not have a material foreign currency position.

43. MATURITY ANALYSIS

An analysis of financial assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows.

As at 31 March 2024	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Assets						
Cash and bank balances	209,863,402	-	-	-	-	209,863,402
Financial Investment at amortised Cost	359,757,279	549,703,552	-	-	-	909,460,831
Financial assets at amortised Cost - Loans and Receivables	954,067,358	1,254,900,903	1,119,178,222	304,593,777	114,576,230	3,747,316,489
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	71,296,874	157,771,931	364,022,682	168,254,570	-	761,346,057
Other Financial Assets	62,789,829	-	-	-	-	62,789,829
Financial Assets Measured at Fair value through Profit or Loss	829,306,147	-	-	-	-	829,306,147
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	2,487,080,889	1,962,376,386	1,483,200,904	472,848,347	114,892,043	6,520,398,569
Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	377,733,107	91,109,159	75,833,265	60,000,000	-	604,675,532
Financial Liabilities at amortised Cost - Due to customers	1,981,904,414	1,237,201,631	24,397,261	26,711,352	-	3,270,214,658
Other Financial Liabilities	17,953,457	9,635,148	14,292,119	27,122,991	15,829,363	84,833,080
Total Liabilities	2,377,590,979	1,337,945,939	114,522,645	113,834,344	15,829,363	3,959,723,270

As at 31 March 2023	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Assets						
Cash and bank balances	179,594,556	-	-	-	-	179,594,556
Financial Investment at amortised Cost	621,989,164	187,694,656	-	-	-	809,683,820
Financial assets at amortised Cost - Loans and Receivables	1,163,525,226	1,248,104,377	849,489,103	336,421,320	141,263,023	3,738,803,050
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	68,865,516	97,107,627	204,312,486	71,143,765	-	441,429,394
Other Financial Assets	31,361,557	-	-	-	-	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	219,753,524	-	-	-	-	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	2,285,089,544	1,532,906,660	1,053,801,590	407,565,085	141,578,836	5,420,941,714
Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	243,376,323	127,890,887	161,522,475	34,152,245	-	566,941,929
Financial Liabilities at amortised Cost - Due to customers	1,626,448,536	626,134,507	98,045,000	29,711,352	-	2,380,339,395
Other Financial Liabilities	18,180,095	13,730,425	19,388,933	14,029,829	20,280,039	85,609,321
Total Liabilities	1,888,004,953	767,755,819	278,956,408	77,893,426	20,280,039	3,032,890,645

44. COMMITMENTS AND CONTINGENCIES

As at 31 March	2024 Rs.					2023 Rs.				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
City Finance Deposits	83,304,693	-	-	-	83,304,693	83,304,693	-	-	-	83,304,693
	83,304,693	-	-	-	83,304,693	83,304,693	-	-	-	83,304,693
Contingencies										
Letter of Guarantees Granted	79,000,000	-	-	-	79,000,000	106,500,000	-	-	-	106,500,000
Total Commitments & Contingencies	162,304,693	-	-	-	162,304,693	189,804,693	-	-	-	189,804,693

44.1 Capital commitments

The Company has no commitments for acquisition of Property, Plant & Equipment and Intangible assets incidental to the ordinary course of business.

44.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31st Mar 2024 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the Reporting date that require adjustments to or disclosure in the Financial Statements.

46. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Related Parties in Sri Lanka Accounting Standard No.24, Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

46.1 Parent and Ultimate Controlling Party

The Company is 72.08% owned by Lanka Credit and Business Limited. Hence, Lanka Credit and Business Limited is the parent company and the ultimate controlling party.

46.2 Transactions with Key Managerial Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity). Such KMPs include Parent Company, the Board of Directors of the Company (including Executive & Non Executive) and Chief Executive Officer of the Company.

Short Term Employee Benefits	2024 Rs.	2023 Rs.
Remuneration and other expenses of directors	24,370,000	21,320,000
Total	24,370,000	21,320,000

46.3 Transactions, Arrangements and Agreements involving KMPs and their Close Family Members (CFMs)

46.3.1 Loans and advances granted to KMPs are detailed below.

	2024 Rs.	2023 Rs.
Loans granted during the year	-	-
Loans held at the end of the year	-	-
Interest received on Loans	-	-

46.3.2 Deposits and Borrowings from KMPs are detailed below.

	2024 Rs.	2023 Rs.
Term/Savings deposits accepted during the year	281,134	42,046,719
Term/Savings deposits held at the end of the year	20,894,763	15,739,087
Interest payable on Term/Savings deposits	278,331	338,064
Interest paid on Term/Savings deposits	2,572,985	874,827

No borrowing through debt instruments were made or no investments were made by key management personnel and their close family members during the year 31 Mar 2024. (31 March 2023- Nil)

46.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs and their CMFs

46.4.1 Loans and Advances

There were no transactions involving with Related Entities of KPMs and their Close Family members during the financial year 2023/2024 (2022/2023 - Nil).

47. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st March	2024			2023		
	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Assets						
Cash and Cash Equivalent	209,863,402	-	209,863,402	179,594,556	-	179,594,556
Financial Investment at amortised Cost	909,460,831	-	909,460,831	809,683,820	-	809,683,820
Financial assets at amortised Cost - Loans and Receivables	2,208,968,261	1,538,348,228	3,747,316,489	2,411,629,603	1,327,173,447	3,738,803,050
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	229,068,805	532,277,252	761,346,057	165,973,143	275,456,251	441,429,394
Other Financial Assets	62,789,829	-	62,789,829	31,361,557	-	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	829,306,147	-	829,306,147	219,753,524	-	219,753,524
Financial Investment at Fair value through Other Comprehensive Income	-	315,813	315,813	-	315,813	315,813
Other Non Financial Assets	48,943,046	-	48,943,046	56,320,987	-	56,320,987
Investment Property	191,000,000	-	191,000,000	180,000,000	-	180,000,000
Property, Plant and Equipment	-	139,078,783	139,078,783	-	97,223,763	97,223,763
Right of Use Assets	-	67,523,775	67,523,775	-	69,643,533	69,643,533
Intangible Assets	-	38,439,965	38,439,965	-	34,907,586	34,907,586
Deferred Tax Asset	-	8,046,744	8,046,744	-	18,462,799	18,462,799
Total Assets	4,689,400,321	2,324,030,560	7,013,430,881	4,054,317,190	1,823,183,192	5,877,500,383
Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	468,842,267	135,833,265	604,675,532	371,267,209	195,674,720	566,941,929
Financial Liabilities at amortised Cost - Due to customers	3,219,106,046	51,108,613	3,270,214,658	2,252,583,043	127,756,352	2,380,339,395
Other Financial Liabilities	27,588,606	57,244,474	84,833,080	31,910,520	53,698,801	85,609,321
Other Non Financial Liabilities	127,406,884	-	127,406,884	42,055,952	-	42,055,952
Retirement Benefits Liabilities	-	6,802,916	6,802,916		6,363,350	6,363,350
Total Liabilities	3,842,943,802	250,989,268	4,093,933,069	2,697,816,724	383,493,223	3,081,309,947
Maturity Gap	846,456,520	2,073,041,292	2,919,497,812	1,356,500,466	1,439,689,970	2,796,190,436
Cumulative Gap	846,456,520	2,919,497,812	-	1,356,500,466	2,796,190,436	-

48. SEGMENTAL ANALYSIS

An operating segment is a component of the Company 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 Company's other components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Company has identified operating segments based on products and services. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on turnover.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2024 or 2023.

There were no transactions between reportable segments in 2024 or 2023.

	Loans		Lease & Hire Purchase		Others		Total	
	2024 Rs.	2023 Rs.	2024 Rs.	2023 Rs.	2024 Rs.	2023 Rs.	2024 Rs.	2023 Rs.
Income								
Interest Income	894,679,972	732,664,038	112,695,091	86,884,483	195,073,771	212,432,725	1,202,448,835	1,031,981,246
Other Income	41,989,980	35,395,207	5,289,114	4,197,414	118,987,500	32,445,572	166,266,594	72,038,194
Total Income	936,669,952	768,059,246	117,984,206	91,081,897	314,061,271	244,878,297	1,368,715,429	1,104,019,440
Unallocated Expenses							(1,231,157,545)	(891,465,648)
Profit / (Loss) Before Tax							137,557,884	212,553,792
Income Tax (Expense)/ Reversal							(26,464,210)	(49,783,037)
Net Profit / (Loss) for the period							111,093,674	162,770,756
Segment Assets	3,747,316,490	3,738,803,049	761,346,056	441,429,394	1,738,766,978	1,029,437,345	6,247,429,523	5,209,669,788
Unallocated Assets							766,001,358	667,830,594
Total Assets	3,747,316,490	3,738,803,049	761,346,056	441,429,394	1,738,766,978	1,029,437,345	7,013,430,881	5,877,500,382
Unallocated Liabilities							4,093,933,070	3,081,309,949
Total Liabilities							4,093,933,070	3,081,309,949

Figures in brackets indicate deductions

49. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL)sets and monitors capital requirements for licensed finance companies. Accordingly finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 12.5% and a minimum core capital adequacy ratio (Tier I) of 8.5%. The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

Five Years Summary

	31.03.2024 Rs.	31.03.2023 Rs.	31.03.2022 Rs.	31.03.2021 Rs.	31.03.2020 Rs.
Income	1,368,715,429	1,104,019,440	541,564,212	461,375,089	456,046,898
Interest Income	1,202,448,835	1,031,981,246	504,110,594	456,255,319	423,691,108
Less: Interest Expenses	(620,158,267)	(427,366,144)	(104,982,427)	(108,199,704)	(131,466,397)
Net Interest Income	582,290,568	604,615,102	399,128,167	348,055,615	292,224,711
Fee and Commission Income	47,279,094	39,592,621	45,836,522	29,024,159	29,070,915
Less: Fee and Commission Expenses	-	-	-	-	-
Net Fee and Commission Income	47,279,094	39,592,621	45,836,522	29,024,159	29,070,915
Net Other Operating Income/(Expense)	118,987,500	32,445,572	(8,382,904)	(23,904,388)	3,284,875
Total Operating Profit	748,557,162	676,653,295	436,581,786	353,175,385	324,580,501
Impairment(Charge)/Reversal	(122,568,495)	(90,994,761)	61,695,234	(22,885,058)	(100,901,199)
Net Operating Income	625,988,667	585,658,534	498,277,020	330,290,327	223,679,302
Less : Operating Expenses					
Personnel Costs	(193,798,307)	(145,811,074)	(106,401,014)	(93,716,366)	(76,424,817)
Depreciation and Amortization	(76,799,410)	(61,957,077)	(44,834,695)	(41,129,767)	(38,760,476)
Other Operating expenses	(145,509,321)	(117,459,076)	(67,109,515)	(73,210,778)	(68,495,636)
	(416,107,038)	(325,227,227)	(218,345,223)	(208,056,913)	(183,680,929)
Operating Profit before Tax on Financial Services	209,881,629	260,431,307	279,931,796	122,233,416	39,998,373
Taxes on Financial Services	(72,323,746)	(47,877,516)	(41,413,734)	(21,943,495)	(19,018,216)
Profit before tax	137,557,883	212,553,791	238,518,062	100,289,920	20,980,157
Less: Income tax (expense)/Reversal	(26,464,210)	(49,783,037)	(140,936,083)	(75,286,361)	(9,547,327)
Profit for the Year	111,093,673	162,770,755	97,581,979	25,003,559	11,432,830

	31.03.2024 Rs.	31.03.2023 Rs.	31.03.2022 Rs.	31.03.2021 Rs.	31.03.2020 Rs.
Assets					
Cash and Cash Equivalent	209,863,402	179,594,556	229,434,047	218,507,168	138,048,368
Financial Investment at amortised Cost	909,460,831	809,683,821	746,819,780	662,295,154	338,379,679
Financial assets at amortised Cost - Loans and Receivables	3,747,316,490	3,738,803,049	2,634,321,859	1,969,102,470	1,631,189,094
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	761,346,056	441,429,394	392,635,779	336,747,406	180,419,278
Other Financial Assets	62,789,829	31,361,557	16,919,514	7,763,678	10,217,388
Financial Assets Measured at Fair value through Profit or Loss	829,306,147	219,753,524	19,508,717	100,463,534	-
Financial Investment at Fair value through Other Comprehensive Income	315,813	315,813	315,813	315,813	315,813
Other Non Financial Assets	48,943,046	56,320,987	55,345,017	37,862,474	50,578,839
Investment Property	191,000,000	180,000,000	-	-	356,300,000
Property, Plant and Equipment	139,078,783	97,223,763	84,108,889	39,025,049	46,764,636
Right of Use Assets	67,523,775	69,643,533	73,443,343	52,982,570	69,231,233
Intangible Assets	38,439,965	34,907,586	39,121,865	42,186,213	3,335,801
Deferred Tax Asset	8,046,744	18,462,799	64,691,455	205,629,491	280,735,872
Total Assets	7,013,430,881	5,877,500,382	4,356,666,078	3,672,881,020	3,105,516,000
Liabilities					
Financial Liabilities at amortised Cost - Due to Banks	604,675,532	566,941,929	586,370,993	518,414,541	471,901,706
Financial Liabilities at amortised Cost - Due to customers	3,270,214,658	2,380,339,395	962,635,583	831,583,929	1,012,235,643
Other Financial Liabilities	84,833,080	85,609,323	81,104,538	175,135,322	126,255,481
Other Non Financial Liabilities	127,406,884	42,055,952	40,778,035	36,498,714	9,213,410
Retirement Benefits Liabilities	6,802,916	6,363,350	4,887,670	4,310,160	2,538,429
Total Liabilities	4,093,933,070	3,081,309,949	1,675,776,819	1,565,942,666	1,622,144,669
Equity					
Stated Capital	2,539,133,400	2,539,133,400	2,539,133,400	2,039,133,400	3,231,604,341
Reserves	59,642,422	54,087,738	45,949,200	41,070,101	39,819,923
Retained Earnings	320,721,989	202,969,295	95,806,659	26,734,853	(1,788,052,934)
Total Equity	2,919,497,811	2,796,190,433	2,680,889,259	2,106,938,354	1,483,371,330
Total Equity and Liabilities	7,013,430,881	5,877,500,382	4,356,666,078	3,672,881,020	3,105,516,000
EPS(Rs.)	0.14	0.21	0.12	0.04	0
ROE %	3.89	5.94	4.08	1.19	0.77
ROA %	2.13	4.15	5.94	2.96	0.72
NIM %	10.75	12.12	10.58	10.27	10.09
NPL %	11.57	8.97	3.23	0.35	3.12
Tier 1 Capital Adequacy Ratio (Minimum Requirment 8.50%) %	42.07	45.15	54.04	56.45	28.68
Total Capital Adequacy Ratio (Minimum Requirment 12.50%) %	42.07	45.15	54.04	56.45	28.68
Liquid Asset Ratio %	16.76	22.53	24.01	33.05	15.21

Investor Information

TOP 20 MAJOR SHAREHOLDERS AS AT 31ST MARCH 2024

Serial No	Shareholder Name	Number of shares	Shareholding %
1	LANKA CREDIT AND BUSINESS LIMITED	569,538,406	72.08
2	NATION LANKA FINANCE PLC	13,850,000	1.75
3	MR. KAPILA INDIKA WEERASINGHE	12,500,000	1.58
4	MERCHANT BANK OF SRI LANKA & FINANCE PLC/MAWELI FINANCE (PVT) LTD	9,615,099	1.22
5	CITIZENS DEVELOPMENT BUSINESS FINANCE PLC/R RANAWEERA	9,364,478	1.19
6	MR. VICTOR RAJAMANNER RAMANAN	6,000,000	0.76
7	PEOPLE'S LEASING & FINANCE PLC	5,000,000	0.63
8	BAMUNU ARACHCHIGE DAYANATHA RANJAN DISSANAYAKE DISSANAYAKE	4,750,000	0.60
9	HELIOS VENTURES (PVT) LTD	3,356,901	0.42
10	WIMALARATNEGE ARUNI INDIKA KUMARASINGHE	3,071,268	0.39
11	MR AJITH PRIYADARSHANA MANAWADU	2,632,500	0.33
12	MR. RAVINDRA ERLE RAMBUKWELLE	2,625,000	0.33
13	LALITHA ELABADA LIYANAGE	2,500,000	0.32
14	ANGULUGAHA GAMAGE LASATH NAMAL GAMAGE	2,500,000	0.32
15	MR. DUMINDA SAMPATH DEERASINGHE	2,456,000	0.31
16	ASPIC CORPORATION LIMITED	2,440,228	0.31
17	MR. MOHAMED FAYAD BAKIR	2,430,000	0.31
18	MR. INDIKA PRASATH MALAWARAARACHCHI	2,064,400	0.26
19	MR. PALAMANDADIGE LAHIRU SHANTHAWARNA ARIYANANDA	1,997,200	0.25
20	MR. LANKESHWARAGE CHANAKA ANURANGA LANKESHWARA	1,950,000	0.25
21	DFCC BANK PLC/L C A LANKESHWARA	1,845,800	0.23
		662,487,280	83.84
	Others	127,681,500	16.16
	Total	790,168,780	100.00

PUBLIC HOLDING OF SHARES OF THE COMPANY

In terms of the rule 7.14.1(i)(b) of the Listing Rules of the Colombo Stock Exchange, the Company Qualifies under option two (02) of the minimum public holding requirment.

As at 31.03.2024						
Option	Float adjusted market capitalization		Public holding percentage (%)		Number of public shareholders	
	Minimum requirement	Available amount (Rs.)	Minimum requirement	Public holding (%)	Minimum requirement	Public shareholders
Option 2	less than Rs. 1 Bn.	381,572,504	10%	21.95%	200	4,829

TOP 20 MAJOR SHAREHOLDERS AS AT 31ST MARCH 2023

Serial No	Name	Ordinary Shares	%
1	LANKA CREDIT AND BUSINESS LIMITED	569,538,406	72.08
2	HELIOS VENTURES (PVT) LTD	27,582,752	3.49
3	NATION LANKA FINANCE PLC	13,850,000	1.75
4	MR. KAPILA INDIKA WEERASINGHE	12,500,000	1.58
5	MERCHANT BANK OF SRI LANKA & FINANCE PLC/MAWELI FINANCE (PVT) LTD	9,615,099	1.22
6	MR. VICTOR RAJAMANNER RAMANAN	6,000,000	0.76
7	PEOPLE'S LEASING & FINANCE PLC	5,000,000	0.63
8	MR. RANASINGHAGE RANAWEERA	4,762,073	0.60
9	BAMUNU ARACHCHIGE DAYANATHA RANJAN DISSANAYAKE DISSANAYAKE	4,750,000	0.60
10	MRS. WIMALARATNEGE ARUNI INDIKA KUMARASINGHE	3,071,268	0.39
11	MR AJITH PRIYADARSHANA MANAWADU	2,632,500	0.33
12	ANGULUGAHA GAMAGE LASATH NAMAL GAMAGE	2,500,000	0.32
13	LALITHA ELABADA LIYANAGE	2,500,000	0.32
14	ASPIC CORPORATION LIMITED	2,440,228	0.31
15	MR. WETHTHINGE JINADASA	1,757,500	0.22
16	MR. SHASHIKA LAKSHAN MUTHUHETTI GAMAGE	1,757,500	0.22
17	RANASINGHE ARATCHILAGE WIJERATNE	1,755,000	0.22
18	MR. MOHAMED FAYAD BAKIR	1,500,052	0.19
19	MR. RAVINDRA ERLE RAMBUKWELLE	1,420,000	0.18
20	PEOPLE'S LEASING & FINANCE PLC/MR.R.KANNAN	1,339,000	0.17
21	MR. ILLAMPERUMA ARACHCHIGE DINETH NADAWA	1,255,670	0.16
22	ATHURURIGIYA SOUTH SANASA	1,250,000	0.16
23	M. G. S. LAKSHAN	1,250,000	0.16
24	MR. DANGAMUWAGE NALIN DHAMMIKA KUMARASIRI	1,250,000	0.16
25	MR. CHAMATH WEERASINGHE	1,250,000	0.16
26	MR. DON EDWARD WELIKALA	1,250,000	0.16
27	MR. KUSHAN DARSHANA JAYASUNDARA	1,250,000	0.16
	Directors' Shareholding	12,770,000	1.62
	Other Shareholding	92,371,732	11.67
	Total Shares	790,168,780	100.00

PUBLIC HOLDING

The Company has opted to adopt option 02 under the section 7.13.1 of the amended Listing Rules which are effective from 17th January 2018.

	As at 31.03.2023					
Option	Float adjusted market capitalization		Public holding percentage (%)		Number of public shareholders	
	Minimum requirement	Available amount (Rs.)	Minimum requirement	Public holding (%)	Minimum requirement	Public shareholders
Option 2	less than Rs. 1 Bn.	433,012,491	10%	21.92%	200	4,807

Investor Information *Contd.*

INVESTOR INFORMATION AS AT 31ST MARCH 2024

Shareholding	Local			Foreign			Total		
	Number of Shareholders	No of Shares	%	Number of Shareholders	No of Shares	%	Number of Shareholders	No of Shares	%
1-1,000	1955	502,584	0.06	-		0.00	1,955	502,584	0.06
1,001-10,000	1729	7,442,910	0.94	2.00	7089	0.00	1,731	7,449,999	0.94
10,001-100,000	869	28,941,594	3.66	-		0.00	869	28,941,594	3.66
100,001-1,000,000	235	64,757,220	8.20	3.00	415,000	0.05	238	65,172,220	8.25
1,000,001 & above	40	688,102,383	87.08	-		0.00	40	688,102,383	87.08
Total	4,828	789,746,691	99.95	5	422,089	0.05	4,833	790,168,780	100.00

Categories of Shareholders	No of Shareholders	No of Shares	%
Institutional	4,688	155,526,579	19.68
Individual	145	634,642,201	80.32
Total	4,833	790,168,780	100.00

DIRECTORS SHAREHOLDINGS

Name		As at 31.03.2024 Ordinary Shares	As at 31.03.2023 Ordinary Shares
1	Mr. Dushmantha Thotawatta	Nil	Nil
2	Mr. Kandegoda Gamage Leelananda	Nil	Nil
3	Mr. Ranjan Lal Masakorala	Nil	Nil
4	Mr. U.K Harith Ruwan Ranasinghe	Nil	Nil
5	Mr. Kapila Indika Weerasinghe	12,500,000	12,500,000
6	Mr. Vijitha Lokunarangodaa	Nil	Nil
7	Mr. Gayan Kalahara Nanayakkara	Nil	Nil
8	Mr. Ashvin Welgama Nanayakkara	Nil	Nil
9	Mr. Mahesh Katulanda	Nil	Nil
10	Mr. Jayalath Pathiranalage Chandrasiri Jayalath	Nil	Nil

Capital Adequacy

Capital Adequacy is one of the Key measures which shows the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, LCB Finance PLC can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) to be effect from 01st July 2018. New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I - 8.5% and Tier II - 12.5% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.

TIER I -CORE CAPITAL

Tier I capital represents core capital of the company. Core capital includes shareholder's equity and reserve

$$\text{Tier I Ratio} = \frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$$

TIER II-SUPPLEMENTARY CAPITAL

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

$$\text{Total Capital Ratio} = \frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$$

RISK WEIGHTED ASSETS

Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 March 2024, the Company maintained a Tier I ratio of 42.07% and a Tier II ratio also 42.07% because LCB Finance has no any debt capital as at 31 March 2024. Finaly Tier 1 ratio is above the minimum regulatory requirements (Tier I - 8.5%) set by CBSL.

Item	Amount Rs. 000
Tier 1 Capital	2,858,444
Total Capital	2,858,444
Total Risk Weighted Amount	6,793,836
Risk Weighted Amount for Credit Risk	6,207,335
Risk Weighted Amount for Operational Risk	586,501
Core Capital (Tier 1) %	42.07%
Total Capital Ratio %	42.07%

Glossary of Terms

A

ACCOUNTING POLICIES

Principles, bases, conventions, rules and practices that are applied in recording transactions and in preparing and presenting Financial Statements.

ACCRUAL BASIS

The system of accounting wherein revenue is recognized at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

ALLOWANCE FOR IMPAIRMENT

"A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss."

AMORTIZED COST

The systematic allocation of the depreciable amount of an intangible asset over its useful life. 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 method of any difference between that initial amount and the maturity amount, and minus any deduction (directly or through the use of an allowance account) for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)

The committee that is responsible for managing assets and liabilities of the Company.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank on a monthly basis based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) is calculated by the Cenral Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

B

BASIS POINT (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

CASH EQUIVALENTS

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS

Inflows and outflows of cash and cash equivalents.

CASH GENERATING UNIT (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

COLLECTIVELY ASSESSED IMPAIRMENT

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

CONTRACTUAL MATURITY

Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

COMMERCIAL PAPER (CP)

An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

COMMITMENTS

Credit facilities approved but not yet disbursed to the customers as at the date of the Statement of Financial Position.

CONTINGENCIES

A condition or situation existing at reporting date, where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain 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 other stakeholders.

COST METHOD

A method of accounting where by the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee rising subsequent to the date of acquisition.

COST/INCOME RATIO

Operating expenses excluding impairment charge as a percentage of net operating income (net of interest expenses).

CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligation or the likelihood of non-defaulting, carried out by an independent rating agency.

CREDIT RISK

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

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 liability from an entities Statement of Financial Position.

DISCOUNT RATE

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

E

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue. Indicates the proportion of current year's earnings attributable to an ordinary share in issue.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

EFFECTIVE TAX RATE

Provision for taxation including deferred tax divided by the profit before taxation.

EQUITY METHOD

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post- acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's shareof the profit or loss and other comprehensive income of the investee.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

EQUITY INSTRUMENT

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

EQUITY

Total of shareholders' funds: share capital + statutory reserves + other reserves.

EXPECTED CREDIT LOSS

The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

EXPOSURE AT DEFAULT

A claim, contingent 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 or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

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 all risks and rewards of the 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 LIABILITIES

A contractual obligation to deliver cash or another financial asset to an other entity.

D

GLOBAL REPORTING INITIATIVE (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

GEARING

Long-term borrowings divided by the total funds available for shareholders.

GOING CONCERN

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the forseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its opeartions.

GROSS DIVIDEND

The portion of profits distributed to the shareholders including the tax with held.

GUARANTEES

A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual Obligations.

Glossary of Terms *Contd.*

H

HIRE PURCHASE

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

IMPAIRMENT

The value of an asset when the recoverable amount is less than its carrying amount.

IMPAIRED LOAN

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT ALLOWANCE FOR LOAN AND RECEIVABLE

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

INDIVIDUALY ASSESSED IMPAIRMENT

When the impairment is measured on an individual basis for non- homogeneous groups of lending facilities that are considered as individually significant.

INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance.

INTEGRATED REPORTING

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long- term in its economic, social and environmental context

INTEREST COVER

Earnings before interest and taxes for the year divided by total interest expenses. This provides the number of times interest expenses is covered before interest and tax; the ability to cover interest expenses.

INTERST IN SUSPENSE

Interest suspended on non-performing accommodations. (Leases, hire purchases, loans and other advances)

INTEREST MARGIN

Net interest income expressed as a percentage of average total assets.

INTEREST RATE RISK

The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

INTERST SPREAD

The difference between the average yield a financial institution receives from loans and other interest-accruing activities and the average rate it pays on deposits and Borrowings.

INVSTMENT PROPERTIES

Property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITES

Securities acquired and held for yield and capital growth purposes which are usually held to maturity.

K

KEY MANAGEMENT PERSONNEL (KMP)

People having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. (The Board of Directors and Corporate Management).

L

LIQUID ASSETS

Assets that are held in cash or can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

LIQUIDITY RISK

The risk that an entity will encounter due to difficulty in meeting obligations associated with financial liabilities.

LOANS PAYABLE

Loan payable are financial liabilities, other than short-term trade payable on normal credit terms.

LOANS AND RECEIVABLES

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

LOSS GIVEN DEFUALT

The estimated ratio (percentage) of the loss of an exposure to the amount outstanding at default upon default of counter party.

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

M

MARKET CAPITALIZATION

Number of ordinary shares in issue multiplied by the market value of a share as at date.

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.

N

NET ASSETS VALUE PER SHARE (NAV)

Total net asset value of a Company divided by the total number of ordinary shares in issue.

NET INTERST INCOME

Difference between revenue generated from interest bearing assets and interest incurred on interest bearing liabilities.

NET INTERST MARGIN (NIM)

Net interest income as a percentage of average assets.

NON PERFORMING LOANS/ ADVANCES (NPL)

A sum of borrowed money upon which the debtor has not made scheduled payments above 180 days.

NPL RATIO

Total Non-Performing Accommodations (net of interest in suspense and other adjustments) divided by total accommodations (net of interest in suspense and other adjustments).

O

OPERATIONAL RISK

The losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

PARENT

An entity that controls one or more subsidiaries.

PROBABILITY OF DEFULT (PD)

The probability that an obligor will default on an obligation within a given period of time.

PROJECTED UNIT CREDIT METHOD (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). 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.

PROVISION

The amount of an expense that an entity elects to recognize now, before it has precise information about the exact amount of the expense.

R

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise a significant influence over the other party in making financial and operating decisions, directly or indirectly.

RELATED PARTY TRANSACTION

Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

REPURCHASE AGREEMENT

Contracts to sell and subsequently repurchase securities at a specified price at a specified future date.

RETURN ON AVERAGE ASSETS (ROA)

Profit before tax divided by total average assets.

RETURN OF EQUITY

Profit after tax divided by total average equity.

RISK WIGHTED ASSET

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by relevant factors weighted by risk.

S

SHAREHOLDERS' FUND

This consists of issued and fully paid up ordinary shares and reserves.

STATUTORY REVERSE FUND

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 01 of 2003.

SPECIFIC IMPAIRMENT PROVISION

Impairment is measured individually for loans that are individually significant to the Company.

T

TIER I CAPITAL – CORE CAPITAL

Representing permanent shareholders' equity (paid-up shares) and reserves created or increased by appropriations of retained earnings or other surplus, i.e., retained profits and other reserves.

TIER II CAPITAL

Supplementary capital representing revaluation reserves, general provisions and debt instruments such as subbordinated term debts and other hybrid capital instruments which combine certain characteristics of equity and debt.

U

USEFUL LIFE

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity

V

Value Added
Value of wealth created by providing financial and other related services less the cost of providing such services. The value added is allocated among employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YEILD

Rate or return on an investment in percentage terms taking into account annual income.

Notes

Notes *Contd.*

Notice of Annual General Meeting

LANKA CREDIT AND BUSINESS FINANCE PLC

(Company Registration No. PQ00251997)
No. 76, S. De S. Jayasinghe Mawatha, Kohuwela

NOTICE OF THE VIRTUAL 62ND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Virtual 62nd Annual General Meeting of **LANKA CREDIT AND BUSINESS FINANCE PLC** will be held on **27th September 2024 at 10.00 a.m.** at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via online platform for the following purposes;

AGENDA

1. To receive and consider the Annual Report of the Board of Directors together with the Audited Financial Statements of the Company for the year ended 31st March 2024 together with the report of the Auditors thereon.
2. To re-appoint M/s. Earnest & Young, Charted Accountants as Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.

By order of the Board of Directors of
LANKA CREDIT AND BUSINESS FINANCE PLC

Tamarika Rodrigo
Company Secretary
At Colombo, this 06th August 2024

Note:

- No shareholder will be permitted to be physically present at the venue and requested join via online platform.
- Shareholders who wish to participate at the Virtual Annual General Meeting are kindly requested to register their participation for the meeting by completing the enclosed Online Registration Form and have it emailed to tamarika@lcbfinance.lk 24 hours prior to the commencement of the meeting (Between 8.30 a.m. to 4.30 p.m.).
- A Shareholder entitled to attend and vote at the meeting, or entitled to appoint a Proxy to participate and vote instead of him/her.
- A Proxy need not be a Shareholder of the Company.
- A Shareholder wishing to vote by Proxy at the meeting may use the Form of Proxy form enclosed herewith.
- Proxyholders who wish to participate at the Virtual Annual General Meeting are kindly requested to register the participation for the meeting by completing the enclosed Online Registration Form together with the Form of Proxy and have both forms emailed to to tamarika@lcbfinance.lk or deposited with company Secretary, 48 hours prior to the commencement of the meeting (Between 8.30 a.m. to 4.30 p.m.).
- Shareholders and Proxyholders are kindly advised to have with them their National Identity Card or similar for of acceptance identity when joining the meeting.

Online Registration of Shareholder Details

ONLINE REGISTRATION FORM

To: Lanka Credit and Business Finance PLC
No. 76, S. De S. Jayasinghe Mawatha,
Kohuwela, Sri Lanka

LANKA CREDIT AND BUSINESS FINANCE PLC
VIRTUAL 62ND ANNUAL GENERAL MEETING

01	Full Name of Shareholder:		
02	NIC/Passport No./ Company Registration No.		
03	CDS Account No. (If applicable)		
04	Address of Shareholder:		
05	Contact Telephone No.	Fixed line	Mobile
06	e-mail address		
07	Full Name of Proxyholder / Power of Attorney (if applicable):		
08	Address:		
09	NIC/Passport No.		
10	Contact Telephone No.	Fixed-line	Mobile
11	e-mail address		

……………………………………………………….. ………………………………………….

Signature of Shareholder Date

Note:

1. All of the above information are mandatory, in order to participate at the meeting.
2. Online registration form is required to be forwarded to tamarika@lcbfinance.lk on or before 27th September 2024.
3. In the case of a corporate shareholder, the form must be signed under its Common Seal or by its authorized attorney accompanied by a copy of the relative Power of Attorney or the Board Resolution.
4. In the case of a Proxyholder, the form must be signed by the Shareholder.

Form of Proxy

LANKA CREDIT AND BUSINESS FINANCE PLC

I/We…………………………………………………………………...............................……………………………………………………......……

of……………………..…………………………...……………………………………being a Shareholder/s* of the above named Company, hereby

appoint (1)…………………………………………………of………………………………………………………………………………..failing him/her.

(2)	Mr. D. Thotawatte	or failing him	(8)	Mr. G. K. Nanayakkara	or failing him
(3)	Mr. K. G. Leelananda	or failing him	(9)	Mr. A. W. Nanayakkara	or failing him
(4)	Mr. K. I. Weerasinghe	or failing him	(10)	Mr. M. Katulanda	
(5)	Mr. R. L. Masakorala	or failing him	(11)	Mr. J. P. C. Jayalath	
(6)	Mr. U. K. H. R. Ranasinghe	or failing him			
(7)	Mr. V. Lokunarangoda	or failing him			

as my/our* Proxy to represent me/us* and vote and speak for me/us* on my/our* behalf at the Virtual **62nd Annual General Meeting** of Lanka Credit and Business Finance Limited to be held on **27th September 2024 at 10.00 a.m. at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via online platform** and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2024 together with the report of the Auditors thereon.		
2. To re-appoint M/s. Earnest & Young Charted Accountants Charted Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.		

Signed this ……………day of…………………………..2024.

……………………………………
Signature of shareholder

Note:

i) Please delete the inappropriate words.

ii) Instructions for completion of Proxy are noted below.

iii) A proxy need not to be a shareholder of the Company.

iv) Please mark “X” in appropriate cages, to indicate your instructions as to voting.

Form of Proxy *Contd.*

Instructions as to completion

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark “X” in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. The completed Form of Proxy should be deposited at the Company Secretary at Lanka Credit and Business Finance PLC, No76, S de S Jayasinghe Mawatha, Kohuwala or email to tamarika@lcbfinance.lk not less than 48 hours before the appointed time for the holding the Annual General Meeting (Between 8.30 a.m. to 4. 30 p.m.) and no registration of proxies will be accommodated at the venue on the date of the Annual General Meeting.
4. If you wish to appoint a person other than one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. Article No.20 of the Articles of Association of the Company provides that “ A body corporate which is a shareholder may appoint a representative to attend a meeting of shareholders on its behalf in the same manner as it could appoint a proxy.
6. Article No. 21 of the Articles of Association of the Company provides that where two or more persons are registered as the holder of a share, the vote of the person named first in the share register and voting on a matter shall be accepted to the exclusion of the votes of the other join shareholders.
7. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation, or
8. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

Corporate Information

NAME OF THE COMPANY

Lanka Credit and Business Finance PLC

LEGAL FORM OF THE COMPANY

A company incorporated in Sri Lanka on March 03, 1962 and re-registered as a public limited liability company under the Companies Act on March 10, 2008.

The Limited Company was registered as as Public Quoted Company on 21st January 2022 by listing its shares on CSE on 16th November 2021.

The Company is a Licenced Finance Company, licensed by the Monitory Board of the Central Bank of Sri Lanka.

COMPANY REGISTRATION NUMBER

PQ 00251997

REGISTERED OFFICE

Lanka Credit and Business Finance PLC
No. 76, S. De. S. Jayasinghe Mawatha, Kohuwala
Tel : +94 11 2825404 – 6
Fax : +94 11 2825405

COMPANY SECRETARY

Tamarika Rodrigo
No. 76, S. De. S. Jayasinghe Mawatha, Kohuwala
Tel : +94 11 2825404
Fax : +94 11 2825405

AUDITORS TO THE COMPANY

M/s Ernst & Young Chartered Accountants
No. 201, De Saram Place Colombo 10
Tel : +94 11 2463500
Fax : +94 11 2697369

CENTRAL BANK LICENSE NO.

21

TAX PAYER IDENTITY NUMBER (TIN)

124004284

NO OF BRANCHES

As At 31/03/2024 - 19

BOARD OF DIRECTORS

Mr. Dushmantha Thotawatte
- *Non-Executive Director / Independent*

Mr. Kandegoda Gamage Leelananda
- *Chief Executive Officer / Executive / Non-Independent*

Mr. Ranjan Lal Masakorala
- *Non-Executive Director / Non-Independent*

Mr. Vijitha Lokunarangoda
- *Non-Executive Director / Non-Independent*

Mr. Kapila Indika Weerasinghe
- *Non-Executive Director / Non-Independent*

Mr. Ukwatta Kankanamge Harith Ruwan Ranasinghe
- *Non-Executive Director / Non-Independent*

Mr. Gayan Kalhara Nanayakkara
- *Non-Executive Director / Non-Independent*

Mr. Ashvin Welgama Nanayakkara
- *Non-Executive Director / Non-Independent*

Mr. Mahesh Katulanda
- *Non-Executive Director / Independent*

Mr. Jayalath Pathiranalage Chandrasiri Jayalath
- *Non-Executive Director / Independent*

BOARD COMMITTEES

Board Audit Committee
Human Resource and Remuneration Committee
Related Party Transactions Review Committee
Integrated Risk Management Committee
The Board Credit Committee

BANKERS TO THE COMPANY

Sampath Bank PLC
People's Bank
Cargills Bank Ltd
Pan Asia Bank
Bank of Ceylon

ACCOUNTING YEAR-END

31st March

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