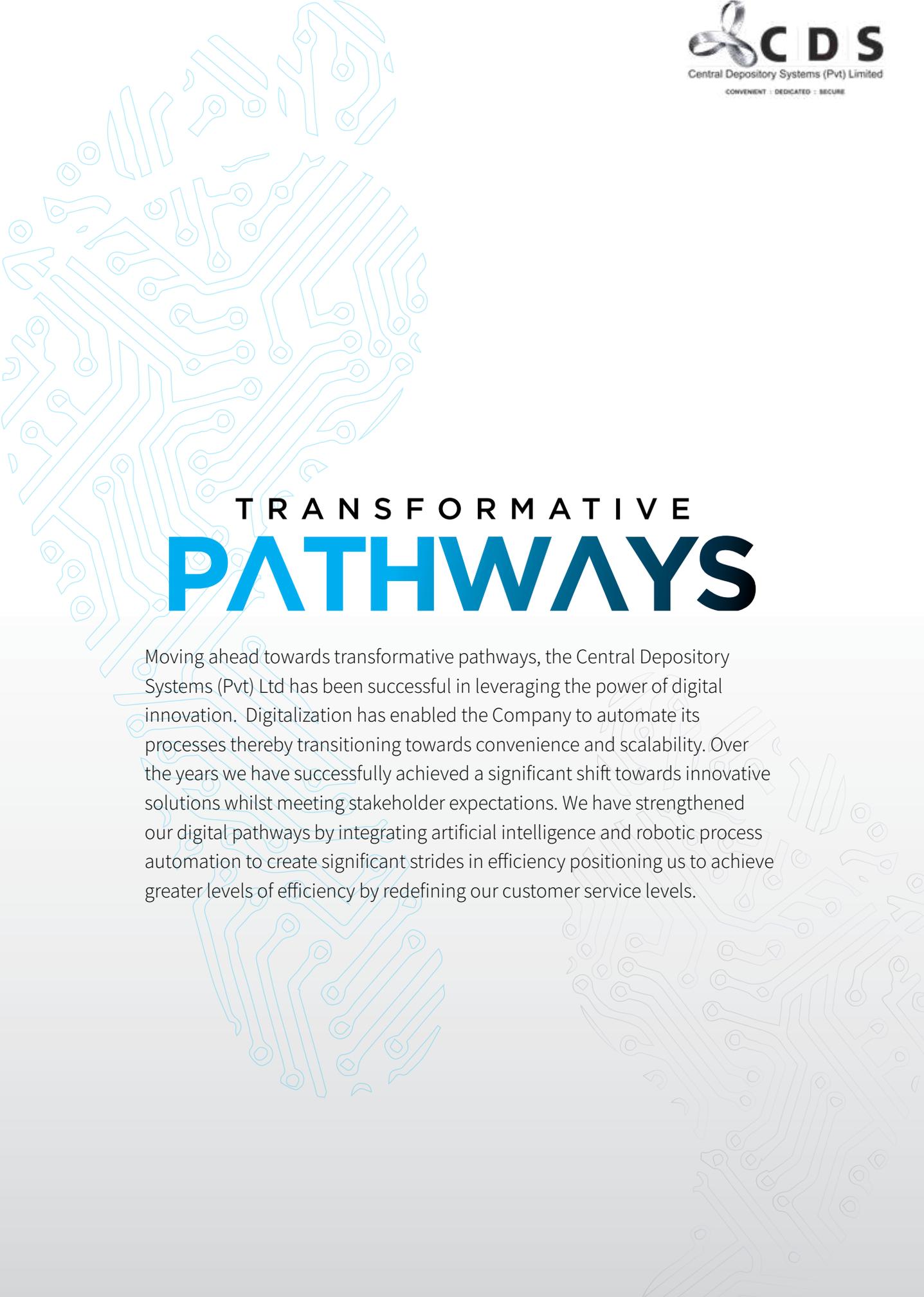


TRANSFORMATIVE
PATHWAYS



TRANSFORMATIVE **PATHWAYS**

Moving ahead towards transformative pathways, the Central Depository Systems (Pvt) Ltd has been successful in leveraging the power of digital innovation. Digitalization has enabled the Company to automate its processes thereby transitioning towards convenience and scalability. Over the years we have successfully achieved a significant shift towards innovative solutions whilst meeting stakeholder expectations. We have strengthened our digital pathways by integrating artificial intelligence and robotic process automation to create significant strides in efficiency positioning us to achieve greater levels of efficiency by redefining our customer service levels.

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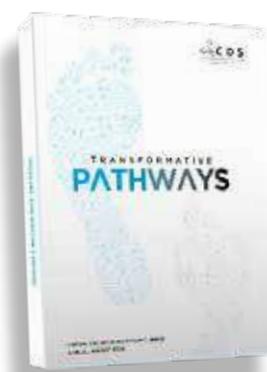
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FEEDBACK

WE STRIVE TO IMPROVE THE QUALITY AND READABILITY OF OUR ANNUAL REPORT AND WELCOME YOUR SUGGESTIONS AND COMMENTS. PLEASE DIRECT YOUR FEEDBACK TO,

MR KUSAL NISSANKA

SENIOR VICE PRESIDENT- FINANCE & ADMINISTRATION
CENTRAL DEPOSITORY SYSTEMS (PVT) LIMITED,
4-01, WEST BLOCK,
WORLD TRADE CENTER, COLOMBO 01.

TEL: +94 11 2356456.

E-MAIL: finance@cse.lk



PRINT
Available on request



CD-ROM
Posted to all Shareholders



ONLINE
Available as PDF

ABOUT THE REPORT

GRI 2-1, 2-2, 2-3, 2-4, 2-5

Welcome to our third integrated annual report providing a balanced and comprehensive view of our value creation process and execution of our business strategy to meet our stakeholder expectations.

SCOPE AND BOUNDARY

This report comprises both financial and non-financial performance of Central Depository Systems (Private) Limited (CDS) for the financial year ended 31st December 2023. This follows the most recent report for the year ended 31st December 2022, for which comparatives are given where applicable.

During this reporting period, no significant changes to the organisation structure or ownership took place. Further, there were no changes in reporting or restatement to the previously reported information.

ASSURANCE

The financial statements that form part of this report have been audited by external auditors, Messrs. KPMG

Reporting Frameworks

Statutory Standards and Acts

- Sri Lanka Financial Reporting Standards
- Sri Lanka Auditing Standards
- Companies Act No. 7 of 2007
- Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021

Voluntarily Adopted Reporting Guidelines

- Integrated Reporting Test Framework of the International Reporting Council (IIRC)
- Global Reporting Initiative - GRI Standards (Core Option)
- International Organisation of Securities Commissions (IOSCO)
- Sustainable Development Goals (SDGs) - The UN initiative with 17 aspirational "Global Goals"

- Code of Best Practice of corporate governance issued by the Institute of Chartered Accountants of Sri Lanka

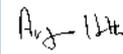
BOARD RESPONSIBILITY ON CORPORATE REPORTING

The Board acknowledges its responsibility to ensure that the Annual Integrated Report provides a balanced view of its performance in 2023.

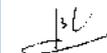
The report was unanimously approved by the Board on 06 May 2024 and is signed on its behalf by,



Mr. Ray Abeywardena
Chairman



Mr. Arjuna Herath
Chairman - Audit Committee



Mr. Rajeeva Bandaranaike
Chief Executive Officer

REPORTING PRINCIPLES

STRATEGIC FOCUS AND FUTURE ORIENTATION

This report provides a clear understanding of how we aim to execute our strategy to create value for our stakeholders.

RELIABILITY AND COMPLETENESS

Information provided have been verified by the Board of Directors, Audit Committee, Other Board Sub-Committees and Group Executive Committee as applicable.

COMPARABILITY

Provided in this report are performances of the current and previous reporting periods together with industry benchmarks where relevant and applicable.

MATERIALITY

Included in this report is a list of material factors that has an impact on sustainable value creation process and the method of determining materiality.

CLARITY

Included in this report are both text and visual illustrations to enhance readability and understanding.

ACCURACY AND CONSISTENCY

Content appearing in this report is supported by internal controls to support the verifiability of the information.

NAVIGATING THIS REPORT

CAPITALS

- Financial Capital
- Human Capital
- Intellectual Capital
- Social & Relationship Capital
- Manufactured Capital
- Natural Capital

STAKEHOLDERS

- Shareholders
- Regulator
- Investors
- Employees
- Participants
- Community
- Issuers
- Wealth Managers
- Margin Providers
- Investment Banks

ABOUT CDS

The Central Depository Systems (Pvt) Ltd. (CDS) operates as a wholly-owned subsidiary of the Colombo Stock Exchange (CSE). Established in 1991, the CDS holds a license from the Securities and Exchange Commission of Sri Lanka, empowering it to function as a clearinghouse and market intermediary. Additionally, the Company serves as the depository and custodian for securities traded at the CSE.

Distinguished as the first depository in the South Asian region and the seventh globally, CDS currently acts as the custodian for 98% of listed equity shares and 100% of listed corporate debt in the Sri Lankan capital market. Beyond its core depository functions, CDS provides a spectrum of services, including corporate solutions, management of corporate actions, compliance and risk monitoring, and client relationship management.

CDS actively participates as a member of the Asia-Pacific Central Securities Depository Group (ACG) and adheres to internationally recognized best practices in its operations.

OUR VISION

To provide reliable, secure and cost-effective depository and safekeeping services.

OUR MISSION

- To be the Key Infrastructure Provider.
- To be the Central Record Keeping Registry for Corporates in Sri Lanka Providing Multitude of Services.
- To Bring Innovation to the Sri Lankan Capital Market

OUR CORE VALUES

CONVENIENT

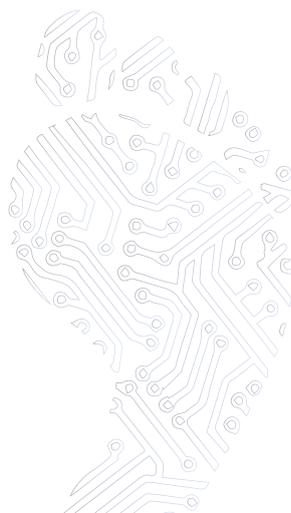
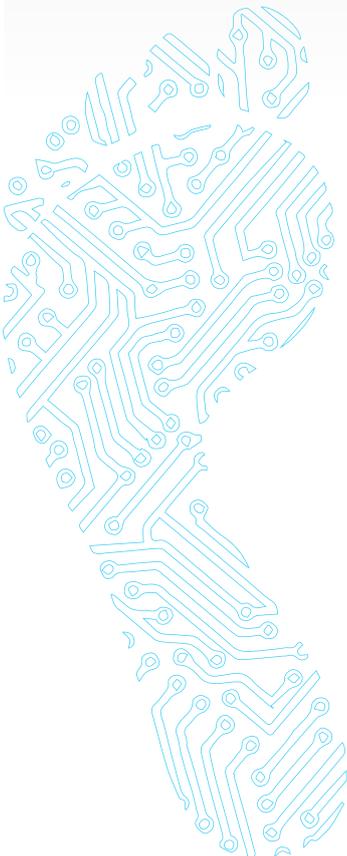
Agility
Flexibility
Customization
CDS eConnect
Efficient

DEDICATED

Innovation
Fact Delivery
Attention to detail
Support

SECURE

Confidentiality
Internal control/audit
Multiple verification levels



BUSINESS UNITS

ABOUT CDS

CLEARING AND SETTLEMENT

CDS facilitates settlement of trades carried out by the participants through the CSE.



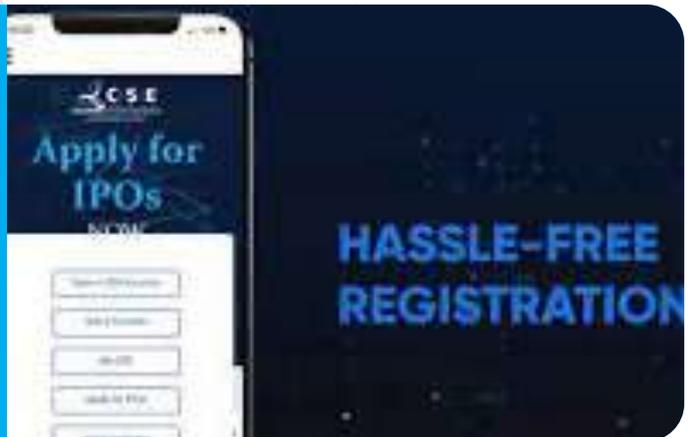
DEPOSITORY OPERATIONS

Custodian of dematerialized securities. Acts as the centralized vault and record-keeper ensuring secure & efficient transfer of ownership for shares traded in CSE. Facilitates investors & issuers through Accounts Services, Information Services & Digital Services.



CORPORATE SOLUTIONS

Service arm of CDS specializing in Asset Servicing to listed/unlisted issuers providing value added services through digital products such as eIPO, eDividends & eRights. Corporate Solutions ensures convenient, hassle-free, and cost effective service delivery by way of Registrar Services, Corporate Actions Management & Bureau Services.



BUSINESS UNITS



DE-MAT COMPLIANCE AND RISK

Ensures all depository operations are compliant with all applicable rules and regulations. De-Mat Compliance & Risk Unit enhances the integrity and stability of the Depository Operations by mitigating operations risks and thus upholding the market trust.

CLIENT RELATIONSHIP MANAGEMENT

Focuses on enhancing engagement with CDS stakeholders. CRM also specializes in the role of marketing and promotions of CDS services and product offerings.



MILESTONES

ABOUT CDS

1991



A historic breakthrough in clearing and settlement in the Sri Lankan capital market was made when Central Depository Systems Private Limited, also known as the CDS, was established in 1991 as the first depository in South Asia.



The CDS was a timely introduction, arriving during an age of low liquidity levels and inefficiencies triggered by a manual clearing process and the exchange of physical documents.

1995



Four years on since establishment, the CDS started its journey of growth when it moved to an ORACLE based platform in 1995.

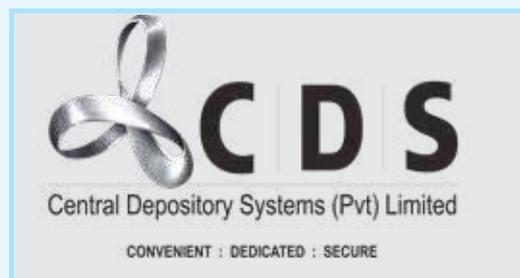
1992



1998



In year 1998 CDS joined the Asia Pacific Central Securities Depository Group. A regional alliance of 32 Depositories and Clearing organizations from 23 member countries across Asia.



MILESTONES

2006



The CDS was appointed as a direct participant of the Central Bank. This paved the way for the CDS to join the SWIFT network adding a new dimension to exchanging financial information related to the Sri Lankan capital market in a secure, standardized and reliable environment.

2007



Single tier settlement of T+3

2008



Taking on the many opportunities and challenges presented by the Information age, the CDS moved to digitalize the depository in 2008, a process that was initiated by electronically archiving documents pertaining to CDS account openings and DEMAT operations.



2009



The establishment of a multiple settlement bank system was an important step in managing settlement risk and expanded the involvement of banks in the settlement process. The CDS website was launched.

2010



Centralized network connectivity to the Listed Companies, Secretaries & Registrars.

2011



In 2011 the CDS renewed its focus to significantly reduce the movement of physical certificates with the launch of a full dematerialization drive. An initiative that would lower costs, mitigate risk and bring greater efficiency to the industry, including the individual shareholder.

2014



Introducing eStatement service & introduction of SMS alert facility for the CDS account holders

2015



Signing a MoU with NSDL India, hosting the 17th ACG Cross-Training Seminar, revamping of CDS website, DS3 – Settlement schedule digitization, and started commercial operations for Corporate Action Services.



2016



Launching of eConnect facility

CDS signs MoU with Central Depository Company of Pakistan Limited (CDCP)



MILESTONES

2017



Signing a MoU with CDSL India, re-engineering rights issue payment process

2020



Decentralization of CDS account openings and Intra-transfers, launch of Online account opening, and revamping of CDS website

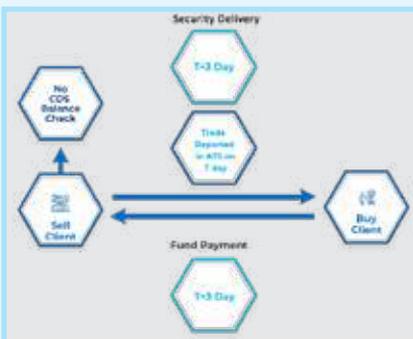
2018



Hosting of 22nd Annual General Meeting of Asia Pacific Central Securities Depository Group (ACG), CDS signs MoU with Korea Securities Depository (KSD), CDS signs MoU with China Securities Depository and Clearing Corporation Limited (CSDC), introduction of CDS Digital Front Desk, and establishment of CDS Corporate Solutions Unit



2021



Introducing eApplications for IPOs, and launch of revamped CDS eConnect, implementation of Delivery Versus Payment (DVP) Settlement Mechanism

2022



- Introduction of onboarding of Foreign individuals (via stockbroker firms) through the mobile app and ability to request to open IIA accounts from a licensed commercial bank.
- Introduction of rating of CDS Account Opening Efficiency by stockbrokers.
- eIPO Web Portal.
- Facilitating reports purchasing service through CDS eConnect.
- Digitalization of Margin Account openings.
- Digitalization of private transfers (where beneficial ownership changes of margin trading).
- Introduction of e-Nomination facility.
- Onboarding of 6 new clients for Registrar Services.

Onboarding of new clients for Registrar Services



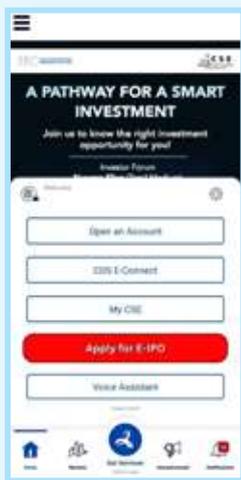
MILESTONES

2023



Application of an AI bot to the CDS account opening compliance process

In a significant leap towards automation, the Central Depository System (Pvt) Limited implemented an AI solution in 2023 to handle post account opening compliance checks. This streamlines the process, reduces manual effort, and ensures newly opened CDS accounts meet all regulatory requirements.



Introducing eIPO to institutional CDS Account holders

Recognizing the prominent role of institutional investors, the CDS introduced eIPO access for institutional CDS account holders in 2023. This allows institutional CDS account holders to participate seamlessly in applying for IPOs electronically, further enhancing efficiency and participation in the Sri Lankan capital market.



CDS signs Agreement with LankaPay Online Payment Platform and expects to bolster speedier and convenient service to investors

CDS recently signed an agreement with LankaPay, Sri Lanka's National Payment Network, joining its Online Payment Platform to develop an innovative payment platform to facilitate a seamless and a secure payment experience for investors. The new payment platform promises to transform how investors participate in Initial Public Offerings (IPOs), Rights Issues and other offers.

eWarrants Dispatching - introduce a methodology to dispatch tax warrants pertaining to dividend payments electronically for shareholders who has a registered email address with the CDS

Aiming to simplify tax information gathering for shareholders, the CDS launched a new methodology for eWarrants dispatching in 2023. This system enables electronic delivery of tax warrants pertaining to dividend payments directly to shareholders' registered email addresses, eliminating the need for physical mail and saving time. The initiative also offers a considerable cost saving for the listed issuers.

eConnect access to Custodian Banks

Broadening access for Custodian Banks, the CDS introduced eConnect access for this stakeholder access in 2023. This secure electronic platform allows custodian banks to interact with the CDS system efficiently, facilitating smoother service for the CDS account holders registered through them.



Introducing Helapay integrated payment option for eIPO platforms

Expanding payment options for investors, the CDS integrated Helapay, a popular Sri Lankan online payment platform, with eIPO platforms in 2023. This provides a convenient and familiar way for investors to participate in Initial Public Offerings (IPOs) electronically while reducing the effort of issuers associated with bank account reconciliation and refunds calculation.



Conducting a Webinar series for CDS stakeholders to raise awareness on services offered

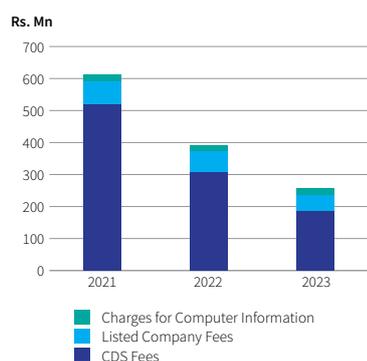
Committed to educating stakeholders, the CDS conducted a webinar series in 2023. These informative sessions aimed to raise awareness about the various services offered by the CDS through the CDS eConnect, empowering investors and market participants to make informed decisions.

PERFORMANCE HIGHLIGHTS

ABOUT CDS

Financial Capital	Unit	2023	2022
Total Revenue	Rs.Mn	257	392
CDS Fees	Rs.Mn	185	307
Listed Company Fees	Rs.Mn	52	64
Profit before tax	Rs.Mn	258	328
Profit after tax	Rs.Mn	177	238
Financial Position			
Total Assets	Rs.Mn	1,893	1,758
Current Liabilities	Rs.Mn	370	413
Equity	Rs.Mn	1,522	1,345

Revenue Growth and Composition



Growth in Assets



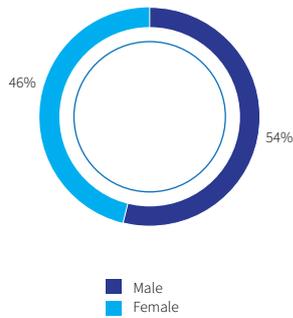
Social and Relationship Capital

	Unit	2023	2022
Local account holders	No	693,415	682,547
Foreign account holders	No	10,937	10,810
New accounts	No	15,697	24,270
No. of listed companies	No	290	290
No. of new listings	No	7	9
Stockbrokers	No	28	29
Custodian banks	No	16	18

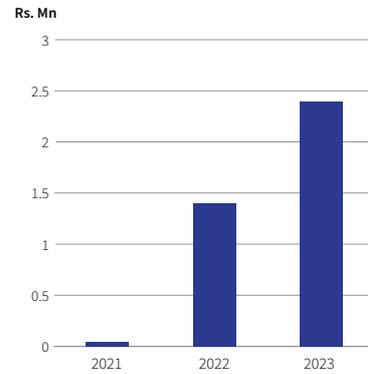
PERFORMANCE HIGHLIGHTS

Human Capital	Unit	2023	2022
Total Employees	No	24	25
Male	%	54	56
Female	%	46	44
Investment in training	Avg Man Hrs	21.27	8.56
Employee turnover rate	%	4.1	8
Stockbrokers	No	28	29
Custodian banks	No	16	18

Gender Representation of the Workforce



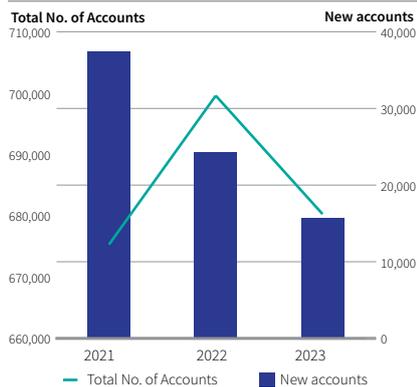
Training & Development Expenditure



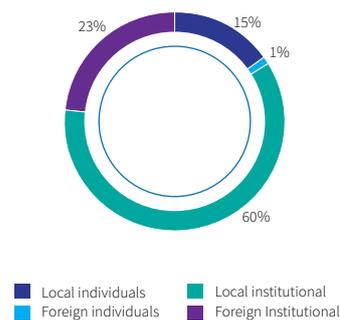
Digital Capital	Unit	2023	2022
New e-services introduced	No	3	6
System uptime	%	100	100

Natural Capital	Unit	2023	2022
Paper consumption	Kg	131	174
Energy consumption	kWh	202,694	207,096

CDS Accounts



Value of Shares by Investor Category



OUR COMMITMENT TO SUSTAINABILITY

ABOUT CDS

We are committed to fulfilling our socio-economic responsibility and actively contribute to facilitating sustainable growth for our stakeholders. Below are some of our efforts aligned with the UN Sustainable Development Goals:



CHAIRMAN'S MESSAGE



The CDS also continues to pursue possible diversification outside the capital markets using its competencies in the dematerialization of certificates, which will help to extend its customer base and build an even stronger business model.

Dear Stakeholders,

I am pleased to present the third Integrated Annual Report of Central Depository Systems (Pvt) Ltd. (CDS) for the financial year ending 31st December 2023. A 100% owned subsidiary of the Colombo Stock Exchange, the CDS is licensed as a market institution by the Securities and Exchange Commission of Sri Lanka (SEC) and is a core component of the capital market of the country, facilitating the trading of equity and debt securities as well as offering a growing menu of value adding services.

Driving growth through digitalization

Technology is a core competency and the CDS has built up capability in providing a seamless post trade electronic record keeping function and is now harnessing Artificial Intelligence (AI) and Robotic Process Automation (RPA) to further strengthen its operations.

The CDS is now steering a course to diversify its business by leveraging its core competency to build a more resilient business model, reducing the volatility of trading linked revenue sources. Accordingly, it has diversified into providing Corporate Solutions to issuers, leveraging its information assets to provide a growing range of services.

The year under review was a landmark year for CDS as it acquired the corporate registrar services business of PW Corporate Services (Pvt) Ltd., to grow its non-trading revenue streams, stabilising its business model and leveraging its core competency. This move benefits both investors and issuers as it uses technology to revolutionise legacy processes, significantly enhancing convenience and reducing costs, processing times and time to market. The CDS benefited by the captive customer base and the expertise of the new team members, in addition to its core proposition of diversifying the revenue flows.

The CDS also continues to pursue possible diversification outside the capital markets using its competencies in the dematerialization of certificates, which will help to extend its customer base and build an even stronger business model.

Focus on Governance

The CDS strengthened its corporate governance structure significantly during the year as a result of the changes recommended by the International Finance Corporation to the CSE Group as part of its transition to a demutualized stock exchange.

Accordingly, a separate Board was appointed for the CDS for the first time with a separate Chairman, four Directors from the CSE Board and two external Non-Executive Directors. I welcome Mrs. Priyanthi Pieris and Mr. Channa de Silva who bring a wealth of experience in strategic areas of Corporate Registrar business and IT governance. This paves the way for compliance with regulatory requirements for ownership by a broader range of stakeholders and operations that are independent of the stock exchange. The blend of skills and expertise on the Board supports the growth aspirations of the CDS, ensuring there is sound corporate governance underpinning its growth.

Key areas of focus for the Board are strategy, risk management, people, safeguarding of tangible and intangible assets and financial reporting. The Board recognizes the severity of impact of its operational risks on the stock market and continues to review the related framework of controls and risk mitigation plans to ensure effective operation.

It is noteworthy that its information assets are potentially of higher value than its monetised assets and significant investments have been made in cybersecurity to facilitate customer data privacy. ISO standards are in place for data security and system audits are carried out by external auditors. It is further reinforced with regular penetration testing and vulnerability testing in compliance with IT security protocols.

The IT steering committee reviews the Information Security Report which captures key performance indicators and an external consultant sits in at these meetings as an expert advisor.

Despite a high reliance on technology, our people are our greatest asset and we continue to invest in developing and retaining them.

The Board is also preparing the Company for the separation of clearance and settlement functions in the near future with the approval of the SEC. The progress is carefully monitored by the Board who are committed to ensuring a smooth transition.

Context to Performance

2023 was a year of recovery for Sri Lanka with GDP recording negative 2.3%, and improvement over the negative 7.8% recorded in 2022. Completion of the domestic debt optimization reduced some of the uncertainty. Two tranches of the IMF Extended Fund Facility eased the foreign exchange liquidity in the market. A reviving tourism industry and a sharp increase in migrant worker remittances boosted foreign exchange reserves aided by the temporary deferments in repayment of foreign debt. Interest rates declined sharply with policy interest rates decreasing by 550 basis points while the declines in deposit rates and treasury bill rates was steeper. The rupee appreciated by 12% during the year, reflecting the easing of foreign exchange

liquidity which also paved the way for easing import restrictions.

Positive GDP growth of 1.6% and 4.5% in the 3rd and 4th quarters of 2023 is encouraging and is reflected in the uptick observed in the market. While the All Share Price Index (ASPI) moved up from 8,489.66 to 10,654.16, trading volumes remained thin, declining by 40% over the previous year to Rs.410 Bn.

Performance

The CDS delivered a Profit After Tax of Rs.177 Mn despite the sharp decline in CDS fees stemming from the low turnover. A notable highlight was the increase in the contribution from Corporate Registrar Services, demonstrating the growth potential for value added services. Higher cost levels exerted pressure on profitability. A strong balance sheet with Rs.1.9 Bn in assets of which Rs.1.5 Bn is from retained earnings reflects the cautious approach to growth in a volatile market operating in an economy with relatively high levels of uncertainty. This strong capital structure supports pursuit of the strategic goals of the Company.

Outlook

The market has picked up in the 1st quarter of 2024 with the ASPI moving from 10,654 to 11,444 by 31st March 2024 reflecting the cautiously positive investor sentiments. Positive third quarter results from corporates and improving macroeconomic indicators supported this trend.

Sri Lanka's economy is expected to record GDP growth with forecasts ranging from 1.8% to 3%. However, the Board acknowledges that the medium term outlook is positive, while it has some significant downside risks. The resilience of the CDS is reflected in the balance sheet and the regular cashflows provide a sufficient margin of comfort to manage and forecast foreseeable stresses during this period. We expect the long-term outlook to be more stable as proposed reforms stabilize the volatility and uncertainty witnessed at present.

The CDS will look to grow its value added business while benefiting from an increase in turnover. Growth of corporate services will be a key focus area to realize its vision. We will review the potential to enhance value to investors with fee based services that will

support the resilience of our business model. Technology transformation will continue to be a key focus to maintain the attractiveness of the market while managing operational risks including cyber risks. Technology will continue to be the key to driving operational efficiencies with the use of AI and RPA tools.

Acknowledgements

The team at CDS continues to be the critical factor underpinning its success and I commented their exceptional levels of motivation and effectiveness. I thank the outgoing members of the Board, Mr. Dilshan Wirasekera, Mr. Dimuthu Abeyesekera and Mr. Suren De Silva, for their diligence and invaluable contributions during their tenure. I am also appreciative of the contributions made by the Board in steering CDS to a position of strength in a difficult year.

I thank the CEO and the team at the CDS for their unwavering commitment and their enthusiasm to drive forward the growth agenda of the CDS. The Board joins me in thanking officials of the SEC who continue to extend their guidance and assistance as needed. In closing, I thank the CDS account holders, issuers and other stakeholders who continue to be a vital part of our plans for growth.



Ray Abeywardena
Chairman

06th May 2024

CEO'S MESSAGE



A commitment to continued innovation is a hallmark of CDS as affirmed by its track record and the revolutionizing of the process for nominating beneficiaries in 2022

Dear Stakeholders,

The Central Depository Systems (Pvt) Ltd (CDS) delivered a resilient performance, recording a Profit After Tax (PAT) of Rs. 177 Mn in a year marked by uncertainty and volatility in the operating environment. A future focus strategy ensured that its strategic priorities continued to remain at the top of the agenda, despite the decline in market volumes and the related impact on performance.

A Strategic Transformation

In 2018, the CDS commenced its journey to transform and rebrand itself, building a more efficient and resilient value creation model for sustainable growth. A strategic plan was developed by the team under the strategic guidance of the Board.

Diversification of revenue streams is a key strategic goal with the CDS looking at more value-added services to its core depository

HIGHLIGHTS

	As at 31.12.2022	As at 31.12.2023
Investor Accounts	693,357	704,352
Active Investors	43,947	33,139
Investors outside Western Province	308,989	315,959
Subscribers for mobile app	351,288	430,720
Income from Registrar & Corporate Services Rs.'000	28,704	39,422
E-dividend issues handled	41	39
New Services Launched in 2023	e-Warrants and e-IPO	

business while also exploring opportunities for growth as a repository, beyond the capital market.

Digitalisation is another strategic goal that is core to the operating model which is highly-reliant on technology to perform its function as a depository. It enables broad basing of products and services to market participants, diversifying revenue streams while also supporting significant cost efficiencies.

Continuous Innovation

A commitment to continued innovation is a hallmark of the CDS as affirmed by its track record. For example the enabling of nominations, Account locking at the request of investors and the dispatch of Warrants electronically to name a few developments.

The CDS now is a paperless environment using the e-connect platform to support paperless processes.

We will continue to drive further efficiencies deploying AI tools and RPA tools to change legacy processes, supporting increased operational efficiencies. Enhancing customer relationship management through digital processes saw the implementation of a help desk to troubleshoot investor issues with a ticketing system to ensure that 100% of stakeholder calls are responded to until an item is closed.

The CDS has developed an integrated payments solution to enable investors to subscribe to issues electronically with safeguards to facilitate reconciliation of payments and electronic refunds. The CDS would urge account holders to register for electronic services, eliminating paper throughout the value chain which will enable listed companies to bring their corporate actions faster to the market through end-to-end processing.

Diversified Growth

The low turnover in trading and its impact on the top line of the CDS underscores the need for diversifying revenue from non-trade related sources. The CDS has built capability in Corporate Registrar Services with a comprehensive menu of services including share register maintenance, issue of dividends, rights issues and acquisitions in compliance with the Takeover and Mergers Code. Some of these services extend beyond listed companies to unlisted companies as well as the CDS introduced automated solutions to the Corporate Registrar Services segment in the country.

The CDS acquired the Corporate Registrar Services business of PW Corporate Services in December 2023 to consolidate its position. This is the first business acquisition in the history of the CSE Group and we expect this to accelerate our growth in this promising business line. The acquisition expands our customer base as well as our team, supporting immediate growth in capacity and scale. The CDS is committed to further expansion and innovation in this business leveraging its core competencies.

Governance & Regulatory Matters

The CDS is the licensee to operate a depository and a clearing and settlement facility supporting the CSE. With the enactment of the SEC (Amendment) Act in 2021, a further separation of post trade activities has become necessary.

Accordingly, the CSE has established a separate subsidiary to take over the clearing and settlement operations in the near future, as part of its journey towards demutualization of the CSE. As a result, the business model of the CDS will be focusing on the depository functions and corporate action services. However, a careful

separation between the two functions have been established with demarcated staff for the respective areas so that the independence of the core Depository functions is maintained.

People

A professional and motivated team manages the CDS ensuring that it continues to support the Colombo Stock Exchange in the trading of securities. We continue to invest in upskilling and adding new talent to the team to ensure that the service levels of the CDS is on par with global depository services, adhering to international standards. We welcome the new team members from PW Corporate Services following the acquisition which will strengthen the capabilities to drive growth in new areas. A professional work environment, work-life balance and competitive remuneration facilitate retention of this talented team that drives our growth and continued operations.

Financial Performance

Market activity was lackluster in 2023 due to high levels of uncertainty and low levels of investor participation in the aftermath of the country's economic crisis. Consequently, the top line recorded a decline of 28% to Rs.318 Mn which was augmented by Other Income of Rs.60 Mn. It is noteworthy that the Corporate Registrar Services income increased by 33% during the year despite lackluster market activity.

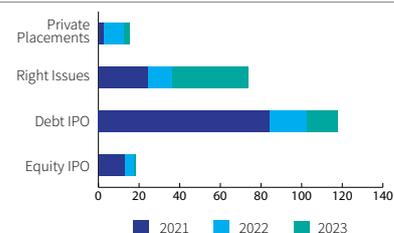
Staff costs increased by a 30% to Rs.81.77 Mn due to new staff recruits and a salary revision which was carried out to attract and retain the required talent.

Other operating expenses increased by 18% reflecting the increased costs of operations. The CDS System Maintenance accounts for 42% of other operating costs in 2023, down from 45% in 2022.

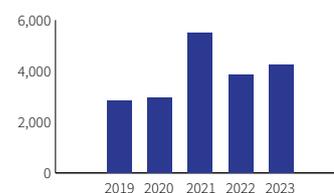
Cost increases exerted significant pressure on profitability margins which were buffered by Net Finance Income of Rs.325 Mn which recorded an increase of 54% over the previous year. This is largely attributable to investment of cash and cash equivalents in higher yielding instruments, taking advantage of the attractive interest rates that prevailed for the first half of the year.

HIGHLIGHTS 2023

Fund Raised (Rs.Bn)



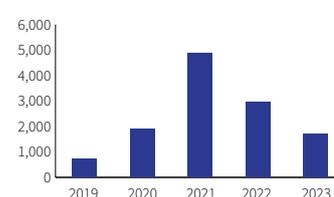
Market Capitalization (Rs.Bn)



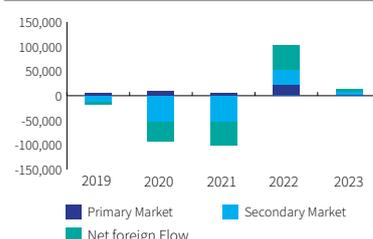
New Listings



Daily Average Market Turnover (Rs.Mn)

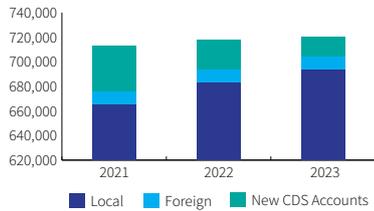


Foreign Tradings (Rs.Mn)



CEO'S MESSAGE

Investors (No)



Profit before taxation amounted to Rs.257.9 Mn as a result with Net Finance Income accounting for 126% of PBT reflecting the high reliance on market turnover and the need for diversification.

The financial position of the CDS remains strong despite the headwinds described above. Equity of Rs.1.5 Bn is supported by fairly liquid assets exceeding this value, indicating high levels of liquidity. Total assets increased during the year from Rs. 1.8 Bn to Rs.1.9 Bn. Zero borrowings and liquidity fortifies the CDS financial position, ensuring that its funding risk is minimal with significant headroom to fund growth.

Improved Prospects

Trading activity is on an upward trend and is expected to improve with positive GDP growth in 2024. Key events in 2024 which can impact market performance include elections, the restructuring of the country's foreign debt and the progress of the economic reform process, the state owned enterprises reforms and other policy reforms have the potential to boost the stock market activity. We also believe that the corporate results released in the second quarter will provide a further boost to market activity as many corporates return to profitability.

As observed during the year, diversification is a necessity and we will pursue both organic and inorganic growth to accelerate the transition to a more robust business model, minimizing the volatility in performance.

The e-connect platform is pivotal to process innovation and driving operational efficiencies. There is significant potential to enhance non-trading fees through value added services to investors and issuers and the CDS will continue to pursue these avenues.

Plans to pursue growth through dematerialization continue to evolve as the CDS extends its business model to become a repository in addition to its function as a depository. The initial development work is time consuming, but we are cognizant of this and will pursue the right combination of partners and products to make it a success.

A major project would be the proposed replacement of the CDS system which is due over the next few years. The work on a new CDS will commence in 2024.

Appreciations

I take this opportunity to commend the drive and ingenuity of the CDS team that continues to deliver innovation-led growth. I thank the Board for their counsel and guidance during the year and look to their continued guidance as we navigate the transition in the year ahead. In closing, I thank our stakeholders for their continued support to restore the vibrancy of the stock market and drive transformation for sustainable growth.

Rajeeva Bandaranaike
Chief Executive Officer

06th May 2024

MESSAGE FROM THE SENIOR VICE PRESIDENT CDS



The integration of AI into the CDS's individual account opening compliance process signifies a transformative step in incorporating advanced technology into daily operations

Dear Stakeholder,

Now, in its 33rd year of operations, CDS is the only depository licensed by the Securities & Exchange Commission of Sri Lanka. A wholly-owned subsidiary of the Colombo Stock Exchange (CSE), it was incorporated as a trust under the Companies Act No.7 of 2007. CDS provides a seamless post trade electronic record keeping function, supporting trading activities of the CSE and was the first depository in South Asia and the 7th in the world. Its business model is highly dependent on trading activity levels which are volatile. It is also the sole licensed issuer of ISIN numbers, the globally accepted numbering system for securities. Consequently, CDS has charted a course to diversify its products and services to build a more resilient business model leveraging its technology platforms and capability in dematerialization of certificates supporting storage, retrieval, and transfer.

HIGHLIGHTS 2023

Proportion of Securities De-Materialised

EQUITY 96.49%

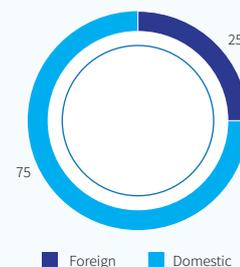
DEBT 100%

Securities Held in Custody

176 BN

Value of Securities Held

RS. 4,207 BN



of Accounts Excluding Multiple Registrations

704,352

of Accounts including Multiple Registrations

930,022

New Accounts in 2023

15,697

A track record of over 3 decades of providing depository services for equity and debt securities in public listed companies to local and foreign investors underpins our growth aspirations. The value of securities lodged with the CDS typically ranges between 30% to 20% of the country's GDP, reflecting the important role played by CDS in the development of the country's capital markets. The securities are held in the accounts of over 704,352 investors who rely on CDS for the storage and transfer of their securities portfolios in accordance with their transactions and instructions within the framework of CDS rules. Our values "Convenience and efficient, dedication and

MESSAGE FROM THE SENIOR VICE PRESIDENT CDS

A HISTORY OF INNOVATION 2022-2023

2023

- AI solution for compliance operations
- Payment gateway integration for eIPOs
- eWarrant/eNotices dispatching

2022

- Digital onboarding of Foreign Individual accounts
- Digital onboarding of Margin Trading Accounts
- eNomination
- eIPO web portal

secure with trust and integrity” have been our watchword as we evolved and continue to guide our transformation journey.

CDS recorded a key milestone in its history with the acquisition of the Corporate Registrar Services business of PW Services (Pvt) Ltd. in 2024 to support growth of this key business line. The acquisition brings a captive base of clients, and a team of experienced professionals enables us to accelerate growth and enhance the menu of services provided to issuers.

Operating landscape

The operating environment for capital markets, particularly in the context of Central Depository Systems (CDS), witnessed significant developments.

Regulatory enhancements, such as the revisions to the CDS rules in line with the New SEC Act of 2021, have strengthened the legal framework, ensuring consistency and enabling the enforcement of depository participant regulations through a merit-based system. This strengthens the market's stability and security, benefiting investors and assuring issuers of the integrity of the safekeeping of their securities.

Technological advances, especially RPA, and AI, have revolutionized operational efficiency and accuracy. The CDS's adoption of RPA since 2020 and AI in 2023 for compliance processes exemplifies this shift, paving the way for further expansion in 2024. These technologies not only streamline operations but also enhance the service quality for

investors. Further, CDS is in the process of doing research on the integration of block chains in regional CSD and their success stories on the block chain.

The increased demand for digitalized services underscores the necessity for the CDS to continue evolving its digital platforms. This trend reflects a broader market shift towards digital solutions, necessitating ongoing adaptation to meet stakeholder expectations. Collectively, these developments support our transformation, enhancing operational practices and stakeholder engagement in capital markets of the country.

The key opportunities identified encompass a broad spectrum of strategic initiatives aimed at enhancing operational efficiency, market expansion, and regulatory compliance. Firstly, the integration of Robotic Process Automation (RPA) and Artificial Intelligence (AI) into daily operations stands out as a transformative step towards automating routine tasks, reducing errors, and freeing up human resources for more complex decision-making processes. The digital services sector's growth trajectory provides a fertile ground for innovation and customer engagement through digital platforms, ensuring services are more accessible and user-friendly.

Technology & Innovation

The evolution of the Central Securities Depository (CDS) reflects the transformative power of digital innovation as we replaced legacy systems with automated processes that offered convenience and scalability. By integrating digital solutions, CDS streamlined the process of depositing and transmission of securities and also democratized access to the capital markets.

In 2023, CDS continued to deliver the innovations in its project pipeline which included the eNomination system, eOffers, integration of Helapay and eWarrants.

The eNomination system enhances user convenience replacing a cumbersome legacy system that required submission of requests to each issuer. Similarly, the development of eOffers/Repurchases reflects our commitment to innovation and service improvement, supporting a new revenue stream. The integration of

Helapay into eIPO platforms streamlines financial transactions, offering a seamless experience for all parties involved. The electronic dispatching of eWarrants signifies a shift towards more efficient, cost-effective operations.

Collectively, these strategies support operational efficiency and enhance customer satisfaction and trust which is critical for a depository. The ongoing digital transformation within the CDS is a clear indicator of the organization's capability to innovate, shaping a more accessible and efficient market landscape.

Driving Operational Efficiencies

The integration of AI into the CDS's individual account opening compliance process signifies a transformative step in incorporating advanced technology into daily operations. This strategic move not only streamlines the process, significantly reducing the time and effort required, but also minimizes risk, showcasing a commitment to process efficiency and innovation. Furthermore, granting eConnect access to custodian banks has expanded the CDS's digital service offerings, enhancing security and convenience for stakeholders. This access allows for more efficient management of account changes and transactions, reinforcing the CDS's position as a leader in digital solutions. Lastly, the overhaul of the Corporate Action & Registrar services IT infrastructure, transitioning to a user-friendly web-based application, represents a significant improvement in operational execution. The new system's enhanced validation processes and quality assurance automation, along with a module designed for comprehensive application management, exemplify the CDS's dedication to continuous improvement and customer-centric development. These strategic initiatives collectively contribute to the robust growth and competitive edge of the business.

Opportunities for growth

The evolving regulatory landscape offers opportunities to align with new standards in dematerialization, cybersecurity, eKYC, and operational resilience, boosting investor confidence and differentiating CDS as a future forward and compliant institution. Online outreach program on Central Depository Services (CDS) can significantly

enhance market awareness and literacy, fostering a more informed, tech savvy and active investor base.

Active participation in regional groups like the Asia Pacific Central Securities Depository Group (ACG) and the initiation of Memorandums of Understanding (MoUs) with other depositories in the Asia-Pacific and Euro-Asian regions indicate a commitment to cross-border collaboration and knowledge sharing, which are crucial for staying competitive in a globalized economy. These opportunities leveraged effectively, can drive transformation of not only CDS but also serve as a catalyst for transformation of the country's capital market.

CDS also sees opportunities to move beyond capital markets to dematerialize other certificates that need or can benefit from secure custodian facilities, connecting both the issuer and the recipient. Diversification beyond capital markets will strengthen the business model by reducing the dependency on market activity. We continue to explore these avenues for expansion, leveraging a proven track record to disrupt legacy systems and processes with future fit, technology driven products.

2023 in Numbers

During 2023, investors opened 15,697 new accounts in the CDS, a decrease of 35% over the previous year reflecting lack lustre market conditions. The ratio of total accounts to unique accounts remains virtually unchanged at 1.3 from 2021 to 2023. Local individuals account for 97% of accounts reflecting strong domestic participation in capital markets.

The number of securities held in custody increased by 24,622 Mn, an increase of 16% over the previous year to close at 176,139 Mn securities. Value of securities continued its increase trend increasing by 8% to Rs.4.2 Trillion during the year as market capitalisation increased. Domestic investors account for 83.37% of the accounts and 76.44% of the value of securities while foreign investors account for 16.63% of securities and 23.56% of the value reflecting the foreign interest in securities of higher value.

Local companies account for 63.62% of the number of securities and 59.80% of their value and are the dominant investor

category. Local individuals hold 19.75% of the number of securities that account for 16.64% of the value reflecting an appetite for lower value shares. Foreign companies hold 14.93% of securities which account for 22.11% of value.

Resilient & Stable

Tepid investor sentiment resulting from uncertain economic conditions saw daily market turnover decline by 43%. Accordingly, revenue recorded a decline of 28% to Rs.318 Mn boosted by Other Income of Rs.60 Mn with Corporate Registrar Services contributing over 66% of the latter. Operational costs increased by 18% which is largely attributable to a 10% increase in CDS System Maintenance costs of Rs.127 Mn which accounts for 42% of Other operating costs. The impact of tightening fiscal policy was evident in the 32% increase in disallowed VAT which accounted for 11% of Other operating costs. An increase of 54% in Net Finance Income of Rs.325 Mn absorbed a significant portion of the volatility in the top line. Accordingly, CDS recorded profit before tax of Rs.257.8 Mn in 2023, a decrease of 21% over 2022.

A balance sheet with total assets of Rs.1.89 Bn supported by Equity of Rs.1.5 Bn is reflective of the prudent approach to capital and financial planning. It is inherent feature of the business model that the size of the balance sheet also varies with market activity due to the variation in Brokers' Liquidity and Margin Deposits. The deposits are maintained in highly liquid assets to manage liquidity risks that may arise as a result. Total assets increased during the year from Rs. 1.76 Bn to Rs.1.89 Bn as the Company recorded a profit after tax of Rs.177 Mn.

People Driven

A close-knit team enables navigating the complexities of a dynamic economic landscape with confidence, fostering innovation to create value to market participants. Our team expanded with the acquisition as we welcomed 09 new team members to swell our ranks. The professional ethos and commitment to excellence of our team resonates with the organization's core values, ensuring high standards of professionalism. Guiding this self-motivated team is a privilege as we have developed a structured yet imaginative approach to problem-solving and execution. Despite the economic

headwinds, CDS's strategic response, including salary adjustments and flexible work arrangements, demonstrates its commitment to employee welfare and the enhancement of its value proposition. The challenge of talent retention amidst economic migration is an issue which has been mitigated by CDS's ability to attract and retain top talent due to its national significance and intellectually stimulating work environment.

The path ahead

The first quarter of 2024 recorded upward movement of the benchmark ASPI as two quarters of positive economic growth resulted in a measured improvement in investor confidence. We expect this to consolidate with positive corporate results as the Industry and Services sectors recorded healthy growth. The Central Depository System (CDS) continues to maintain its custodian and depository roles, largely operating autonomously. The acquisition during the year is expected to yield results in 2024 and a strong pipeline of projects to enhance services supporting our core business is also expected to strengthen revenue streams. CDS's medium-term strategy focuses on transitioning to dematerializing physical documents, extending our role to that of a repository. This is a significant shift for systems that have been operational for decades, if not centuries which requires time to address understandably human trust and confidence factors.

Appreciations

I take this opportunity to convey my appreciation of the CEO, Mr. Rajeeva Bandaranaike and the Board for their counsel during another challenging year. I also thank my team for their unstinted cooperation and for nurturing a culture of cooperation and camaraderie. I am appreciative of the team at CSE and SEC for the collaborative approach that has helped move our project pipelines. I thank the investors, issuers and market participants for their continued engagement and support.



Nalin Fonseka

Senior Vice President - Central Depository Systems

06th May 2024

BOARD OF DIRECTORS



Mr. Ray Abeywardena
Chairman



Mr. Kosala Gamage
Director



Mr. Arjuna Herath
Director



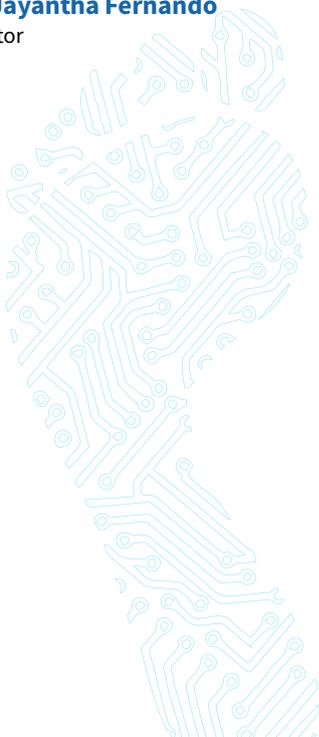
Mr. Jayantha Fernando
Director



Ms. Priyanthi Pieris
Director



Mr. Channa de Silva
Director



MR. RAY ABEYWARDENA

Chairman
Elected Non-Executive Director

Chairman with effect from 02nd January 2024
Appointed: 13th June 2013

Skills & Experience

Associated with Sri Lanka's capital markets for over 38 years, primarily as a Stockbroker and since 2009 as an Investment Banker.

Member of the Chartered Institute of Marketing (UK) and holds a Masters Degree in Business Administration from the University of Wales.

Other Current Appointments

Managing Director of Acuity Partners (Pvt) Ltd.

Chairman of Acuity Stockbrokers (Pvt) Ltd and Acuity Securities Ltd.

Director of Lanka Ventures PLC and Lanka Energy Fund PLC and Guardian Acuity Asset Management Ltd (GAAM)

Previous Appointments

He served as Chairman of the Colombo Stock Exchange from 2017 to 2020, Managing Director/CEO of Acuity Stockbrokers (Pvt) Ltd from 2001 to end 2008 and is a past Chairman of the Colombo Stockbrokers Association.

MR. KOSALA GAMAGE

Director
Elected Non-Executive Director

Appointed: 20th October 2022

Skills & Experience

Mr. Gamage is a seasoned professional in the Sri Lankan capital markets, bringing over 29 years of expertise in managing both local and foreign investments within the Colombo Stock Exchange.

In 1995, he embarked on his career with Lanka Securities (Pvt) Ltd, a joint venture Stockbroking Company in collaboration with the Bank of Ceylon Group and First Capital Securities Corporation, Pakistan. His journey within the company saw him rise from the position of Investment Advisor to Director Sales. In 2008, Mr. Gamage assumed the role of Managing Director/CEO, a position he continues to hold with distinction.

Other Current Appointments

Mr. Gamage currently serves as a Director on the board of M/s. Renuka Consultants (Pvt) Ltd.

Previous Appointments

From 2019 to 2021, Mr. Gamage served as the President of the Colombo Stockbrokers Association (CSBA), showcasing his leadership and commitment to the industry.

MR. ARJUNA HERATH

Director
Appointed Non-Executive Director

Appointed: 21st February 2020

Skills & Experience

A Senior Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a Chartered Global Management Accountant with a Bachelor of Science degree from the University of Colombo, a MBA from the University of Strathclyde in the United Kingdom and a Master of Arts in Financial Economics from the University of Colombo.

Extensive industry experience of over three decades in serving numerous clients in the Public Sector and in the Private Sector and actively involved in areas of Economy, Capital Markets, Investments, Corporate Transformation & Restructuring, Corporate Planning, Performance Improvement, Corporate Governance, Technology, Accounting, Auditing, Professional Accountancy Organizations.

Other Current Appointments

Chairman of the Data Protection Authority of Sri Lanka

Non-Executive Director of several Private Sector Companies.

Previous Appointments

- Senior Partner and Head of Consulting, Ernst & Young, Sri Lanka and Maldives.
- A Board Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board.
- A Commissioner of the Securities and Exchange Commission of Sri Lanka.
- Director Corporate Finance at Merchant Bank of Sri Lanka Ltd.

- Marketing Development Manager at Ceylon Tobacco Company.
- Chairman of the Professional Accountancy Organization Development Committee of the IFAC.
- Past President of The Institute of Chartered Accountants of Sri Lanka.
- Past President of the South Asian Federation of Accountants.
- Board Member of the Confederation of Asia Pacific Accountants.

MR. JAYANTHA FERNANDO

Director
Appointed Non-Executive Director

Appointed: 21st February 2020

Skills & Experience

An Attorney with over 20 years international experience in Cyber Law, with expertise in Digital Payments & e-Commerce, International trade, Cyber Security/Cyber Crime, Intellectual Property Rights & Software Licensing, E-banking & Mobile Banking, Digitization of capital markets, Dispute resolution in ICT Projects and negotiating contracts for large digital solutions.

Mr. Jayantha Fernando pioneered drafting of Sri Lanka's digital laws, including Electronic transactions, Digital Payments, Cyber crime as well as Data Protection and Cyber Security Legislation. Drafted the legal blueprint for the establishment of ICT Agency, Sri Lanka CERT (Computer Emergency Readiness Team) and the use of authentication technologies at national and sectoral level at Lanka Clear, through Central Bank.

He led Sri Lanka's entry to the Budapest Cyber Crime Convention and Sri Lanka's ratification of the UN Electronic Communications Convention (UN ECC) in 2015, both firsts for South Asia. Expert for UNCITRAL, Council of Europe and World Bank advising countries formulate Digital Laws.

Mr. Fernando holds a specialized Masters in Law (LLM) in IT & Telecommunications Law from the University London, read on a Chevening Scholarship awarded by UK Government.

BOARD OF DIRECTORS

Other Current Appointments

- Chairman, LK Internet Domain Name Registry
- Co-Chair, National Certificate Authority Task Force for Digital Authentication Services
- Director, Sri Lanka CERT (Computer Emergency Readiness Team) & Director/ Legal Advisor, ICTA
- Elected Bureau Member, Council of Europe Cyber crime Convention Committee (T-CY), Strasbourg, France.

Previous Appointments

- Chairman, Sri Lanka CERT (Computer Emergency Readiness Team).
- Commissioner, Securities and Exchange Commission of Sri Lanka.
- Board Director, Sri Lanka Standards Institution.
- Consultant on Digital Laws, Attorney General's Chamber, Republic of Fiji.
- Vice Chair, Government Advisory Committee, Internet Corporation for Assigned Names and Numbers (ICANN), California, USA - Associate Chairman, ICANN Nominations Committee.

MS. DAYANGANI PRIYANTHI PIERIS

Director
Elected Non-Executive Director

Appointed: 02nd January 2024

Skills & Experience

An Attorney-at-Law and Solicitor (England & Wales) with over 42 years of experience in the field of Corporate/Securities Law and Capital Markets activities – Managing Public Share Issues and other Corporate Fundraising Activities, Privatizations, Takeovers & Mergers, Restructuring, Amalgamations, Repurchase of Shares, Debenture Issues, Issues of Warrants, Different Classes of Shares - for Listing, De-Listing of companies and advising Corporates on Continuing Listing Requirements

Other Current Appointments

Chairperson/Consultant - P W Corporate Secretarial (Pvt) Ltd., Independent Director of JAT Holdings PLC, Kapruka Holdings PLC, Associated Electrical Corporation (Private) Limited, and member of the Law Commission.

Previous Appointments

Director - Associated Motorways PLC, Abans Electricals PLC, Asia Asset Finance PLC, LOLC Finance PLC Forbes & Walker Limited, Forbes Financial Services Limited (subsequently referred to as Vanik Corporate Services Limited), Forbes Stockbrokers Limited, Forbes Ceylon PLC, Forbes Air Services Limited, Capital Reach Holdings Limited, Senior Vice President (Legal) Vanik Incorporation Limited and Per Pro – Forbes & Walker Limited .

Legal Consultant to the Ministry of Finance (2002 -2004), Legal Consultant – Colombo Stock Exchange (2004 – 2011)

Member of the SEC Committee on Takeovers and Mergers, Member of Corporate Governance Committee of the Institute of Chartered Accountants

MR. CHANNA DE SILVA

Director
Elected Non-Executive Director

Appointed: 02nd January 2024

Skills & Experience

Well-known ICT industry veteran and experienced business leader Channa de Silva currently functions as the Chief Executive Officer of LankaPay, which he took over in December 2015. Mr. de Silva has been instrumental for the phenomenal growth achieved by the company in promoting digital payments and spearheaded the introduction of several innovative payment solutions during his tenure.

He goes down in history as Sri Lanka's first ever webmaster with the development of Sri Lanka's first commercial web site <http://www.lanka.net/> (1994) and the engineer responsible for the establishment of the first ever dedicated Internet connection in Sri Lanka in 1995. Some of the major projects implemented under his leadership include

the first online newspaper in the South Asia region (Daily News in 1995); first radio station on-line (TNL Radio in 1996) and first ever Wi-Fi network in the country; He was also a member of the local language workgroup of Sri Lanka and contributed immensely towards enabling people to use technology in local languages. He also played a pivotal role in ensuring that a Language Interface Pack was built in Sinhala and Tamil for Microsoft Windows and Microsoft Office in 2007. He was recognized for his contributions by the Internet Society as a technology pioneer in 2015.

An Old boy of Royal College Colombo, Mr. de Silva obtained his BSc. (Honours) and MSc. in Electrical and Computer Engineering from the State University of New York, USA specialized in Data Communication. He also holds an MBA from the Postgraduate Institute of Management (PIM) Sri Lanka and the distinguished memberships at the IEEE (USA), Tau Beta Pai (USA), Eta Kappa Nu (USA) and Golden Key (USA) for academic excellence.

Other Current Appointments

He is also a member of the National Payment Council of the Central Bank, a Board Member of Sri Lanka CERT, Vice Chairman of FITIS and a member of the National Certification Authority Task Force. Mr. de Silva counts for over 30 years' experience encompassing a spectrum of industries and had served in several leading multinational and local organizations as well.

Previous Appointments

Senior Vice President of the Sri Lankan and Maldivian operations of multinational ICT consultancy company Thakral One

DGM – Software Group of IBM Sri Lanka - He was orchestral in introducing IBM's software universe to Sri Lanka and developing IBM's software business during his tenure

Director - Enterprise Business and Public Sector at Microsoft Sri Lanka where he led the company through an unprecedented growth. His outstanding achievements were rewarded via the Microsoft Gold Club Excellence Award for exceptional performance and the Microsoft Share Fighter Champion for winning against competition.

MANAGEMENT TEAM



Mr. Rajeeva Bandaranaike
Chief Executive Officer



Mr. Renuke Wijayawardhane
Chief Regulatory Officer



Mr. Chandrakanth Jayasinghe
Chief Market Operations Officer
(w.e.f. 01st March 2024)



Ms. Renu Ranatunge
Senior Vice President - Legal and Enforcement



Mr. Kusal Nissanka
Senior Vice President - Finance and Administration



Mr. Kaushal Siriwardena
Senior Vice President / Head of Information Technology
(w.e.f. 01st March 2024)



Mr. Nalin Fonseka
Senior Vice President - Central Depository Systems



Ms. Lankesha Molligoda
Senior Vice President - Regulatory Policy and Compliance



Ms. Dulani Warnakulasooriya
Senior Vice President - Enterprise Risk Management & Post Trade Settlement

MANAGEMENT TEAM



Ms. Kushlani Coswatte
Vice President - Internal Audit



Ms. Anoja Senanayake
Vice President - Human Resources



Mr. Nadeera Athukorale
Deputy Head of CDS



Mr. Dinushan Godewitharana
Manager - Enterprise Risk Management and Post Trade Settlement



Mr. Hemal Weerasinghe
Senior Assistant Manager - Customer Relationship Management



Ms. Vindya Colombage
Senior Assistant Manager/Project Lead - Depository Operations and Research & Development Strategy (CDS)



Ms. Ruchira Jayasinghe
Senior Assistant Manager - Demat, Compliance & Risk



Mr. Thilanka Udara
Assistant Manager - Corporate Solutions



Ms. Shashikala De Mel
Assistant Manager - Senior Adviser Listed Issuers - Registrar Services

CORPORATE GOVERNANCE

STEWARDSHIP

Dear Stakeholders,

As the country's sole licensed depository, CDS adheres to high standards of corporate governance as it is key to fulfilling its role fiduciary role in the country's capital markets. CDS itself is transforming its business model as part of its long term strategy and oversight of the transformation process has been a significant aspect of the Board's governance agenda.

The year saw several developments that improved the corporate governance and the business model of CDS. The most significant was the alteration in the Board's makeup. From the beginning, the Board of CDS was identical to the Board of the parent company, the Colombo Stock Exchange. As the CSE Group gets ready for demutualization, the International Finance Corporation was assigned to evaluate the governance framework of the parent company and the CSE Board was of the view that it is prudent to form a CDS Board that also has directors who are independent of the CSE. Therefore, the Board of CDS was restructured to include four directors from the CSE Board and two external directors with the necessary skills and expertise to steer the transformation and business strategy of CDS. The Board of CDS also has a separate non-executive Chairman who is also on the CSE Board enabling the communication of relevant issues. The entire Board consists of non-executive directors.

CDS also acquired the Corporate Registrar Services business of PW Corporate Secretarial Services (Pvt) Ltd., one of the leading players in this niche space. This enables the ramp up of the Corporate Registrar business of CDS as the acquisition gained a captive customer base and a team of experienced professionals in the business.

CDS is also preparing for the separation of its clearance functions from its depository functions in readiness of a demutualised operating model for the CSE Group. The Board maintains close watch over the process as it impacts the current sources of revenue significantly. We expect this process to be completed in 2024, and remain watchful of the impacts on the financial statements of CDS.

On behalf of the Board of Directors of the Central Depository Systems Ltd., I affirm that the principles of good corporate governance are applied consistently at CDS and that the Corporate Governance Report provides a fair account of corporate governance practices of the CDS. We have also voluntarily adopted the Code of Best Practice on Corporate Governance (2017) issued by the Institute of Chartered Accountants of Sri Lanka and our current status in complying with the Code is set out in this report.

Governance remains the key to both the CDS and CSE, strengthening trust in the country's capital markets as we aim to help the rebound to higher levels of trading as seen in 2021. As the CDS has a changing role, governance structures and mechanisms have to adapt. As the Board's Chairman of this active entity, I am committed to leading the required changes to make sure that CDS maintains its reputation as a licensed depository of securities.



Ray Abeywardena

Chairman

06th May 2024

CORPORATE GOVERNANCE

GRI 2-9, 2-10, 2-11, 2-12, 2-13, 2-14

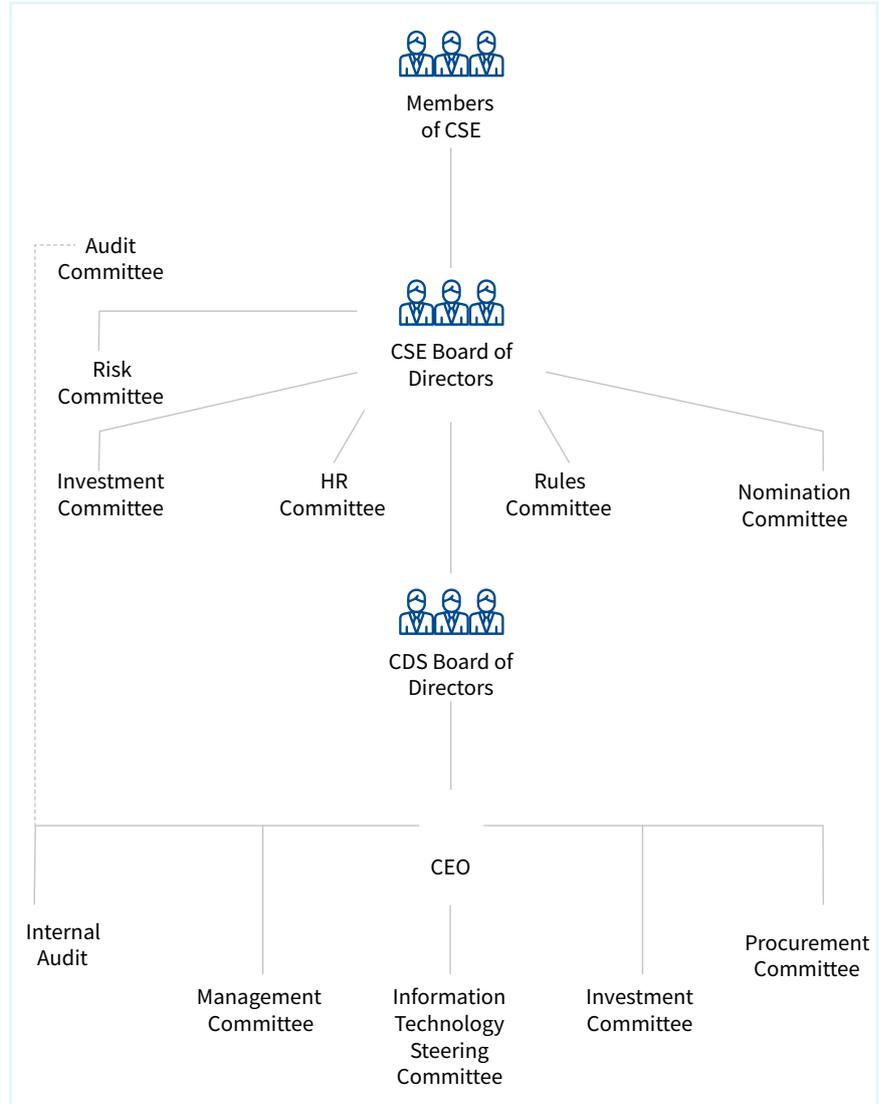
Legal Form

- Central Depository Systems (CDS) is a limited liability company and wholly owned subsidiary of the Colombo Stock Exchange. It operates under licenses issued by the SEC to carry out functions of a Central Depository and a Clearing House of the Colombo Stock Exchange

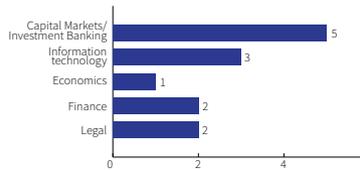
Overview

- The Board of Directors of the CDS comprises 4 directors of the CSE and 2 external directors.
- CDS Chairman is separate from the CSE.
- The role of the Chairman and CEO are separated
- All Board members are non-executive
- The CEO is shared by the CSE and CDS.
- The Board Charter sets out the roles, responsibilities and duties of the Board
- The appointment and removal of the Company Secretary is a matter for the entire Board
- No director has served for more than 10 years
- The Board and committees of the Board undertake a self-evaluation annually
- The CEO is appraised annually by the Board
- Remuneration of the directors is determined by the Board as a whole at present
- An annual declaration of director's interests is obtained from all directors
- A Conflict of Interest form is circulated at each meeting to enable disclosure of interests on agenda items
- The Board has approved policies on key matters to provide guidance and direction in the day to day functioning of the CSE and CDS

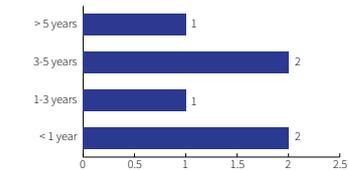
CSE Governance Structure



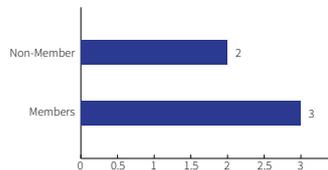
Skills & Experience



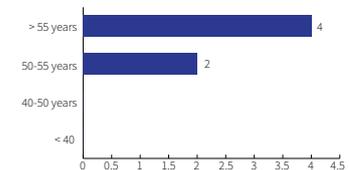
Tenure on Board



Members & Non-Members



Age Diversity



GRI 2-2, 2-24

Corporate Governance Report

CDS benefits from the governance structures, policies and processes inherited from its parent, CSE which are in line with best practice to safeguard its reputation. As the only licensed stock exchange in Sri Lanka, it plays a significant role in the development of corporate governance standards in the country's corporate sector.

The CSE governance framework is based on the following:

- Companies Act No. 7 of 2007
- Relevant provisions of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021
- Articles of Association
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

This report provides signposts to the Code of Best Practice where relevant.

Corporate Governance Highlights 2023

- Resignation of Mr. Dilshan Wirasekara as Chairman and appointment of Mr. Ray Abeywardena as Chairman.
- Resignation of Mr. Dilshan Wirasekara, Mr. Dimuthu Abeyesekera and Mr. Suren De Silva.
- Appointment of Ms. Priyanthi Pieris and Mr. Channa de Silva.
- The Disciplinary Committee of the CDS was established.
- The TORs of the CDS Board Committees were amended to reflect the recommendations of the IFC.
- CDS Board and Board Committee evaluations were done for 2023.
- Board induction programme was conducted for newly appointed Board.

An Effective Board

The composition of the Board of CDS was changed in 2024. The Board of CDS now comprises wholly of non-executive directors, 4 of whom are nominated by the parent company CSE from its Board of Directors and 2 external directors who are professionals of repute. Collectively, the Board has the necessary skills and experience to provide the leadership necessary to steer the strategic direction of CDS in compliance with the regulatory requirements.

Separate Board meetings are held to review operations of the CDS on a monthly basis.

The Board of Directors oversees the strategic vision and performance evaluation of the CDS. The Chief Executive Officer of CDS is the same person as the Chief Executive of the CSE and is selected by the Board. The Board also chooses Key Management Personnel of CDS. Functions such as Finance and Administration, Human Resource, Legal and Enforcement, Information Technology, Internal Audit, Regulatory Policy and Compliance Enterprise Risk Management & Post Trade Settlement are shared with the CSE as well. The Board also establishes formal governance structures and policy frameworks that guide the executive management team in running their daily operations. All Board members exercise independent judgement on matters presented to the Board.

Board Meetings

Regular Board meetings are held monthly with special Board meetings being convened as the need arises. A meeting requires at least 3 directors to be present. The Board decides on issues by majority vote and the chairman has a tie-breaking vote if there is an equal number of votes. A secure electronic system is used to distribute meeting agendas and Board papers before

Code Ref	D.6	D.6.1
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Code Ref	A1.1	A1.5
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Code Ref	A1.1	A1.6	A6
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CORPORATE GOVERNANCE

Board and Sub-Committee meetings. Directors receive the agenda and board papers at least 5 days in advance for review. If there are urgent matters, board resolutions can be approved by circulation. An Independent company secretary keeps the minutes and directors can access the archives through the secure electronic platform. Minutes of Board Sub-Committee meetings are presented at the next Board meeting and any follow-up actions are discussed and taken as appropriate. Table 1 below shows the attendance at Board Meetings and Board Committee Meetings.

Director	Board Meetings	Special Board Meetings	Risk & Audit	Audit Committee	Risk Committee	HR	Nomination Committee
Mr. Dilshan Wirasekara	10/10	2/2	2/2	3/3	1/1	1/1	3/3
Mr. Ray Abeywardene	10/10	2/2			2/2		1/1
Mr. D.S. Abeysekera	7/10	2/2				1/1	
Mr. Jayantha Fernando	9/10	1/2			2/2	1/1	
Mr. Arjuna Herath	10/10	0/2	2/2	5/5	2/2		4/4
Mr. Suren De Silva	10/10	2/2	2/2	5/5			4/4
Mr. Kosala Gamage	10/10	2/2					
Mr. Sujeewa Peiris	3/3	1/1		2/2			

The Board has physical meetings with the additional capability for members to join in even if they are unable to attend physically, enhancing attendance.

Board Responsibilities

Code Ref	A1.2	A1.3
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The Board Charter for CDS was approved & adopted by the Board in July 2022 as part of the annual process of review to ensure it is fit for purpose and incorporates key development. The Charter sets out the roles and responsibilities of the Board as summarized below.

Role	Responsibilities	Duties
<ul style="list-style-type: none"> Leadership Strategic guidance Independent oversight Ultimate decision-making body 	<ul style="list-style-type: none"> Optimal use of skills and expertise. Implement strategic plans and policies. Monitor operational performance. Develop sound internal controls Ensure compliance with regulation. Risk management Evaluate social and environmental impact. Appointment of the Chief Executive Officer (CEO) Implementing the terms of appointments and KPIs for evaluation of CEO. 	<ul style="list-style-type: none"> Fiduciary duty of integrity, transparency and in best interest of all stakeholders. Protect and promote CDS image Confidentiality of information

The Board reviewed the Strategic Plan developed by the Management up to 2026 and reviewed performance against the same on a quarterly basis.

The Board ensures that the CEO and the Key Management Personnel (KMP) have the required skills and expertise to implement business strategy and uphold the corporate values of CDS with assistance from the HR & Remuneration Committee. The HR & Remuneration Committee reviews talent pipelines within CDS to facilitate optimal performance and succession. Performance management systems in place facilitate assessment of development needs provide a basis for rewarding performance through approved incentive schemes.

The Board ensures that affairs of CDS are conducted in accordance with legislative and regulatory requirements. Directors have the ability to request for professional advice on matters considered material and relevant to the Company.

Company Secretary

Company secretarial services are provided by an Independent Law Firm with a full time representative to assist and advise the Board of directors. Responsibilities of the Company Secretary are summarised in the adjacent column. Appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board has delegated authority to facilitate smooth operations of the CDS and has set in place an appropriate organization structure and a comprehensive policy framework to ensure compliance with regulatory requirements and realization of its short, medium and long term goals. The Directors have no vested interests and take decisions on matters before them using independent judgment.

Board Sub committees

Composition and areas of oversight by the sub-committees are given below:

Board Sub Committees	Composition	Objective
Regulatory		
Rules Committee	4 members	Ensure that the rules of the CSE Group achieve the purpose of maintenance of a market in which securities can be issued and traded in an orderly and fair manner
Disciplinary Committee	4 members	Attending to the disciplinary matters in terms of the CDS Rules
Governance		
Risk Committee	4 members	Ensure the establishment of an appropriate risk management framework within the CSE Group including its enforcement.
Audit Committee	3 members	Monitor the integrity of financial statement and review internal controls and work of internal/ external audit functions
HR and Remuneration Committee	3 members	To evaluate, assess, decide and recommend to the CSE Group Board on any matter that may affect the Human Resource Management of the CSE Group and
Nomination Committee	3 members	Review and evaluate any nomination to be appointed as a Member of the CDS Board.
Other		
Investment Committee	3 members	To oversee investment activities by assisting and guiding, in the management of the Group Investment Funds in compliance with the Group's investment policies

Code Ref	A1.4	A1.5
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ROLE OF COMPANY SECRETARY

- Provide guidance to the Board on matters of governance.
- Assist the Chairman in organizing the activities of the Board
- Ensure Board compliance regulatory requirements and the articles of association
- Assist the Board in self-evaluations processes
- Maintain register of conflicts of interest
- Carry out any other duties as may be assigned by the Board

CORPORATE GOVERNANCE

Board Committee Activities Related to CDS during the year

Committee	Summary of Activities
Rules Committee	<ul style="list-style-type: none"> No Rules Committee meeting were held during the year 2023. All rule amendments were directly considered and approved by the CDS Board.
Disciplinary Committee	<ul style="list-style-type: none"> No Disciplinary Committee meeting were held during the year 2023.
Risk and Audit Committee	<ul style="list-style-type: none"> Approved the annual internal audit plan. Oversee the progress of the internal audit function. Reviewed internal audit reports and determine whether critical risks are mitigated. Appointment of external auditors and review their performance. Oversaw and reviewed the recommendations under the Quality Assurance Improvement program for the Internal Audit function Reviewed key Management Letter points.
HR & Remuneration Committee	<ul style="list-style-type: none"> Review and recommend the CEO's compensation, including incentive, bonus, benefit and retirement plans, to the Board for approval. Review and recommend the Company's compensation philosophy, strategy, and guidelines. Review major changes in the organizational structure of management as proposed by the CEO. In consultation with the CEO, review and recommend the appointment of and compensation, including incentive, bonus, benefit and retirement plans, for the senior management. Review with the CEO existing senior management resources, and performance evaluations, including recruitment and training programs, to ensure that compensation is linked to performance.
Investment Committee	<ul style="list-style-type: none"> No Investment Committee meeting were held during the year 2023. All investment decisions were directly taken and approved by the CSE and CDS Boards.

Director Induction & Training

The elected Directors are all industry experts currently serving in top Executive level capacities in their respective firms. The Appointed Directors are all qualified professionals who have served in the organization for over 4 years and are well versed with the industry. As such no specific induction or training was required during the course of the year. However the Directors participate in numerous forums where they receive presentations on matters related to their roles which support them in discharging their roles.

Code Ref

A1.8

Role of Chairman

The Chairman of the Board is appointed by the parent company.

The roles of Chairman and CEO are separated and the Chairman is a non-executive director who presided over all meetings. The Chairman's role is set out below.

Code Ref

A.2

A.3

ROLE OF CHAIRMAN

- Effective participation of all directors.
- Effective contribution of all directors
- Balance of power between the directors.
- Views of all directors are considered on issues.
- Promote a constructive relationship with the Board directors and management.
- Ensure the Board has complete control on CDS affairs

GRI 2-15, 2-16, 2-17, 2-18, 2-25

Composition of the Board

The Board comprises 6 non-executives appointed by the CSE Board. Profiles of Board members setting out their experience and skills are given on page 25 to 26 of this report.

Code Ref	A.4	A.5
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Appointment, Re-election & Independence

The nomination committee evaluates director nominations and makes recommendations to the CDS Board who determine the appointments, subject to the approval of the SEC. The Directors to be appointed need to provide a declaration assuring that he/she is fit and proper to hold office based on factors such as past performance, skills, technical knowledge, instances of past disciplinary or administrative action by regulators or judiciary system. The Directors should provide a firm and proper affidavit annually.

Code Ref	A.7	A.8
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Appraisal of Performance

The Board conducts annual appraisals of its performance and that of its sub-committees. As per the Board charter, the effectiveness of the Board is evaluated in areas of composition, accountability, responsibility and conduct encompassing matters set out in Schedule B of the Code. The board evaluates its performance at least annually based on a performance evaluation checklist in addition to self-evaluation.

Code Ref	A.9	A.11
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The Board appraises the performance of the CEO annually against pre-defined targets that have been agreed prior to commencement of the year. The targets include financial and non-financial goals.

Managing Conflicts

It's a requirement for directors to act in the best interest of the exchange that enhance public confidence and impartiality of the board. As per the Board charter, the directors are advised to discuss annually at a Board Meeting, the hypothetical situations leading to conflicts of interest.

Code Ref	B
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In the event of a conflict of interest:

- The director is required to submit written form disclosing the conflict of interest.
- Obtain advice and guidance of the Chairman in the event of uncertainty of conflict of interest.
- Board director cannot participate in the decision-making process.
- The disclosure of the decision on whether a conflict exists and how the conflict was managed are documented in meeting minutes.

Shareholder Relations

The Annual Report and Notice of Annual General Meeting are sent to Colombo Stock Exchange (only shareholder) 21 days prior to the AGM facilitating participation and review of matters presented.

Code Ref	C.1	C.2	C.3
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The CDS's future strategies and their potential impact have been disclosed in the following sections of this Annual Report.

- Chairman's Statement on pages 16 to 17.
- CEO's Review on pages 18 to 20.
- Senior Vice Presidents of CDS's Message on Pages 21 to 23.
- Operational Review on pages 50 to 58.

CORPORATE GOVERNANCE

The Annual Report

This Annual Report provides a balanced view of the CDS's performance for the year ended 31st December 2023 and its prospects. The Directors' Report on page 76 to 79 contains the following as specified by the Code:

Requirement	Page Ref.
Statement that all material interests in contracts involving the Company have been declared and that they refrained from voting on matters in which they were materially interested	76-78
Statement confirming review of the internal controls and obtaining assurance on its effective operation	81
Statement setting out the responsibilities of the Board for the preparation and presentation of financial statements	79
Statement by the Auditors about their reporting responsibilities	82
Report/Statement on Internal Control	80
Management Discussion & Analysis	76-78
Statement that the business is a going concern	76
Related party transactions	77-78

Code Ref	D.1
----------	-----

Accountability & Audit

The Risk & Audit Committee of the CSE has oversight responsibility for approval of appropriate accounting policies, CDS's internal control framework and risk management processes. It comprises of 4 independent non-executive directors as set out in the report of the Risk & Audit Committee on page which also summarises the responsibilities of the Audit Committee and activities undertaken during the year. They are supported by Internal Audit who reports directly to the Risk & Audit Committee reviewing the efficacy of internal controls and regulatory compliance. Additionally, the committee also reviews risk management processes of the CDS which is supported by the ERM Division which ensures that potential risks are identified, measured, monitored and managed or mitigated within the defined risk appetite approved by the Board. The Risk & Audit Committee also meets with external auditors to discuss audit plans, matters arising from the audit, audit reports and management letters including an in-camera meeting.

Code Ref	D.2	D.3
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Internet of Things & Cybersecurity

The Board allocates sufficient time for discussion of information technology and cyber risk as it is a critical capital for functioning of our business. CDS complies with three standards namely Information Security (ISO 27001), Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000) and aspires to maintain high levels of cyber security taking in to account peer exchange practices and the rapid evolution of technology.

Code Ref	G
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Sustainability Reporting

This Annual Report is an Integrated Report prepared according to the IR Framework published by the International Integrated Reporting Council, integrating sustainability information with governance and financial information.

Code Ref	H
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Requirement	Page Ref.
Economic sustainability	59
The Environment	60
Labour Practice	63
Society	42
Product Responsibility	67
Stakeholder identification, engagement, and effective communication	42
Formalise Sustainability Reporting processes	13-14
Related party transactions	77, 102

RISK REVIEW

STEWARDSHIP

Introduction

Risk management is a continuous process that builds institutional resilience using a structured approach to identify, measure, assess, monitor, manage and report risk taking a short, medium and long term view. The aim of risk management is to identify potential risks and opportunities as early as possible in order to assess their impact on business and to take appropriate action to manage these in line with the entity's strategic goals and risk appetite. Managing risks and opportunities is an important element of sound corporate governance and critical to the evolution of an organisation.

The CDS risk management and internal control system are closely linked to its corporate strategy. Effective Risk Management practices are fundamental in providing a smooth operation by the CDS to its' parent company Colombo Stock Exchange. It explicitly takes into account both financial and non-financial risks related to our business model, stakeholder relationships and the environment within which we operate. The regulatory nature of our core business, rapid advances in technology and the sensitivity of capital markets to numerous external factors necessitates close monitoring of risks and a risk management function that evolves in step with its risk environment.

Risk Governance

The Board of Directors of the CSE is responsible for the quality and effectiveness of our risk management and internal control system. They are assisted by the Risk Committee who have oversight responsibility of the effective operation of the risk management system. The Enterprise



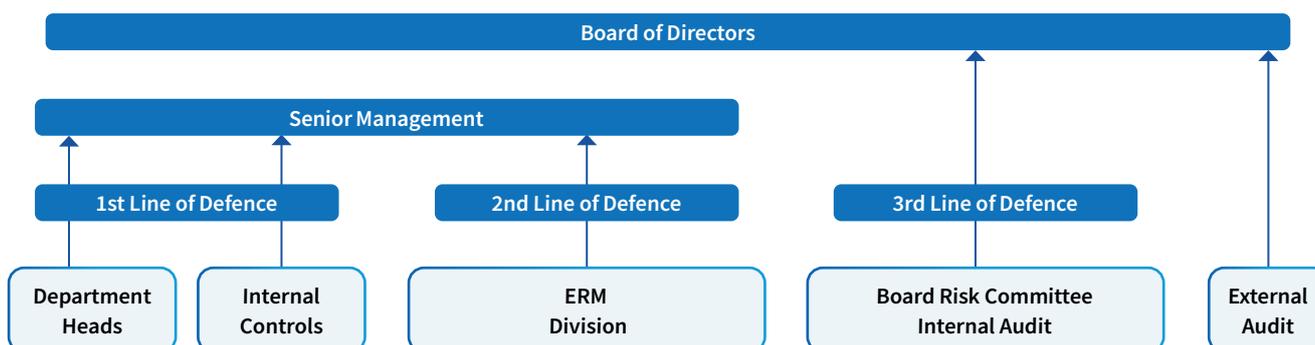
Risk Management Division supports the Risk Committee and the Board, functioning as a second line of defence to collate, moderate and constructively challenge the risk assessments of other departments. All employees are responsible for identifying risk and the heads of departments are responsible for alerting the Enterprise Risk Management Department of any changes

to the risk profiles. The work of the ERM Department is vital to the advancement of risk management, the strategic planning process and strengthening institutional resilience.

The organization and responsibilities of the risk management process and process control are defined as follows:

Business Units	Heads of Divisions	Risk Management Division
Business units are responsible for identifying, assessing and managing risk	Report any relevant changes to their risk profile to Risk Management Division	The dedicated CDS risk management is segmented as Depository and Registrar facilitating focused attention and ensuring the risks are clearly defined and documented.

Three Lines of Defense Model



RISK REVIEW

The risk situation is evaluated regularly and compared with specified requirements using standardized processes. If relevant changes to the risk profile or new risks arise between the regular reporting cycles, these are recorded and evaluated.

Business Continuity Management System at CDS

The aim is to minimize damage and to take the best possible precautions in the event of serious disruptions. The BCM system includes plans for resuming regular operations as quickly as possible after an interruption. An understanding of the core processes with the resulting products and services (and all aspects such as responsibilities, information technology, partners, etc.) is a mandatory prerequisite for defining emergency plans. Such mandatory prerequisites have been clearly identified and documented.

CDS plays an important and crucial role in the daily market operations of the CSE. Failure or disruption to the CDS the business continuity of CSE is interrupted since the market cannot be opened in an event of CDS disruption. The CSE BCMS policy has been prepared based on the importance of the CSE critical business processes including CDS and the duties and responsibilities given by regulatory policies, and the requirements of the ISO 22301 BCMS standard.

The priority of the CSE is to ensure the safety of employees in cases of crisis or events that will prevent the CSE from achieving its corporate objectives determined. Once the health and safety of the employees is achieved, the critical processes are recovered, and returned to normal condition. Critical processes are determined according to the business impact analysis using confidentiality, integrity, and accessibility as the key criteria. The corrective measures against the incidents and situations that CSE might encounter are taken through BCMS, in accordance with the policies and procedures approved by the CSE Board of Directors. CDS is committed to ensuring continuity of services provided to our members and other stakeholders minimising negative legal, financial, reputational, and operational impacts in the event of a disaster. CDS continuously improves the effectiveness of BCMS to reflect changes in systems and processes, updating it to ensure that it is fit for purpose at all times. The following activities support disaster readiness;

- Measuring and reporting performance indicators
- Performing regular exercises regularly with the participation of employees and stakeholders,
- Staff training and awareness

The above measures support institutional resilience and the ability of CDS to recommence operations in the shortest time possible.

CDS Risk Matrix

The CDS risk Matrix is categorized into four broader level risk categories and its breakdown into specific risks as given below.

Key Risks 2023

Operational Excellence & Business Continuity

Severity	Direction
16	↔

Business Continuity attempts to deal with all risks that may impact all business activities of CDS and mitigate them. Operational Resilience focuses identified important business services of CDS accepting that there will be disruption to them and attempting to ensure they remain within the defined impact tolerances. Further, maintaining the organization's operational resilience among all business functions will allow the business to maintain service levels despite high impact events. The main risk identified in this category is the Business Continuity risks due to IT systems & business disruption.

Operational Risk	Strategic Risk	Financial Risk	Compliance Risk
Operational Excellence & Business Continuity	Reputation Risk	Credit Risk (Settlement Failure)	Deficiencies in Policies and Procedures
Information Security, Privacy & Data Governance Risk	Evolving business sustainability and Competition Risk		
Technology risk			

Our Risk Heat Map For 2023

Top Organizational Risk	2023 Review	
	Severity	Risk Level
1 Operational Excellence & Business Continuity	16.0	High Risk
2 Evolving business sustainability and Competition Risk	16.0	High Risk
3 Settlement failure	12.0	Medium Risk
4 Reputational Risk	12.0	Medium Risk
5 Information Security & Data Governance Risk	12.0	Medium Risk
6 Technology Risk	12.0	Medium Risk
7 Deficiencies in Policies and Procedures	6.0	Low Risk

Mitigation

Since CDS is highly dependent on IT systems, Operational Excellence & Business Continuity is identified as critical risk. To mitigate and address this risk in a more productive way, CDS has taken several significant controls such as the implementation of comprehensive system testing, conducting regular system audits, enhancing information & cyber security controls, and placing redundant system architectures and infrastructures.

Evolving business sustainability and Competition Risk

Severity	Direction
16	↔

Business sustainability risk and competition address the inability to sustain business growth, meet financial targets, and transform the CDS alongside evolving business models. A low global economic growth environment impacts this risk, in addition to trading activity migrating to larger, offshore equity pools. Recent low turnover levels and fluctuations of the market indices had a significant impact on business sustainability, of CDS relative to other local financial institutions and Regional Exchanges.

Mitigation

CSE and CDS continue to explore opportunities for new products and services which are not entirely dependent on trading volumes to strengthen the business models of the two entities. Additionally, CSE, the parent company, will continue drive growth in the country's stock exchange through promotional activities and the introduction of new products and services to increase revenue streams.

Credit Risk (Settlement Failure)

Severity	Direction
12	↔

CDS is exposed to Settlement Failure risk if one party defaults on its settlement obligations to one or more counterparties in a CDS clearing and settlement service.

Mitigation

This risk has been mitigated significantly by the implementation of CCP in 2022.

The residual credit risk will be further strengthened by the segregation of settlement and depository activities to two separate entities governed by separate Boards. The entity has been established and the plans are progressing in this regard.

Reputational Risk

Severity	Direction
12	↔

CDS has a steadfast commitment to operating at high standards. Any lapse in standards of integrity, compliance, customer service, or operating efficiency represents a potential reputational risk. CDS is highly connected with customers, operations, supply chains, and internal and external stakeholders based on the services provided. Thus, the reputational risk of CDS has been identified as a critical risk.

Mitigation

CDS considers reputational risks, and has set in place responsibilities and procedures for identifying, assessing, and escalating reputational risks. Further, CDS regulatory policies ensure reputational risk matters are managed in a consistent manner in alignment with the CDS's strategic priorities. They also define the control and oversight standards to effectively manage reputational risk and are supported by procedures.

Technology Risk

Severity	Direction
12	↔

The digitization of the business activities of CDS has put technology at the center and exposed CDS to new and emerging risks. Thus, the scope, scale, and complexity of digital business done by CDS makes it necessary to distribute cybersecurity decisions, responsibility, and accountability across the organization units.

Mitigation

CDS has implemented controls to mitigating technology risks and has developed backup protocols to "keep the lights on" if critical digital infrastructure fails. The cybersecurity needs and expectations are maturing, and CDS has adopted more agile security and taken further steps to strengthen cyber security. Further, The Operational Resilience

and Business Continuity sets out a detailed and comprehensive framework for the management of technology risks for CDS. CDS has mitigated technology risk to ensure business continuity.

Information Security, Privacy & Data Governance Risk

Severity	Direction
12	↔

CDS ensures the availability, usability, integrity, and security of data of the organization and also complies with the data security requirements of the Personal Data Protection Act No.9 of 2022 and the SEC Act.

Mitigation

We have established a strong data governance program that aligns with the goals and objectives of the organization's enterprise risk management function. New Datacenter (ISR) Project implementation which was completed in 2022 has addressed many of the significant risks related to this risk. Further, multiple layers of controls are implemented such as a Privacy Policy for external parties, regular review of capacity plans, firmware software patches, virus and patch upgrades, Server Access Rights and system utilization trends, and Perimeter FW with Threat prevention/antivirus protection. CDS has successfully overcome the cyber security threats and the effective controls placed have decreased the number of cyber security threats or attacks by renewing security licenses for those with security products licenses that have expired or are about to expire. Further, access to information and other systems are restricted and allowed on business need. CDS is managing this risk by continuously monitoring and reporting on the effectiveness of the established controls and periodically reviewing them to ensure effectiveness.

A policy for user endpoint devices including registration, physical, password, and responsible use has been introduced. In the event of a vulnerability has been identified, the risk and urgency are assessed and the potential risks of applying an update or patch is tested. Further, to keep the network secure, it is kept up to date and monitored, with the option to limit both connections to authenticated devices and what traffic can pass over the network.

VALUE CREATION

STRATEGIC REPORT - OUR BUSINESS MODEL

INPUTS

VALUE CREATION PROCESS



Financial Capital

- Rs. **802.6**Mn Equity IPOs
- Rs. **32,622.8**Mn Debt IPOs



Social & Relationship Capital

- **704,352** CDS Account Holders
- **44** Market Participants



Human Capital

- **24** Employees
- **510 hrs** training hours



Manufactured Capital

- Rs. **3.4**Mn PPE (Cost)
- Sourced by the CSE



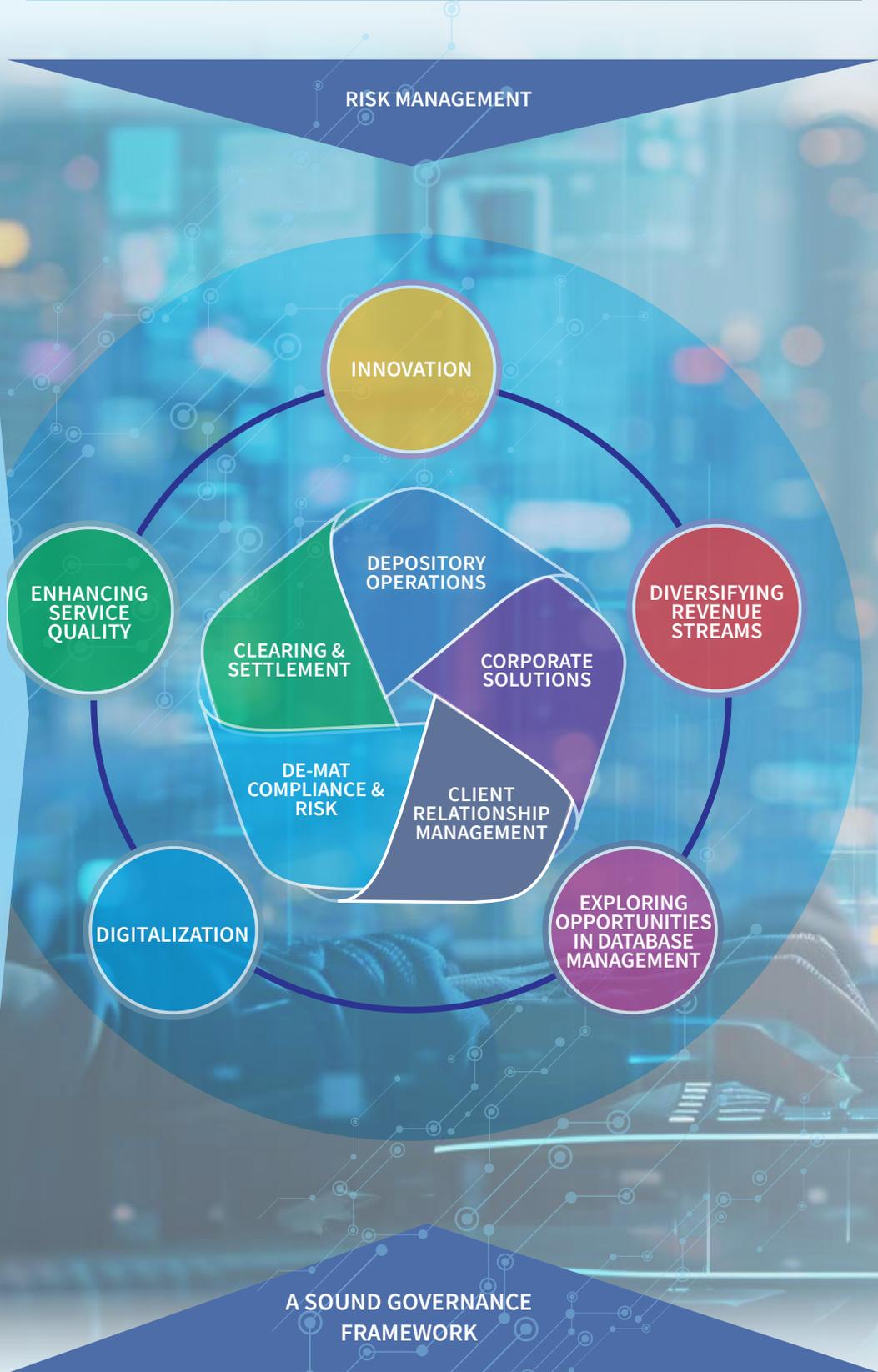
Intellectual Capital

- CDS Core Depository System
- CDS eConnect
- Corporate Solutions Registrar System
- Skills and experience of the team



Natural Capital

- **131**Kg Paper
25% reduction compared to 2022
- **202,694**kWh Electricity
2.12% reduction in consumption compared to 2022.



OUTPUT

Depository Operations

- **15,697** new accounts opened
- **174,980** new deposits made to CDS accounts
- **25,395** transfers executed between CDS accounts
- **2,630** requests to update CDS profiles executed
- **2,055** new CDS eConnect registrations
- Facilitated for **58** number of corporate actions
- Released **18,788** reports to listed issuers

Corporate Solutions

- eIPO solution for **2** issuers (comprehensive service offering with statement reconciliation, application processing & refund file preparation)
- **29** AGM/EGM & Virtual AGMs
- **2** Rights Issues
- **1** Sub-divisions
- **39** Cash Dividends and **3** Script Dividends

De-Mat Compliance & Risk

100% compliance on new CDC accounts opened & updates on CDS profiles

Client Relationship Management

93 businesses brought in for Corporate Solutions

4 public awareness sessions (webinars) handled

2,885 CDS hotline queries handled

OUTCOMES

Economic

- Economic value added by the Group
- Rs. **1,238** Mn - Group

- Direct and indirect tax payments of

Direct Tax - Income Tax -
Rs. **95,541,794**

Indirect Tax - In total
Rs. **9,030,922**

Environmental

- **1,265** Kg MT of waste discharged
- **8,873** LTR of water consumption

Social

- Direct and indirect employment opportunities
- Community development initiatives

VALUE DELIVERED

Shareholders

- Earnings per Share of Rs. **17.72**



Employees

- Employee remuneration of Rs. **56,566,643**
- Rs. **2,457,040** investment in training and development
- Job security
- Healthy and safe workplace
- An inclusive workplace



Customers

- Delivery of high quality service
- Customer support



Suppliers

- Rs. **14.5** Mn payments to local suppliers



Communities

- Recruitment of **4** new employees



Government

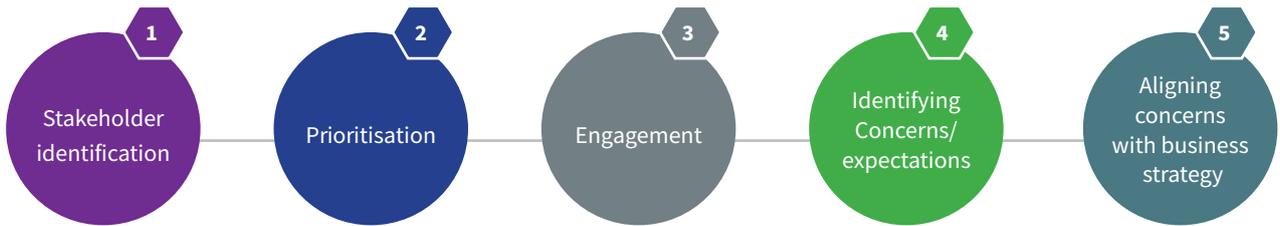
- Tax payments of Rs. **104,572,716**



STAKEHOLDER ENGAGEMENT

STRATEGIC REPORT

Effective stakeholder engagement plays a vital role in the success and sustainability of our business. Regular engagement gives us insights into the expectations, concerns and priorities of our stakeholders and understanding these are essential for aligning our business strategy with the stakeholder expectations. Effective engagement also assists us in identifying potential risks early on, providing us the opportunity to proactively manage them.



Investors	CDS Participants	Listed Companies & Potential Issuers
Engagement Mechanisms		
<ul style="list-style-type: none"> • Press releases • CDS eConnect • Virtual and physical meetings • CDS Account Statements • SMS/email • Corporate website 	<ul style="list-style-type: none"> • Press releases • CDS eConnect • Corporate website • Virtual and physical meetings • Circulars • Training & awareness programs 	<ul style="list-style-type: none"> • CDS eConnect • Corporate website • Training & awareness programs • Press releases • Circulars • Virtual and physical meetings
Concerns/expectations		
<ul style="list-style-type: none"> • Data security • Convenience • Timely services • Innovation • Efficient services • Technological advancements 	<ul style="list-style-type: none"> • Skill development opportunities • Facilitate engagement with the investors • Convenience • Innovation • Improved efficiency in services offered • Regulatory compliance • Technological advancements 	<ul style="list-style-type: none"> • Facilitation of capital raising • Facilitation of investor relations • Diversification of services offered • Reliability and efficiency • Technological advancements • Information security • Regulatory compliance
CDS's strategy		
<ul style="list-style-type: none"> • Diversification and service expansion • State-of-the-art IT security systems • Driving efficiency through digitization • Effective customer relationship management • Service innovation through digitalization • Effective and ongoing engagement 	<ul style="list-style-type: none"> • Regular training sessions on changes in regulatory requirements and system upgrades • Streamlining regulatory compliance • Decentralization of depository operations • Empowering market participants to fulfill certain requirements of investors 	<ul style="list-style-type: none"> • Expansion of services offered • Facilitating raising of capital • Driving efficiency through digitalization • State-of-the art Information Security Infrastructure
Employees	Regulators	Colombo Stock Exchange
Engagement Mechanisms		
<ul style="list-style-type: none"> • Staff meetings • Open door policy • Welfare events • Email/circulars • Staff appraisals 	<ul style="list-style-type: none"> • Meetings and discussions • Investor forums • Regulatory reporting • Written communication 	<ul style="list-style-type: none"> • Meetings and discussions • Emails/memos and circulars • Written communication

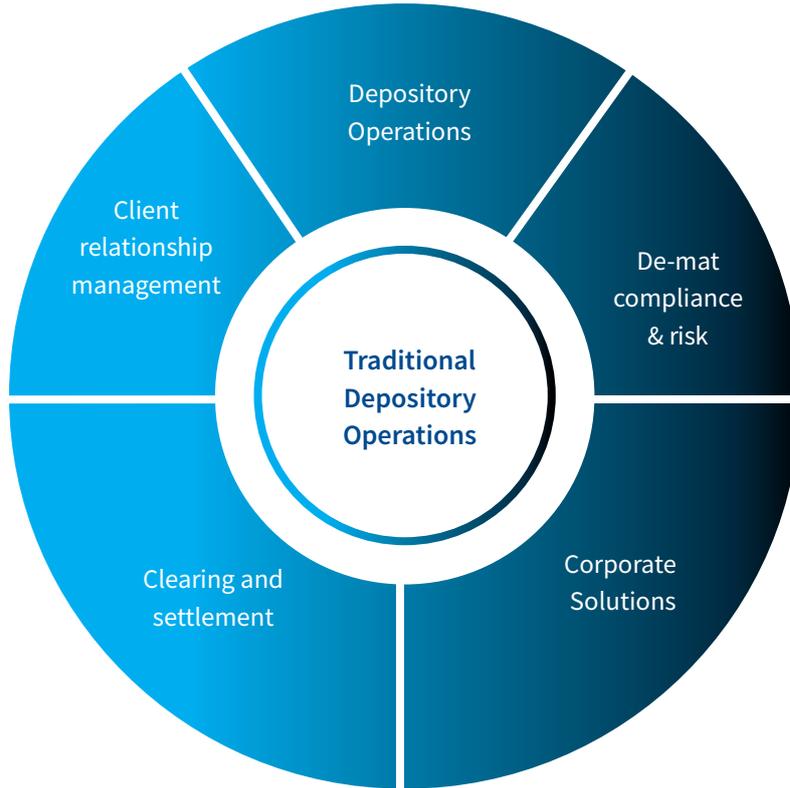
Employees	Regulators	Colombo Stock Exchange
Concerns/expectations		
<ul style="list-style-type: none"> • Attractive and competitive remuneration • Opportunities for skill development • Prospects for career progression • Effective engagement • Fair grievance handling • Fair and safe work environment 	<ul style="list-style-type: none"> • Regulated market • Compliance • Digital developments • Market growth 	<ul style="list-style-type: none"> • Facilitating market growth • Facilitating engagement with investors and market participants • Compliance • Efficiency in services provided • Data security
CDS's strategy		
<ul style="list-style-type: none"> • Effective HR management • Frequently revised remuneration policy • Effective engagement mechanisms • Continuous training opportunities 	<ul style="list-style-type: none"> • Compliance with all regulatory requirement • Facilitating market growth through expanding services offered • Significant investments in digitization • Internal process audits and compliance audits 	<ul style="list-style-type: none"> • State-of-the art Information Security Infrastructure • Driving efficiency through digitization

Margin Providers	Wealth Managers	Investment Bankers
Engagement Mechanisms		
<ul style="list-style-type: none"> • CDS eConnect • Virtual & physical meetings • CDS Account Statements • E-mails • Corporate Website 	<ul style="list-style-type: none"> • CDS eConnect • Corporate website • Awareness sessions • Virtual & physical meetings 	<ul style="list-style-type: none"> • CDS eConnect • Corporate website • Meetings & discussions
Concerns/expectations		
<ul style="list-style-type: none"> • Convenience • Data Security • Innovation • Efficiency in services offered 	<ul style="list-style-type: none"> • Convenience • Efficiency in services • Innovation 	<ul style="list-style-type: none"> • Facilitation of capital raising • Facilitation of investor relations • Diversification of services offered • Reliability and efficiency • Technological advancements • Information security
CDS's strategy		
<ul style="list-style-type: none"> • Diversification and service expansion • State-of-the-art IT security systems • Driving efficiency through digitalization • Effective customer relationship management • Service innovation through digitalization 	<ul style="list-style-type: none"> • Service expansions through digitalization • Service innovation 	<ul style="list-style-type: none"> • Expansion of services offered • Facilitating raising of capital • Driving efficiency through digitalization • State-of-the art Information Security Infrastructure • Innovation through digitalization

STRATEGY

STRATEGIC REPORT

Our strategy is focused on improving capital market infrastructure, transitioning from a traditional depository to offering a broader range of services to a more extensive customer base. We intend to leverage our expertise in database management to extend our services to various entities. The transformation initiative commenced in 2017 with the goal of turning CDS into a Strategic Business Unit (SBU) capable of diversifying its business. CDS has made substantial progress in our digitization journey and will continue to advance in the upcoming years.



- Decentralization
- Diversification
- Digitalization
- Fin-Tech
- Acquisition

Capitalize the expertise of Centralized Record Keeping & Safe Custody Services to centralize all stakeholder services & provide new services/introduce new products to new markets

CDS eConnect to be the front end of the service provider to all stakeholders

Provide repository services to other industries

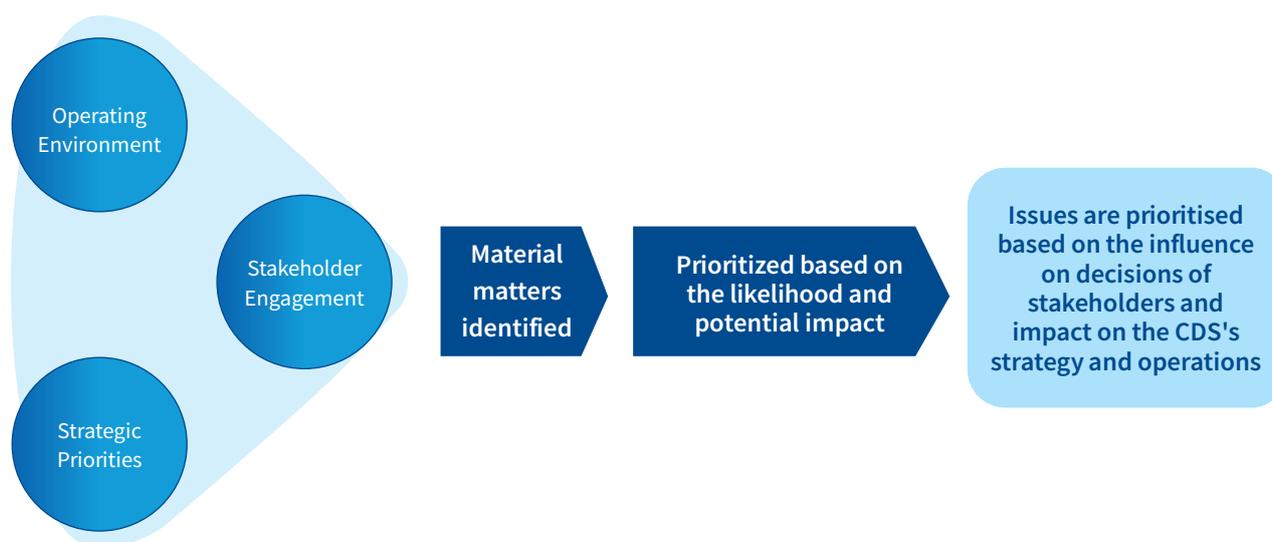
Decentralizing traditional depository services through participants to drive efficiency

Centralizing & digitalize services provided to issuers & other stakeholders, enhancing the accessibility and service efficiency

DETERMINING MATERIALITY

STRATEGIC REPORT

The selection of material topics is based on their potential impact on influencing value creation for our stakeholders. These topics are identified by considering stakeholder concerns, the dynamics within the operating environment, and CDS's strategic priorities. To ensure alignment with established standards, we have correlated these selected topics with the Global Reporting Initiative (GRI) standards and the United Nations Sustainable Development Goals (SDGs). Notably, significant changes in the operating landscape have led to alterations in materiality compared to the previous year.



This meticulous process enables us to concentrate on the most critical and impactful issues. It ensures that our efforts and strategies align closely with stakeholder expectations, contributing meaningfully to CDS's sustainable growth and development.

Material Topic	Impact to CDS	Impact to Stakeholders	Reference	Relevant SDGs
Good governance	6	5		
Market oversight and regulation	7	4		
Financial literacy & inclusivity	6	8		
Business growth & profitability	7	8		 
Technology excellence	5	5		
Supporting socio-economic progress and Wealth Creation for Stakeholders	6	9		

DETERMINING MATERIALITY

Material Topic	Impact to CDS	Impact to Stakeholders	Reference	Relevant SDGs
Talent management	6	2		  
Market activity	10	8		
Sustainability	4	9		
Regulatory compliance	4	5		

MATERIALITY MATRIX



OPERATING ENVIRONMENT

STRATEGIC REPORT

THE GLOBAL CONTEXT

The global economy exhibited resilience and sustained its recovery despite disruptions in food and energy markets triggered by Russia's invasion of Ukraine and the unprecedented tightening of monetary conditions worldwide to manage record-high inflation. According to projections from the International Monetary Fund (Source: IMF World Economic Outlook, January 2024), global growth is anticipated to decelerate to 3.1% in 2023 (compared to 3.5% in 2022). This slowdown is unevenly distributed worldwide, with more pronounced effects in advanced economies than in emerging markets and developing economies. The growth rate in advanced economies is forecasted to decrease to 1.6%, down from 2.6% in the previous year, reflecting stronger-than-expected momentum in the US but weaker-than-expected growth in the Euro area. In emerging markets and developing economies, growth is expected to remain at 4.1% in 2023, primarily due to the property crisis in China. A supply-side expansion also took hold, with a broad-based increase in labour force participation, resolution of pandemic-era supply chain problems, and declining delivery times.

SRI LANKA

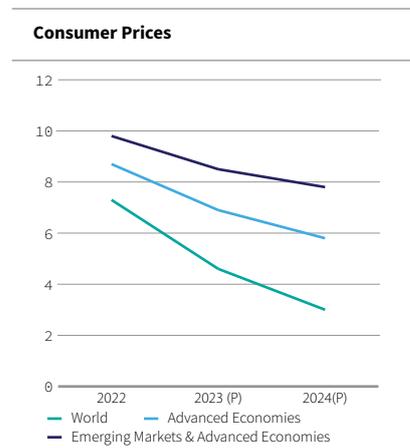
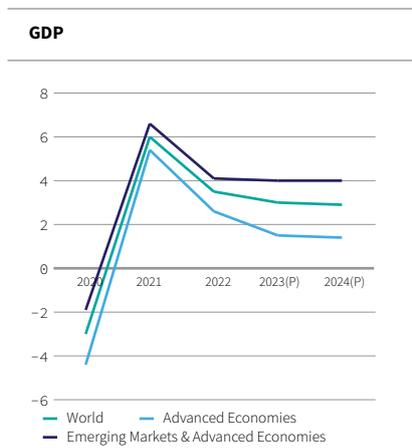
Despite a contraction of 7.8%, the economy was showing initial signs of stabilization in the first 3 quarters of 2023 owing to several decisive reforms such as floating currency, monetary tightening and gradual phasing out of monetary financing. The economy recorded a modest growth of 1.6% in Q3, subsequent to contractions in 6 consecutive quarters. Inflation came back to single digit levels in July 2023 for the first time in 19 months. An improved trade balance, promising recovery of tourism and foreign remittances, continuing external debt service suspension and inflows from development partners resulted in better usable official reserves. The approval of the International Monetary Fund's Extended Fund Facility (IMF-EFF) in March 2023 brought in confidence and Asian Development Bank and World Bank funds in the form of budgetary support contributed to the easing of liquidity conditions in the domestic foreign exchange market.

Inflation

Inflation subsided faster than expected. Amid favorable global supply developments, inflation has been falling faster than expected. Headline inflation is expected to steadily decline from its peak of 8.7% in 2022 to 6.8% in 2023 due to tightening of monetary policies but mainly as a result of declining international commodity prices. Core inflation is expected to decline more gradually, from 6.4% in 2022 to 6.3% in 2023.

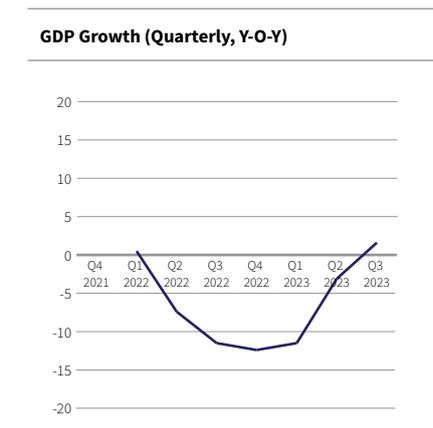
The decline also reflects an easing in labour market tightness, with a decline in job vacancies, a modest rise in unemployment, and greater labour supply, in some cases associated with a strong inflow of immigrants.

Almost three-quarters of economies are expected to report lower headline inflation for 2023, but the pace of disinflation is more in advanced economies due to stronger monetary policy frameworks and lower exposure to shocks in commodity prices and exchange rates.



The economic downturn persisted into 2023. Following a 7.8% contraction in real GDP in 2022, the first three quarters of 2023 saw a further decline of 3.1% compared to the same period in 2022. Industrial activity took a substantial hit, attributed to contractions in construction and manufacturing, triggered by reduced private credit availability, shortages of inputs, and disruptions in the supply chain. The services sector also experienced an overall contraction. This was primarily driven by significant contractions in financial services, insurance, and real estate. However, this contraction was partially offset by growth in transportation, accommodation, food, and beverage services, owing to a revival in the tourism sector, easing of fuel shortages, and improved foreign exchange liquidity.

However, Sri Lanka showed the initial signs of stabilisation by recording a modest growth of 1.6% after recording contractions in the previous 6 quarters.

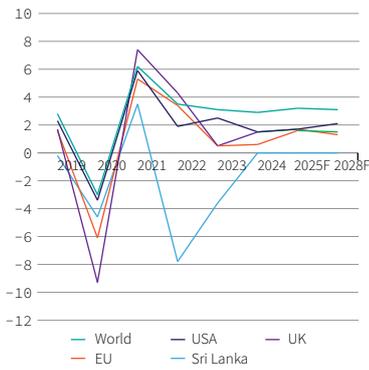


GDP Down by 2.3%	Inflation 4%	Exchange Rate Up by 10%
Colombo Stock Exchange Up by 25%	Imports US \$16,811Mn Down by 8%	Exports US \$11,910Mn Down by 9%

OPERATING ENVIRONMENT

GDP of Main Markets

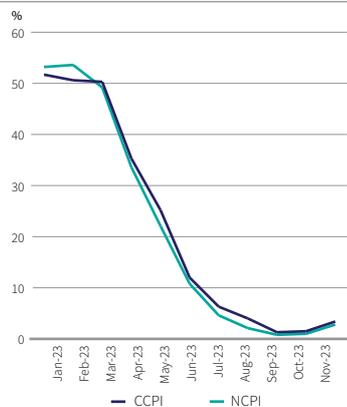
Source: WEO October 2023 & January 2024



Inflation

After reaching a peak of 69.8% year-on-year in September 2022, headline inflation, as measured by the Colombo Consumer Price Index (CCPI), began a moderation trend. It reached single digit levels in July 2023 (6.3%, y-o-y) for the first time in 19 months and further decelerated to 4% by December 2023. The reduction in inflation primarily reflects the favorable impact of the base effect and has also benefitted from the phasing out of monetary financing, tighter monetary and fiscal policies, easing of supply-side disruptions, the moderation of global commodity prices, and appreciation of the Rupee.

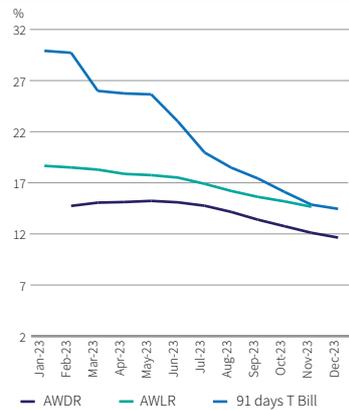
Inflation



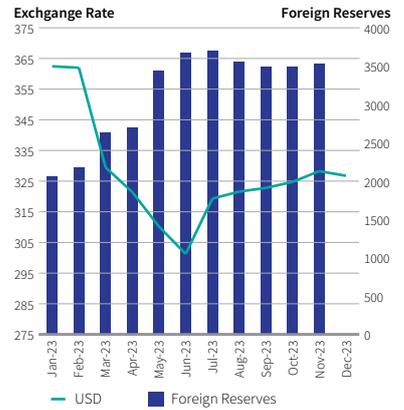
Interest Rates

After raising policy rates by a cumulative 950 basis points in 2022 to curb inflation, CBSL began to loosen its monetary policy amid decelerating inflation. Policy rates were cut by 250 basis points in June 2023, further easing continued and by the end of 2023 Standing Deposit Facility Rate down to 9% and Standing Lending Facility Rate to 10%. Market interest rates also adjusted downwards in response to the monetary policy easing. The Average Weighted Deposit Rate (AWDR) stood at 11.64% in December 2023, while the Average Weighted Lending Rate (AWLR) stood at 14.66%, recording a decline of 242 basis points and 376 basis points respectively. Despite this downward momentum, treasury bill yields, especially 91-day yield remained at an elevated level indicating anomalies in the interest rate structure.

Interest Rate Movement



External Sector and Exchange Rate



Exchange Rate and Reserves

Although they remain low, foreign reserves and liquidity improved due to an improved current account and inflows to the financial account. In the absence of large debt service payments, inflows from development partners, including US\$330 million from IMF, US\$350 million from ADB, and US\$250 million from World Bank, strengthened the financial account. After depreciating by 81% against the US Dollar in 2022, the LKR appreciated by 16% during the first half of 2023. Thereafter during mid-2023, significant Rupee depreciation pressures surfaced, primarily due to the augmented forex demand in relation to the SLDBs exchange with Treasury bonds under the Domestic Debt Optimisation (DDO). Furthermore, the relaxation of majority of the restrictions on imports, higher demand for forex for energy-related imports, and some reversals of foreign investments also contributed to the build-up of pressure on the exchange rate. By the close of 2023, USD exchange rate stood at Rs.326, recording an appreciation of 10% for the year.

Performance of the Colombo Stock Exchange

In 2023, share market volatility showed a gradual decline. The market sentiments experienced significant shifts as the government secured assistance from the IMF. However, the economic contraction in the country continued to impact the performance of listed companies, resulting in a slow upward movement of share prices. Additionally, high yields attracted investors to the government securities market, and elevated lending rates increased the cost of funding for investors, thereby hindering the upward movement of price indices. Foreign interest in the share market was low as domestic macroeconomic conditions were not conducive whilst global financial conditions remained tight. The share market was illiquid with a relatively low turnover level. Average trade values were low with reduced trading volumes of stock. Initial Public Offerings (IPOs) were minimal in 2023 amidst economic uncertainty.

	Unit	2023	2022	Change
All Share Price Index		10,654	8,489	25%
S&P SL20		3,068	2,635	16%
Turnover	Rs.Mn	410,629.35	686,602.07	-40%
Domestic	Rs.Mn	371,359.78	634,407.66	-41%
Foreign	Rs.Mn	39,269.57	52,194.42	-25%
Shares Traded	No.Mn	16,988.83	29,047.82	-42%
Domestic	No.Mn	15,735.14	28,142.12	-44%
Foreign	No.Mn	1,253.69	905.69	38%
Trades (No.)	No.	3,618,960	6,057,233	-40%
Domestic	No.	3,549,462	5,973,341	-41%
Foreign	No.	69,498	83,892	-17%
Daily Average Turnover	Rs.Mn	1,696.82	2,972.30	-43%
Market Capitalisation	Rs.Bn	4,248.93	3,847.15	10%
Foreign Trading Activities				
Purchases	Rs.Mn	41,451.16	67,510.97	-39%
Sales	Rs.Mn	37,087.98	36,877.85	1%
Net Foreign Flow	Rs.Mn	4,363.18	30,633.11	-86%
New Listings/Issues				
Equity IPOs	No.	2	4	-50%
Equity Introductions	No.	-	1	-100%
Debt IPOs	No.	5	4	25%
Capital Raised				
Equity IPOs	Rs.Mn	802.63	4,822.15	-83%
Debt IPOs	Rs.Mn	32,622.83	17,969.45	82%
Rights Issues	Rs.Mn	37,620.04	11,797.79	219%
Private Placement	Rs.Mn	2,670.59	10,132.98	-74%
Market PER	Times	11.10	4.95	124%
Price to Book Value	Times	0.93	0.91	3%
Dividend Yield	%	3.31%	4.10%	-19%

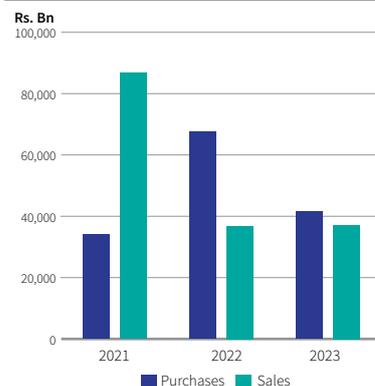
ASPI Movement



Market Turnover



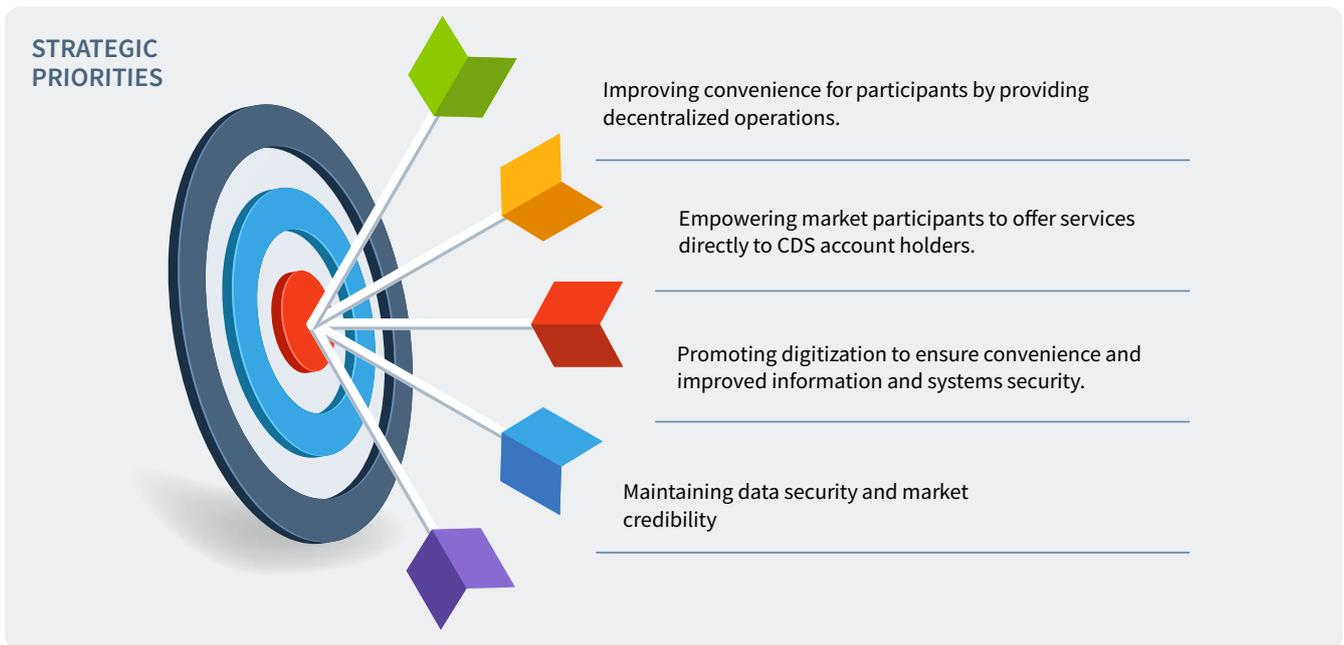
Foreign Activity



DEPOSITORY OPERATIONS

BUSINESS LINE REVIEW

The CDS holds the distinction of being the first depository in the South Asian region and the seventh globally. Depository is the key infrastructure of the capital market and our role involves facilitating the operations of the Colombo Stock Exchange (CSE) by managing CDS accounts for all investors participating in the CSE. Additionally, we serve as the custodian of shares held by these investors.



OUR SERVICES

Accounts services

Opening and maintaining of CDS accounts for stock market investors and listed issuers' shareholders while facilitating for dematerialization, rematerialization and transfer of securities.

Information services & Facilitation for Corporate Actions

Issuing information to listed entities and CDS account holders and facilitate depository services for listed issuers and their respective Company Secretaries and/or Registrars to successfully complete corporate actions.

Digital Services

Digital services offered to CDS account holders and other stakeholders through the CDS eConnect and other services such as electronic statements and SMS alerts.

PERFORMANCE HIGHLIGHTS FOR 2023

15,697 new CDS accounts

15 training sessions for market participants

Facilitating **58** corporate actions

357,695 statements dispatched

eConnect subscriptions increased to **18,986**

eDividend instructions increased to **164,561**

18,788 reports released to issuers

VALUE ADDITIONS IN 2023

Extending eConnect access to Custodian Banks.

Access to customized & value-added reports for Margin Providers & Wealth Managers

Awareness sessions and webinars for CDS/Market Participants and investors

Centralized records of dividend warrant information through CDS eConnect

RPA capacity increased to cater efficient processing of online account opening applications & account management requests through eConnect

REVIEW OF 2023

We continued to enhance our digital infrastructure in order to become more accessible to investors and market participants. Focus was given to improving the efficiency of our operations, which resulted in a significant reduction in turnaround times in providing our services, and noteworthy cost reductions not only for CDS but also to listed entities and CDS Participants.

To improve the efficiency of our operations we leverage technology such as Artificial Intelligence (AI) and Robotic Process Automation (RPA).

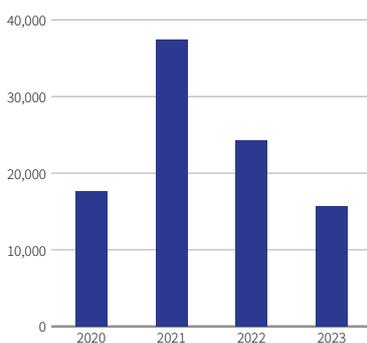
CDS eConnect gained significant traction during the year while registration for other eservices such as eDividends and eStatements were also seen.

The following developments were carried out during the year.

- Conceptualized and developed an AI solution to conduct compliance operations of the new CDS account openings.
- Extended eConnect access to custodian banks for CDS account management.
- Enabled Margin Providers and Wealth Managers to download reports on daily transactions, trades and portfolios (bulk reports) through CDS eConnect for all client accounts managed by them.
- Introduced centralized dividend warrant details maintained through eConnect. The information will be updated with effect from 2024 January.

Capacity of the RPAs employed by Depository Operations unit was increased to cater efficient processing of account opening applications & account management requests received through CDS eConnect and other CDS digital platforms.

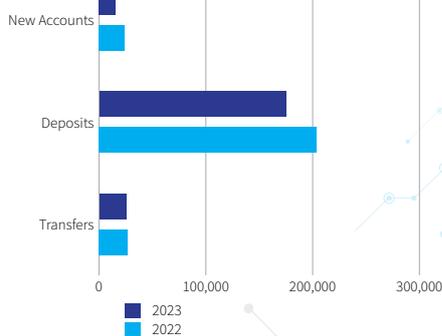
New CDS Accounts



CDS Accounts by Investor Category



Main Depository Operations



CORPORATE SOLUTIONS

BUSINESS LINE REVIEW

The Corporate Solutions Unit offers registrar services and conduct corporate actions of listed and unlisted issuers. This unit was established as a diversified non-core business unit of the CDS to uplift the industry of corporate actions and ledger management in Sri Lanka.



OUR SERVICES

Corporate Action Services

1. provides services and solutions to the issuers with regard to corporate actions such as cash dividends, scrip dividends, rights issues, IPOs, offers/repurchases, sub-division of shares, amalgamations and capitalization of reserves.
2. provides support/admin services to corporates to conduct their Annual General Meetings and/or extraordinary General Meetings as physical, virtual or a hybrid of both.

Registrar Services

Corporate Solutions Unit acts as the Registrars for listed and unlisted entities. As the registrar, Corporate Solutions unit maintains the client ledgers, updates the ledger information, provides services to shareholders such as transfer/transmission/loss of shares.

Bureau Services

Ancillary services provided to issuers such as printed circular dispatching, eNotices dispatching, Annual Reports dispatching, address label printing.

PERFORMANCE HIGHLIGHTS FOR 2023

39 cash dividend payments, **2** coupon payments & **3** scrip dividends

AGM/EGM - 29

2 rights issues

6 offers including 2 repurchases and 4 exit offers

1 sub-division of shares

2 eIPOs

15 bureau services including **2** eCircular dispatches

Total value of payments facilitated for dividend & coupon payments is **LKR 44Bn**, out of which **LKR 40Bn** paid via electronic payment methods.

VALUE ADDITIONS IN 2023

Integration of HelaPay payment option for eIPO platforms

Enabling eIPO service for CDS Institutional account holders through CDS eConnect

Digitalized solution for over-the-counter IPO applicants' data processing

Completed the acquisition of a registrar service provider.

Inhouse eWarrants dispatching solution

eOffers & repurchases

REVIEW OF 2023

This service arm of CDS specializes in corporate action services and ledger management to both listed and unlisted issuers, offering value-added services through various digital products. This unit also ensures convenient, hassle-free, and cost-effective service delivery by way of innovative and centralized service solutions catering to corporate actions, registrar services and bureau services of issuers.

The shift towards using digital platforms to obtain services continued to grow, and CDS has strengthened its digital infrastructure significantly, resulting in diversification of our service offerings and significant reduction in our turnaround times.

The following initiatives were carried out during 2023,

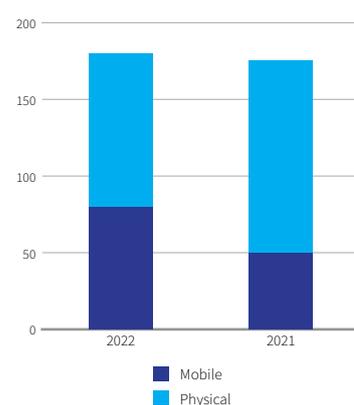
eIPO related changes

- Integrated HelaPay payment option for eIPO platforms facilitating individual applicants to perform seamless payment

- Enabled eIPO service for institutional CDS eConnect users. This facilitates the institutional users the same level of efficiency and convenience extended to individual investors
- Conceptualizing and developing an in-house solution for recording and data processing of over the counter (physical) IPO applications.
 - Acquired the Registrar Business of PW Corporate Secretarial (Private) Limited with effective from 01st January 2024.
 - eWarrants & eNotices Provided services for 37 clients to dispatch eWarrants and 02 clients to dispatch eNotices.

shares for an offer. This initiative will make the offer process more convenient for both the shareholder and the issuer.

Applications Submitted for IPOs



eOffers/Repurchases

- The latest addition to the digital service solutions offered through CDS Corporate Solutions. This facilitates digitally accepting offers and tender additional

Central Depository Systems (Pvt) Limited acquired the Registrar Business of PW Corporate Secretarial (Private) Limited with effective from 01st January 2024.

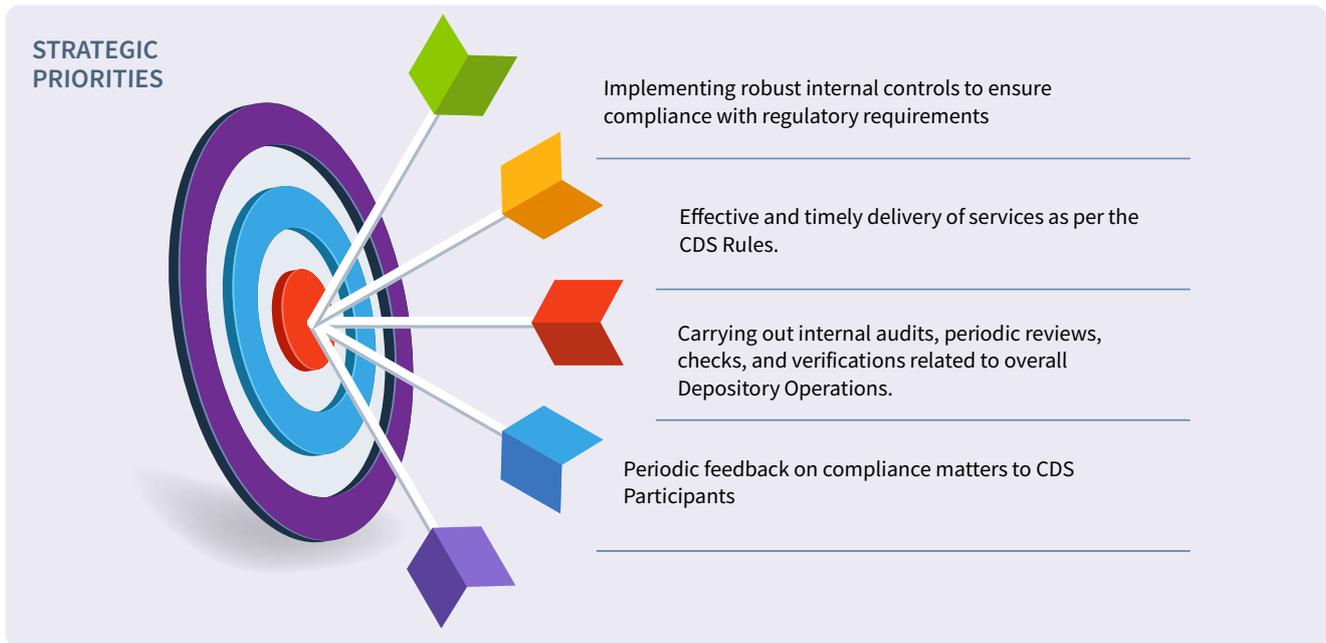


Signing the Agreement with PW Corporate Secretarial (Private) Limited

DE-MATERIALISATION COMPLIANCE AND RISK

BUSINESS LINE REVIEW

The De-mat Compliance and Risk unit assures all functions carried out by the Depository Operations Unit and the CDS participants comply to the CDS Rules and the Guidelines.



OUR SERVICES

Ensuring regulatory compliance of depository related services

Implementing robust internal controls and internal audit

Compliance audits

Providing periodic feedback for the CDS Participants

PERFORMANCE HIGHLIGHTS FOR 2023

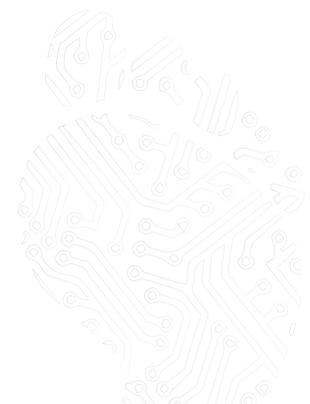
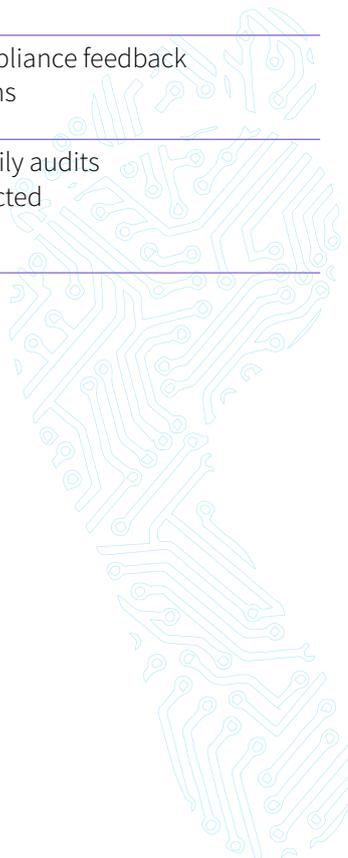
6 Compliance feedback sessions

242 daily audits conducted

VALUE ADDITIONS IN 2023

Started providing periodic feedback on compliance matters to the CDS Participants through awareness sessions.

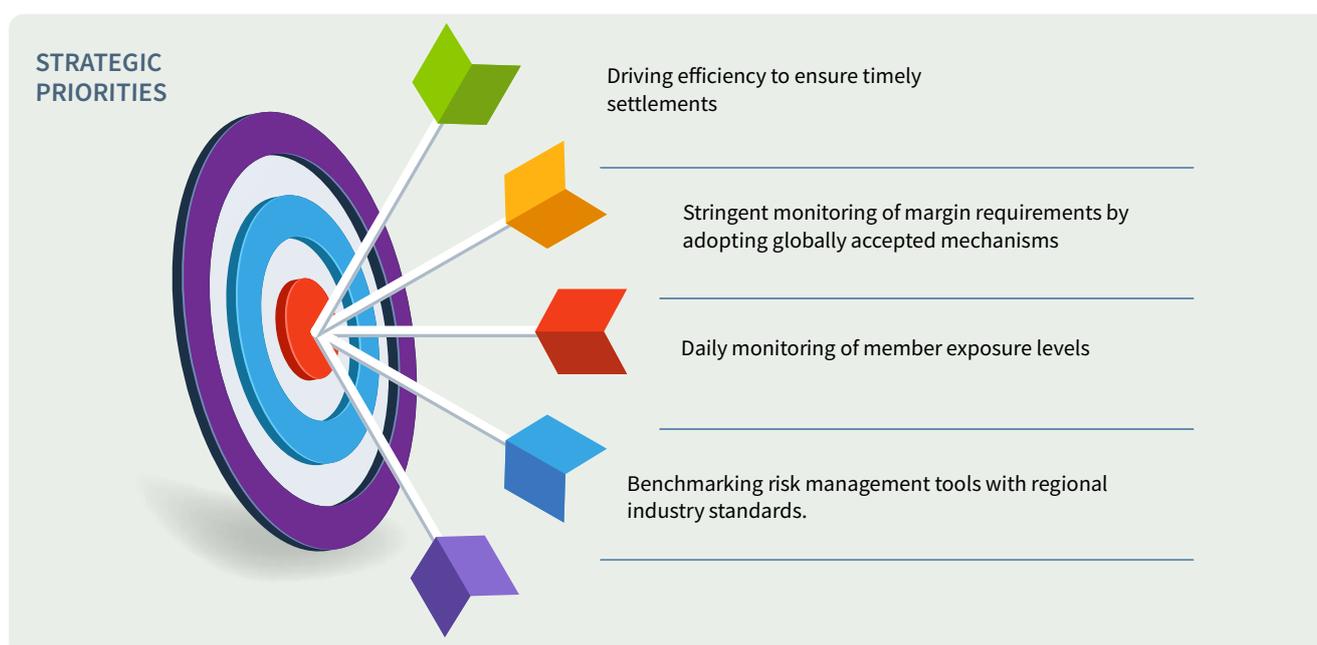
Implemented an improved and digitalized daily operational audit workflow



CLEARING AND SETTLEMENT

BUSINESS LINE REVIEW

The Central Depository System (CDS) upholds its commitment to efficient and secure post-trade settlement processes. This function is pivotal in ensuring the seamless exchange of securities and funds among market participants, fostering trust and confidence in the Sri Lankan capital market. Post trade settlement function ensures that security and cash settlement for all the transactions carried out at the CSE are completed daily uninterrupted.



PERFORMANCE HIGHLIGHTS FOR 2023

Settlement of **3.6Mn** transactions

VALUE ADDITIONS IN 2023

Launch of Regulated Short Selling (RSS) through Stock Borrowing and Lending (SBL)

On November 6, 2023, the Colombo Stock Exchange (CSE) successfully launched the Regulated Short Selling (RSS) through Stock Borrowing and Lending (SBL). This forward-thinking initiative is designed to enhance market efficiency and bolster liquidity, thereby improving the overall market microstructure of the CSE. By aligning with international standards and best practices, the CDS aims to elevate its standing in the

global financial landscape. Prior to the launch, the CDS diligently organized a series of workshops and awareness sessions, both physical and virtual, to educate stakeholders and the public on the intricacies of RSS and SBL. The enthusiastic response from participants underscores the significance of these preparatory efforts. CDS witnessed several RSS and SBL transactions in 2023, since its launch, marking a promising start to this transformative venture. As at 31st December 2023 LKR 1.8 million turnover recorded through 37 trades.

Initiatives to establish Central Counter Party (CCP) system.

Taking initiatives to set up a Central Counter Party (CCP), an entity that takes up the risk of secondary market equity transactions in the event of a settlement failure, is a remarkable milestone as the system itself guarantees settlement of equity market transactions by becoming a buyer for all sellers and seller for all buyers in all secondary market transactions. With the initiatives towards this project, the CCP system is to launch in 2024.

This process replaces the legal act of the original contract between the buyer and the seller with two contracts between the buyer and the CCP and the seller and the CCP, i.e. the CCP substitutes itself as a counterparty to the transaction.

Each party in the transaction enters a contract with the central counterparty, so that each party does not take on the risk of the other defaulting. CCP process brings the following benefits:

- International compliance and recognition
- Reduced Systematic Risk
- Strengthens overall market integrity
- Increase liquidity

CDS has successfully concluded several rounds of awareness sessions with the stakeholders in the industry.

CUSTOMER RELATIONSHIP MANAGEMENT

BUSINESS LINE REVIEW

The Customer Relationship Management (CRM) unit plays the key role of business development, relationship building and management with stakeholders of the CDS. CRM coordinates and manages the clients of Corporate Solutions Unit and also performs the branding, marketing and promotions of CDS to raise awareness on the services offered by the CDS.



OUR SERVICES

Driving growth of CDS through business development for Corporate Solutions using insights from client interactions, understanding existing client challenges and matching service offerings of CDS

Management of stakeholder relationships through a holistic approach understanding and addressing the unique needs of each customer

Market analysis through data-driven insights and personalized engagement to understand and address the unique needs of each client, fostering enduring connections and driving sustainable growth.

CDS Hotline and CRM ticketing system to cater seamless communication.

PERFORMANCE HIGHLIGHTS FOR 2023

93 new clients for Corporate Solutions

4 webinars

29 EGM/AGM solutions

2,885 help desk tickets

Company is in the process of signing the agreement with new clients to deliver value added services on corporate action and Registrar service. During the year 2023, Central Depository Systems (Private) Limited signed three agreements to provide Corporate Action and Registrar Services.



Signing the agreement with Lanka IOC PLC

VALUE ADDITIONS IN 2023

A solution to cover the depository operations by establishing a structured and operationally proven CDS help desk ticketing system and a hotline service.

Introduction and conducting a Webinar series for CDS stakeholders to raise awareness on services offered



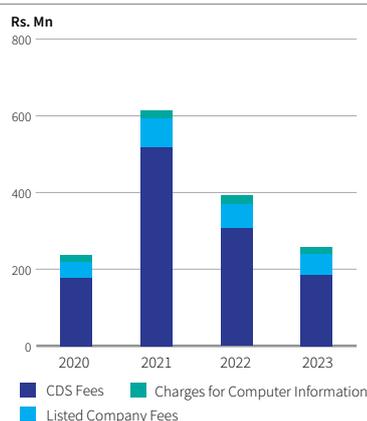
Signing the agreement with Madulsima Plantations PLC

FINANCIAL REVIEW

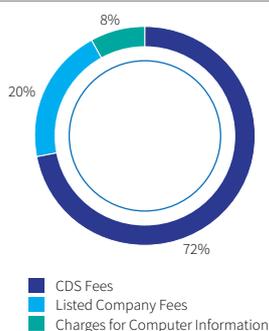
REVENUE

Political and policy uncertainty coupled with the economic contraction dampened the investment sentiment in the country while reduced real income due to higher taxes also had a negative impact. This led to a mediocre performance of the CSE and resulted in a 34% reduction in CDS revenue following a 36% contraction in the previous year. For year 2023, CDS reported a revenue of Rs.257Mn. Revenue from CDS fees, the highest contributor to the revenue (72%) contracted by 40% to reach Rs.185 Mn while listed company fees which amounted to Rs.52Mn saw a reduction of 18%. Income from charges for computer information also saw a marginal contraction of 6%. In other revenue, revenue generated from registrar services and corporate actions increased by 33% to reach Rs.39Mn, reflecting the CDS's efforts to diversify its operations beyond a traditional depository. Total other income, which comprises of participant fees, income from registrar services and corporate actions and miscellaneous income increased by 16% to achieve Rs. 60Mn.

Revenue



Revenue Composition



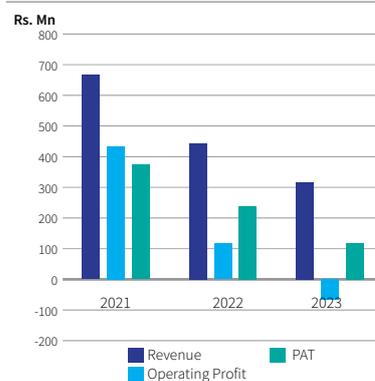
PROFITABILITY

Profitability faced significant pressure due to the negative growth in the top line, coupled with increased expenses arising from inflationary pressures. Staff-related expenses saw an increase of 30% to reach Rs. 82Mn as necessary salary adjustments were carried out to retain the required talent. System maintenance costs, which contributes more than 33% of operational expenses, increased by 10% to reach Rs. 127Mn. Total operating expenses amounted to Rs. 385Mn, exceeding total revenue for the year. This resulted in CDS reporting an operating loss of Rs. 68Mn for the year.

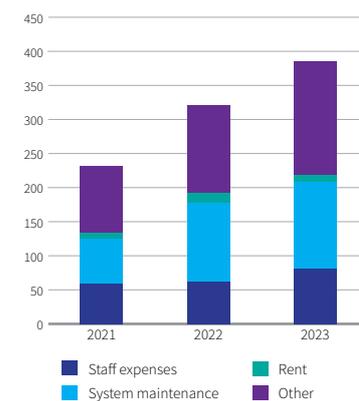
Net finance income totaled Rs. 325 million, indicating a growth of 54%. This increase was attributed to the rise in interest income, aligning with a significant expansion in investments in treasury bills, resulting in substantially higher returns.

Despite the operating loss, CDS reported a profit before tax of Rs. 258Mn, on the back of increased finance income. The applicable income tax rate was revised to 30% in June 2022, compared to previously applicable 24%. Profit after tax amounted to Rs.177Mn, reporting a declining of 26% amidst the lackluster performance of the CSE and increased expenses.

Profitability



Expenses



FINANCIAL REVIEW

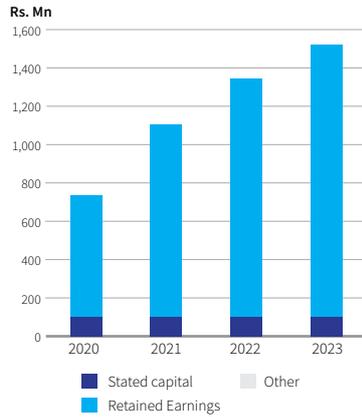
FINANCIAL POSITION

Non-current assets remained relatively unchanged at Rs.105 Mn compared to previous year's Rs. 101 Mn while the current assets saw an increase of 8% to reach Rs.1,787Mn. Under current assets, inventories, trade and other receivables and cash and cash equivalents decreased by 77%, 7% and 19% respectively. While under other investments, the allocation of funds shifted significantly, with a complete withdrawal from fixed deposits and a notable 47% increase in investments in treasury bills. Accordingly, investments in treasury bills reached Rs. 1,409Mn by the end of the year.

Current liabilities decreased by 10% as Brokers' liquidity and margin deposits came down by 31% to reach Rs.225Mn, reflecting the lower activity level in the CSE. The amount due to CSE increased to Rs. 89Mn compared to previous year's Rs.4Mn. Accordingly, total current liabilities stood at Rs. 370Mn by the close of the year.

Equity structure remained relatively unchanged with only retained earnings increasing by 14% to reach Rs.1,422Mn.

Growth in Equity



REVIEW OF CAPITALS

INTERCONNECTIONS AND INTERDEPENDENCIES

 Financial Capital Enhancing our financial capital is critical for our business growth while strong and stable capital position underpins our value proposition to stakeholders.					
KPIs	Units	31.12.2023	31.12.2022	% Change	Value creation activities during 2023
Total Assets	Rs. Mn	1,893	1,757	8%	<ul style="list-style-type: none"> Driving revenue growth through diversification.
Non-current Assets	Rs. Mn	105	101	4%	
Current Assets	Rs. Mn	1,787	1,656	8%	<ul style="list-style-type: none"> Significant investments in enhancing digital capabilities which resulted in significant cost savings
Equity	Rs. Mn	1,522	1,345	13%	
EPS	Rs.	17.72	23.80	-26%	

 Human Capital Our dynamic team plays a key role in our business growth, especially under the current challenging environment. Continuous investments in our people enabled us to meet all stakeholder expectations.					
KPIs	Units	31.12.2023	31.12.2022	% Change	Value creation activities during 2023
No. of employees	No.	24	25	-4%	<ul style="list-style-type: none"> Enhanced engagement with employees through multiple platforms
No. of recruits	No.	4	4	0%	
No. of training hours	Avg Man Hrs	21.27	8.56	148%	<ul style="list-style-type: none"> Continuous training opportunities
Employee turnover	%	4.1	8	-49%	
Female representation	No.	11	11	0%	

 Intellectual Capital Intangible assets comprising of our culture, brand value, systems and processes and governance structure are key to our value creation process.					
KPIs	Units	31.12.2023	31.12.2022	% Change	Value creation activities during 2023
No. of processes automated	No.	7	5	40%	<ol style="list-style-type: none"> AI solution implementation for CDS account opening compliance Digitalization initiatives for notices dispatching, warrants dispatching CDS eConnect enhancements for services offered for custodian banks, margin providers, institutional account holders HelaPay integration for eIPO
New services/products offered	No.	6	5	20%	

 Social and Relationship Capital Our success is determined by relationships with external stakeholders. We strive to enhance the value delivered to them in the long run while staying constantly engaged with them.					
KPIs	Units	31.12.2023	31.12.2022	% Change	Value creation activities during 2023
No. of CDS accounts		704,352	693,357	2%	<ul style="list-style-type: none"> Enhancing CDS eConnect
No. of new CDS accounts		15,697	24,270	-35%	
Market participants		44	47		<ul style="list-style-type: none"> Introducing HelaPay integrated payment option for eIPO platforms Introduction of eWarrants
Margin providers		20	20	0%	

REVIEW OF CAPITALS

 Digital Capital					
We have made significant investments in enhancing our Digital Capital, resulting in expansion of service offerings and improved customer experience.					
KPIs	Units	31.12.2023	31.12.2022	% Change	Value creation activities during 2023
Value of IT assets	Mn (At cost)	3.4	3.4	0%	<ul style="list-style-type: none"> Continuing the decentralization of CDS account operations Application of an AI bot to the CDS local individual account opening compliance process Core system migration to a web-based application that is more user friendly and efficient.
Investment in digitization					

 Natural Capital					
As an environmentally conscious organization, we are committed to minimizing the use of natural resources by embracing modern technology and driving efficiency. The substantial investments we have made in digitization and automation has resulted in significant reduction in use of natural resources.					
KPIs	Units	31.12.2023	31.12.2022	% Change	Value creation activities during 2023
Energy consumption	kWh	202,694	207,096	-2%	<ul style="list-style-type: none"> Gradual transition to paper-less process through digitization and automation Implementation of energy saving initiatives
Water consumption	Ltr	8,873	5,412	64%	
Paper consumption	Kg	131	174	-25%	

CDS ACCOUNT HOLDERS

VALUE CREATION REPORT

CDS provides a diverse range of services to account holders, encompassing traditional depository services and additional value-added services. Our commitment to improving service deliverables through technological advancements is evident. This has resulted in an expansion of our service offerings, leading to significant improvements in service quality and turnaround times. Moreover, we are actively decentralizing traditional depository operations, empowering market participants to serve their clients directly, thereby enhancing convenience for CDS account holders.



ENGAGEMENT

- CDS eConnect
- CDS statements
- Press releases
- SMS alerts
- Investor forums
- eStatements
- CDS Website



VALUE DELIVERED

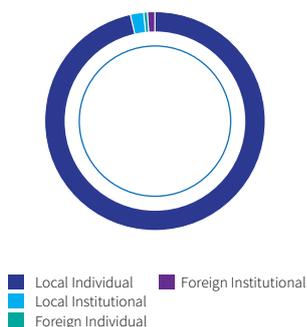
- Settlement of 3.6 Mn trades
- Depository Services for 58 corporate actions & Registrar Services for 94 corporate actions
- 357,695 eStatements dispatched
- 176Bn securities held in custody



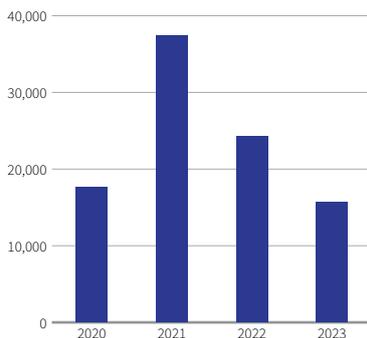
HIGHLIGHTS

- Introduction of eWarrants
- Introducing HelaPay integrated payment option for eIPO platforms
- Enabling eIPO service for CDS Institutional account holders through CDS eConnect

CDS Accounts by Investor Category



New CDS Accounts



Value Proposition offered to CDS account holders



CDS ACCOUNT HOLDERS

INFORMATION SECURITY

The CDS provides real-time information on securities holdings, transactions, and ownership. This transparency allows account holders to monitor their portfolios, track transactions, and stay informed about corporate actions affecting their investments. We operate in compliance with rules approved by the regulator, the SEC. These rules provide clear guidelines for sharing information and outline procedures related to CDS accounts. The CDS ensures full compliance with these rules while maintaining internationally accepted safety standards for its databases. Routine audits and tests are conducted to ensure the security of the information held by the CDS, demonstrating a commitment to maintaining the integrity and confidentiality of the data in its custody.

CONVENIENCE AND RELIABILITY

Account holders can access their securities holdings and account information conveniently through our digital platform CDS eConnect. This accessibility enhances the overall user experience and allows for efficient account monitoring and management. During the year, CDS eConnect was revamped by enabling eIPO service for institutional users.

Other initiatives taken to enhance the convenience to CDS account holders include,

- eWarrants and eNotices
- eOffers/Repurchases
- Development of an inhouse solution for recording and processing of physical IPO applications.

CDS's IT Infrastructure and security is overlooked by the CSE IT Division.

Upgrading Digital Infrastructure

Digital infrastructure of the CDS including the Central Depository System and the Data Centre is equipped with the latest technology in line with international benchmarks. The Core Data Center and Network infrastructure was enhanced during the year, ensuring a more resilient and robust system infrastructure. The Data Centre is equipped with energy efficient technology, thereby contributing to a greener environment.

Information and Cybersecurity

As an organization that is dependent on digital technologies, ensuring cyber security and privacy of information is a top priority. In an environment where cyber risk has emerged as a key risk, CDS continued to enhance its IT security Infrastructure in order to ensure uninterrupted operations and confidentiality of information.

During the year, the monitoring coverage of the Security Operating Center was increased together with the depth of defenses for a secured infrastructure.

Software Security

An in-house software development team is responsible for the development of niche systems related to digital transformation of the CDS, ensuring CDS has the ability to develop secure software that is resistant to attacks and can protect sensitive data.

This has helped to mitigate potential vulnerabilities and comply with industry regulations and standards that require secure software development practices.

CDS has a comprehensive set of security controls ranging from physical to logical security layers.

- IT Policy Frameworks that comply with General Data Protection Regulations
- Ongoing Vulnerability Assessment tests
- 24 x 7 proactive monitoring of any security incidents
- Disaster recovery drills

Information Security

Compliance to ISO 27001:2013

CDS complied with the ISO 27001 Information Security Management System Standard for the 10th consecutive year. During the year, the coverage was enhanced to include secure software development practices.

Certified for ISO 22301:2022

The ISO 22301 Business Continuity Management System was obtained during the year with the aim of safeguarding the organization from a wide range of potential threats and disruptions. This increases organization-wide preparedness to deal with unforeseen interruptions, deploying a resilient culture.

Maintaining multiple layers of defense in Depth

The use of multiple layers of defense in depth on information security helps in preventing unauthorized access to the systems and data held by the CDS.

Penetration tests

Regular penetration tests are conducted both in-house and by third-party experts. These tests involve simulating cyber-attacks to identify vulnerabilities in the systems and take proactive measures to address them.

Regular System Audits

System audits are carried out on a regular basis to assess the overall health and security of the information systems. These audits help in identifying areas for improvement and ensuring compliance with security standards.

Partnerships for Knowledge Exchange

Collaborating with other regional depositories for knowledge exchange is a proactive approach. This allows sharing best practices, staying informed about emerging threats, and conducting joint training sessions to enhance the collective security posture.

SAFE AND SECURE CUSTODY

The CDS facilitates the dematerialization of securities, converting physical certificates into electronic form. We ensure the safekeeping of electronic securities in a secure and centralized environment. This minimizes the risk of loss, theft, or damage associated with physical certificates, providing a secure custody solution for account holders.

EMPLOYEES

VALUE CREATION REPORT

Our talent pool plays a key role in us achieving our strategic aspirations. The growth of our business is greatly attributed to the skills, experience, and dedication of our team, comprising 24 employees. Their commitment played a crucial role in sustaining the business amidst various challenges. In return, we maintained our unwavering commitment to nurturing our people through a holistic value proposition.



ENGAGEMENT

- Staff meetings
- Training programs
- Emails/circulars
- Staff appraisals
- Open-door policy
- Welfare events



VALUE DELIVERED

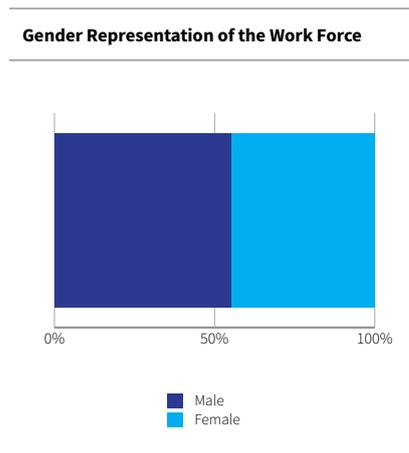
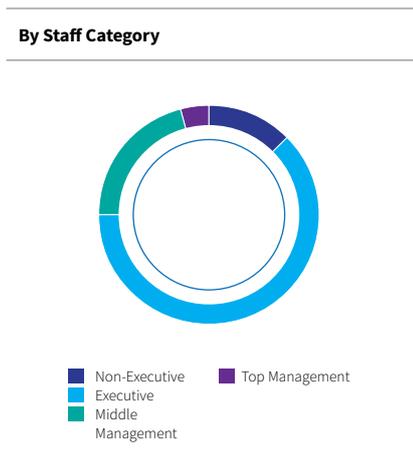
- **Rs.56,566,643** paid as remuneration
- **21.27 Avg Man Hrs** training hours
- **Rs. 2,490,150** welfare events
- **1** promotion



HIGHLIGHTS

- **4** new recruitments
- **8** Staff Welfare Events

Our capable team of 24 staff members includes individuals from diverse ethnic, religious, and geographical backgrounds.



EMPLOYEES

GRI 2-19

Value Proposition offered to employees



HR GOVERNANCE

Management of Human Resources relies on an extensive set of HR policies and procedures that align with regulatory standards and are on par with industry best practices. The aim is to foster a conducive workplace that emphasizes safety, diversity, inclusivity, and equal opportunities for all employees.

MOVEMENTS IN OUR TEAM

During the year, 4 new permanent employees were added to the team under the Junior Executive category. Induction programs were carried out for the new recruits, and they were educated on the HR policies and practices of the CDS.

The CDS maintains a fair, transparent, and consistent recruitment policy to ensure the selection of the most qualified individuals for vacancies. The recruitment process involves a series of interviews and assessments. Once recruited, new hires undergo an induction session, and detailed job descriptions are provided. A learning and mentoring culture is fostered to facilitate the integration and performance of new employees

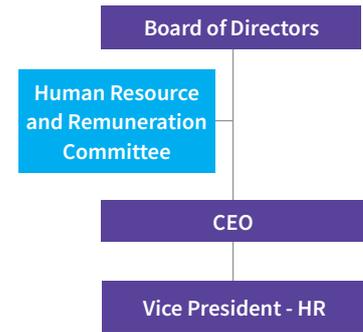
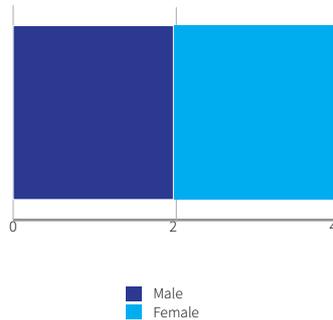
REMUNERATION

We maintain a performance-driven culture and all employees are subjected to annual performance appraisals based on predefined targets. Employees are given recognition and rewarded based on their performance.

CDS offers an attractive compensation package that is tied to employee performance and is competitive with industry standards. The total staff cost for the year was Rs 82 Million. No penalties

were incurred due to non-compliance with labour laws and regulations. Our reward scheme comprises of fixed, and variable pay and benefits. Fixed pay includes basic salary, allowances, and statutory pension contributions. Variable pay is dependent on both the performance of CDS and the individual.

New Recruits by Gender



Benefits provided to employees

- Employee loan schemes with subsidized interest rates
- Reimbursements of Educational Expenses and Annual Professional Membership fees
- Insurance cover for hospitalization for employees and immediate family
- Life Insurance, Personal Accident Covers and Workmen compensation covers for employees
- Reimbursement of stationary expenses for non-executive grades
- Reimbursement for purchase of mobile phones
- Fuel reimbursement scheme for official travel expenses incurred by employees
- Corporate gym memberships at a leading hotel in Colombo for top management
- Transport facilities and meal reimbursements for staff after office hours

CAREER PROGRESSION

One employee was promoted during the year based on the performance. We encourage employees to pursue their career goals by supporting their professional development and higher education. As a result, we offer interest-free loans for educational purposes and reimburse exam and course fees for professional studies.

The Management actively promotes internal recruitment in fulfilling vacancies to offer employees opportunities for lateral movement and job rotation within the division or organization. This approach serves as a means of providing comprehensive functional exposure in various areas within the CDS.

Employee Engagement



We strive to maintain strong and positive relationships with our employees by consistently engaging with them through various mechanisms.

A few of the engagement activities carried out during the year are mentioned below,



Sinhala and Tamil New Year celebrations



Musical Night



Battle of the brains



Staff Trip



Christmas Carols



Colombo Sugar Run

EMPLOYEES



Toastmasters Installation Ceremony 2023

TRAINING AND DEVELOPMENT

Training needs are identified at the employee performance appraisals and aligned with both organisational and individual goals. Further programs are also carried out based on new developments/ projects where talent gaps are identified.

Following training programs were conducted during the year,

- Cyber Security Awareness Session
- Awareness Session on Business Continuity Management
- Awareness Session on Advance Personal Income Tax (APIT)
- Knowledge Sharing Session - Market Statistics
- Knowledge Sharing Session - Regulated Short Selling through Stock Borrowing & Lending

DIVERSITY AND INCLUSION

CDS promote equal opportunities for career growth and advancement. This involves providing all employees, irrespective of their backgrounds, with equal chances for promotions, professional development, and leadership roles. Further, our inclusive hiring practices ensures that the recruitment process is unbiased and provides equal opportunity to all candidates regardless of their background.

Our open-door policy encourages employees to share their concerns, grievances, experiences and ideas fostering a sense of belonging.



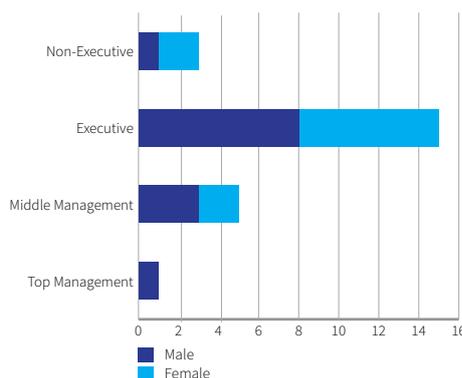
Attending 25th Annual General Meeting of Asia-Pacific CSD Group



Attending the 23rd ACG Cross Training Seminar, Bali, Indonesia

	2023	2022
Total investment in training – LKR Mn	2.4	1.5
Total No. of training hours	510	214
No. of employees received training	27	27

Gender Representation of the Work Force



Above industry minimum parental leave for both female and male employees

Nursing hours up to 2 hours per day for new mothers

MARKET PARTICIPANTS

VALUE CREATION REPORT

Collaboration with market participants is essential for the smooth functioning of the capital market. With a total of 44 market participants, including 28 stockbrokers and 16 custodian banks, we have established a network that facilitates engagement between CDS account holders and the CDS. These market intermediaries contribute significantly to the operational continuity of both the CSE and the CDS. The robust partnership with stockbrokers and custodian banks is integral to maintaining the efficiency and integrity of the capital market ecosystem.



ENGAGEMENT

- Training and awareness programs
- Physical/virtual meetings
- CDS eConnect
- Emails/circulars
- Industry forums
- Press releases
- CDS website



VALUE DELIVERED

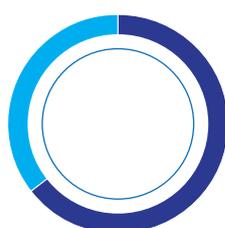
- 15 training programs
- Decentralization of depository operations to empower market participants to serve their clients directly
- Facilitation of smooth operations of the CSE
- Facilitation of eKYC via DRP checks through CDS eConnect



HIGHLIGHTS

- Enabling eConnect access to the custodian banks.
- RPA capacity increased to cater efficient processing of online account opening applications & account management requests through eConnect

Market Participants



■ Stockbrokers
■ Custodian Banks

Value Proposition offered to market participants

Dematerialization and Electronic Recordkeeping

Compliance with Regulatory Requirements

Decentralized operations

Cost savings through digitization and automation

Efficient Settlement Processes

MARKET PARTICIPANTS

DEMATERIALIZATION AND ELECTRONIC RECORDKEEPING

CDS facilitates the dematerialization of securities, converting physical certificates into electronic form. This process enhances the efficiency of market participants' operations by allowing for seamless electronic trading and settlement. We also maintain electronic records of securities ownership, eliminating the need for physical certificates. Market participants benefit from streamlined recordkeeping, reducing administrative burdens and minimizing the risk of errors associated with paper-based systems.

Decentralized Operations

Decentralizing operations connected to CDS accounts has been a key propriety of CDS. This has resulted in improved accessibility and market participant being able to fulfill client requirement regarding their CDS accounts. As part of this initiative, the opening of CDS accounts was decentralized, allowing market participants to independently open accounts for their clients. This eliminated the necessity of forwarding applications to CDS. Additionally, stockbrokers were granted the capability to conduct broker-to-broker portfolio transfers without involving CDS, streamlining operations and facilitating regulatory compliance.

During the year custodian banks were granted access to CDS eConnect platform enabling them to efficiently manage their CDS accounts.

Cost savings through digitization and automation

We continue to invest in updating our digital infrastructure to enhance the efficiency and effectiveness of our operations. Our goal is to transform CDS into a modern and technologically advanced depository that is on par with the more developed depositories in the world. We are currently automating and digitizing workflows, minimizing the potential for human errors, reducing paper usage and ensuring regulatory compliance.

Following developments were carried out during the year,

- Conceptualized and developed an AI solution to conduct compliance operations of the new CDS account openings.
- Introduced centralized dividend warrant details maintained through eConnect
- Capacity of the RPAs employed by Depository Operations unit was increased to cater efficient processing of account opening applications & account management requests received through CDS eConnect and other CDS digital platforms

REGULATORY COMPLIANCE

CDS adheres to regulatory standards related to the safekeeping and transfer of securities. Market participants benefit from the depository's compliance, ensuring that their operations align with regulatory requirements and contributing to overall market integrity.

EFFICIENT SETTLEMENT PROCESS

We play a crucial role in the settlement of securities transactions. CDS ensures the timely and accurate transfer of securities and funds between buyers and sellers. This efficiency reduces settlement risk and contributes to overall market liquidity.



LISTED COMPANIES AND POTENTIAL ISSUERS

VALUE CREATION REPORT

The relationship between a Central Depository System and listed companies is integral to the functioning of the securities market. The CDS contributes to efficiency, transparency and regulatory compliance, benefiting both the companies and their investors in the management and transfer of securities. Further, CDS offers more services to both already listed and potential issuers through our corporate action services.



ENGAGEMENT

- CDS eConnect
- Corporate website
- Circulars
- Training and awareness programs
- Press releases
- Virtual/physical meetings



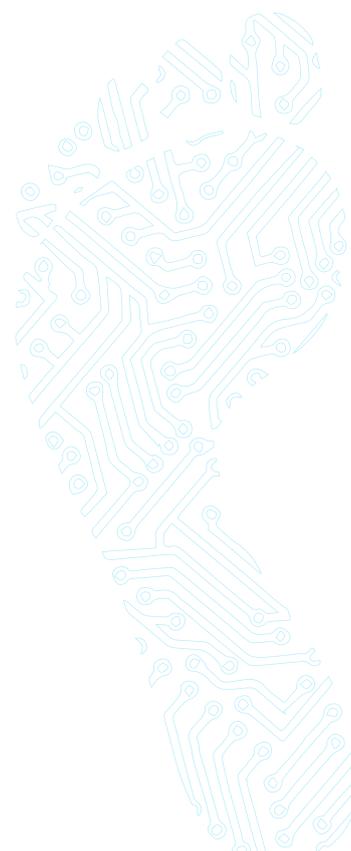
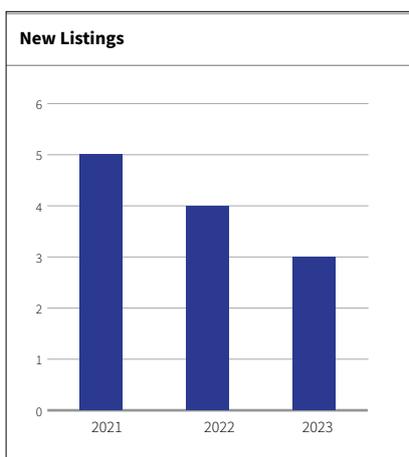
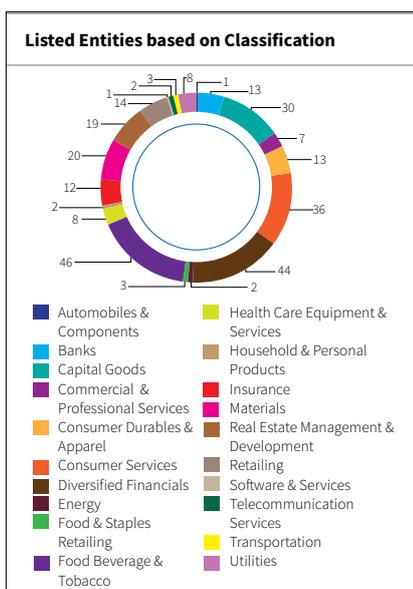
VALUE DELIVERED

1. Depository services for
 - All corporate actions announced
 - 174,980 certificate demats/ deposits
 - 18,788 reports released
2. Corporate Solutions for
 - 39 cash dividends, 3 scrip dividends & 2 coupon payments
 - 29 virtual/hybrid AGM/EGMs
 - 2 eIPOs
 - 4 Exit offers & 2 Repurchases
 - 2 Rights Issues
 - 15 bureau services including 2 eCircular dispatches



HIGHLIGHTS

- Rs. 803 Mn raised via equity IPOs
- Rs. 32,623Mn raised via debt IPOs
- Rs. 37,620Mn raised through rights issues
- Rs. 44Bn of dividend payments out of which Rs. 40Bn paid via electronic payment methods



LISTED COMPANIES AND POTENTIAL ISSUERS

Value Proposition offered to listed companies and potential issuers



MANAGING CORPORATE ACTIONS

CDS assists listed companies in managing various corporate actions, including dividend payments, stock splits, mergers, and rights issues. The depository ensures that these actions are accurately reflected in electronic records, facilitating seamless corporate actions processing.

Further, we offer the complete registrar solution for IPOs. Our e-applications service for IPOs provides the investors and corporates the convenience of online applications which reduces the processing time significantly.

During the year CDS,

- Enabling eIPO service for CDS Institutional account holders through CDS eConnect
- Digitalized solution for over-the-counter IPO applicants' data processing

DEMATERIALIZATION AND ELECTRONIC RECORD KEEPING

CDS facilitates the dematerialization of securities, converting physical certificates into electronic form. This eliminates the administrative burden of managing paper-based securities and provides listed companies with efficient electronic recordkeeping. Further, we support the efficient transfer of shares between investors. Listed companies benefit from the automated and secure share transfer services, ensuring accurate recording of ownership changes and minimizing the administrative effort required for managing share transfers.

Rs. 803Mn raised
through Equity IPOs

Rs.32,623Mn raised
through Debenture issues

Rs. 37,620Mn raised
through Rights issues

FACILITATING ENGAGEMENT WITH INVESTORS

Central Depositories support electronic communication between listed companies and their shareholders. This includes providing registrar services, AGM solutions, distribution of statements and SMSs.



COLOMBO STOCK EXCHANGE

VALUE CREATION REPORT

CDS maintains a collaborative relationship with the CSE, with each entity playing a crucial role in different aspects of the securities market. This relationship is based on mutual benefits and a shared commitment to the efficient functioning of the securities market. The coordination between these entities is essential for the efficient, secure, and transparent functioning of the capital market ecosystem.



ENGAGEMENT

- Meetings & discussions
- Circulars
- Industry events
- Written communication
- Training programs



VALUE DELIVERED

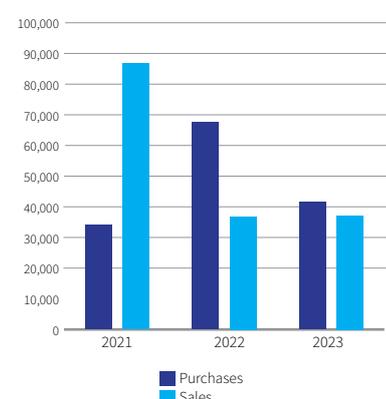
- A regulated market
- Enhancing market infrastructure
- Facilitating market growth
- Improved engagement with all stakeholders of the capital market



HIGHLIGHTS

- Total Revenue – Rs.318 Mn
- Profit Before Tax – Rs.258 Mn
- Profit After Tax – Rs.177 Mn

No. of Trades



SECURE CUSTODY SERVICES AND EFFICIENT SETTLEMENT PROCESS

We provide secure custody services for electronic securities listed on the Colombo Stock Exchange. This eliminates the need for physical certificates, reducing the risk of loss, theft, or damage associated with paper-based securities. Dematerialization enhances the efficiency of trading on CSE by allowing for seamless electronic trading and settlement. This contributes to the overall efficiency of the market by ensuring timely and accurate transfer of securities and funds between buyers and sellers.

RECORD KEEPING AND INFORMATION SHARING

The CDS maintains electronic records of securities ownership, transactions, and

Value Proposition offered to market participants



other relevant information. This electronic recordkeeping ensures accurate and real-time information access for the CSE, market participants, and regulators. This timely information supports decision-making and contributes to the transparency of the market.

We also facilitate electronic communication between the CSE and market participants. This includes electronic communication, notifications and other communication related to securities trading, settlement and corporate actions.

RISK MANAGEMENT

We play a crucial role in managing risks associated with securities transactions. By providing a secure and centralized platform, the CDS contributes to the mitigation of counterparty risk, operational risk, and other risks inherent in the trading and settlement process.

MAINTAINING A REGULATED MARKET

We adhere to regulatory requirements related to the safekeeping and transfer of securities set out by our regulator, the Securities and Exchange Commission (SEC). By complying with regulatory requirements, the CDS ensures that the CSE operates within the legal framework, contributing to market integrity.

REGULATOR

VALUE CREATION REPORT

The Securities and Exchange Commission (SEC) serves as the market regulator and is responsible for issuing the operating license for the CDS. Our collaboration with the SEC is aimed at supporting the operation of fair markets, promoting market development, and ensuring the enforcement of rules governing the CDS. This partnership is crucial for maintaining transparency, integrity, and compliance within the securities market, fostering a regulatory environment conducive to fair and efficient trading practices.



Value Proposition offered to the Regulator



ENHANCED MARKET OVERSIGHT

The CDS provides the SEC with real-time access to comprehensive data on securities transactions, ownership records, and other market activities. This enhanced market oversight assists the SEC in monitoring market dynamics, detecting irregularities, and maintaining overall market integrity.

ENSURING INVESTOR CONFIDENCE

The CDS plays a crucial role in maintaining market integrity and safeguarding investor interests. The SEC benefits from the CDS's role in preventing fraud, ensuring accurate recordkeeping, and facilitating transparent and fair markets, contributing to investor protection.

TIMELY REPORTING AND INFORMATION SHARING

We facilitate timely reporting to the SEC by providing relevant information on securities transactions, corporate actions, and

ownership changes. This supports the SEC in making informed decisions and responding quickly to emerging issues or potential risks in the market.

Further, in case of disputes or investigations, the SEC can leverage the information and services provided by the Central Depository System. This collaboration helps in resolving issues efficiently, conducting investigations, and taking appropriate regulatory actions when needed.

ENSURING FINANCIAL SYSTEM STABILITY

By supporting efficient settlement processes and risk management, the CDS contributes to overall financial system stability. The SEC can rely on the CDS to play a role in minimizing systematic risks and maintaining the resilience of the financial system.

MAINTAINING A REGULATED MARKET

We contribute to streamlined regulatory processes by automating and centralizing various functions related to securities transactions and settlements. This efficiency supports the SEC in managing its responsibilities more effectively and responding promptly to market developments.

The CDS operates within the regulatory framework, and the SEC can monitor its compliance with established rules and regulations. This includes ensuring that CDS processes align with legal requirements, protecting the interests of market participants and investors.

Further, we collaborate with the SEC in the development and refinement of regulatory policies. The expertise and insights gained from CDS operations can contribute valuable input to the regulatory framework, aligning it with market best practices and technological advancements.

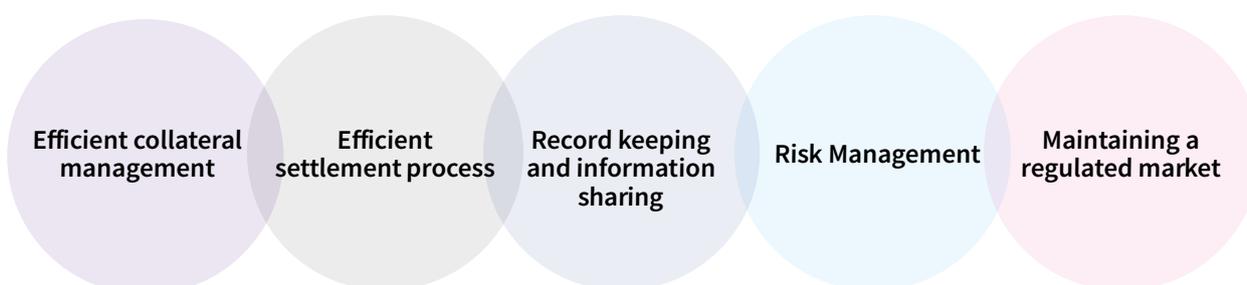
MARGIN PROVIDERS

VALUE CREATION REPORT

CDS provides a secure and centralized platform for margin providers to verify the ownership and status of securities pledged as collateral. This ensures that the collateral is valid and available for securing margin loans. Effective collaboration and information exchange between the CDS and margin providers are crucial for the smooth functioning of the margin financing ecosystem.



Value Proposition offered to margin providers



EFFICIENT COLLATERAL MANAGEMENT

The CDS facilitates efficient collateral management by providing a secure platform for the deposit and management of electronic securities used as collateral in margin trading. This ensures accuracy and transparency in tracking collateral values and eliminates the risks associated with physical certificates and provides a secure environment.

EFFICIENT SETTLEMENT PROCESS

The CDS contributes to the efficiency of settlement processes in margin trading. By providing a centralized platform for the settlement of securities transactions, the CDS ensures timely and accurate transfers of securities and funds, reducing settlement risk.

Further, we have automated margin calls and settlements, providing timely notifications and ensuring the smooth transfer of funds and securities between margin providers and margin clients. This automation reduces the operational burden on margin providers.

RECORD KEEPING AND INFORMATION SHARING

Margin providers benefit from real-time access to information on margin clients' securities holdings and transactions. This transparency allows margin providers to make informed decisions regarding margin requirements and risk exposure.

Further, we facilitate communication between margin providers and their clients. This includes electronic statements, notifications and other communication related to margin trading.

RISK MANAGEMENT

The CDS contributes to risk mitigation by implementing robust risk management measures in margin trading activities. This includes monitoring collateral values, assessing counterparty risk, and implementing measures to minimize the potential impact of market fluctuations.

MAINTAINING A REGULATED MARKET

We operate in compliance with regulatory standards related to margin trading and the safekeeping of collateral. Margin providers benefit from the assurance that their activities align with regulatory requirements, enhancing overall compliance.

WEALTH MANAGERS AND INVESTMENT BANKS

VALUE CREATION REPORT

CDS maintains a collaborative relationship with the wealth managers, where the services provided by the CDS play a vital role in effective and secure portfolio and investment management. Wealth managers leverage our infrastructure, efficiency and the information provided by us to meet their client objectives and navigate the complexities of the financial markets.



Value Proposition offered to wealth managers



STREAMLINED SECURITIES SETTLEMENT

The CDS facilitates efficient and secure settlement processes, ensuring the timely transfer of securities and funds between buyers and sellers. Wealth managers and investment bankers benefit from streamlined settlement, reducing operational risks and enhancing liquidity.

PROCESSING OF CORPORATE ACTIONS

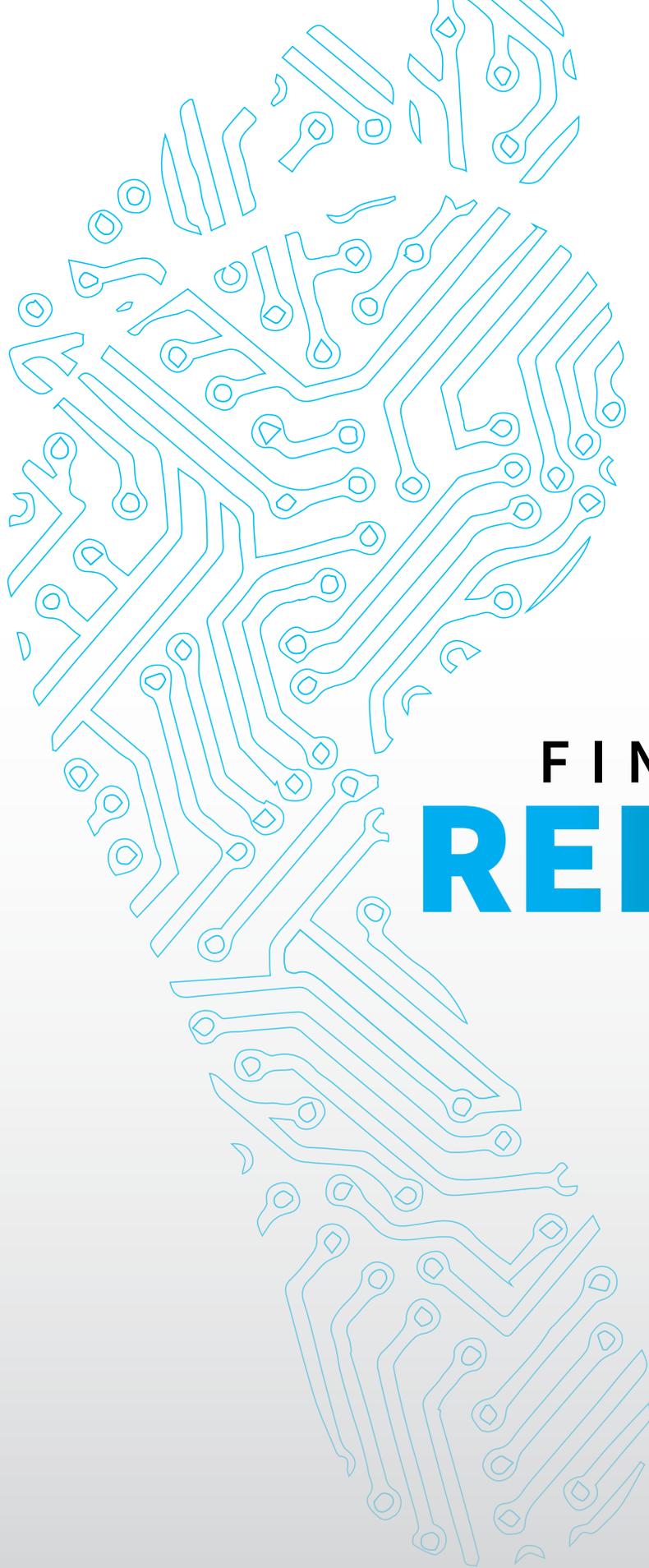
The CDS assists in the efficient processing of corporate actions, such as dividends, stock splits, and mergers. Wealth managers and investment bankers benefit from accurate and timely information on corporate actions, allowing them to make informed decisions on behalf of clients.

PORTFOLIO MANAGEMENT SUPPORT

We provide valuable support for portfolio management by offering accurate and comprehensive electronic records. Wealth managers can efficiently manage and monitor client portfolios, ensuring alignment with investment strategies. Further, wealth managers and investment bankers have real-time access to information on securities holdings, transactions, and ownership records. This transparency enables them to monitor portfolios, assess market trends, and make informed investment decisions.

COLLATERAL MANAGEMENT

We provide a secure platform for the use of electronic securities as collateral in various financial transactions. This is particularly relevant for investment bankers engaged in margin financing and other collateralized activities. Wealth managers and investment bankers can leverage our custody services to ensure the safekeeping of clients' assets, eliminating risks associated with physical certificates.



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

The Board of Directors of the Central Depository Systems (Pvt) Ltd. (CDS) has pleasure in presenting their Annual Report to the Members, together with the audited Financial Statements and Auditors' Report on those Financial Statements for the financial year ended 31st December 2023.

This Annual Report on the affairs of the Company contains the information required in terms of the Companies Act No. 07 of 2007.

The Financial Statements were reviewed and approved by the Board of Directors on 29th February 2024.

GENERAL

The Central Depository Systems (Pvt) Ltd is a fully owned subsidiary of the Colombo Stock Exchange, incorporated in Sri Lanka on 30th August 1991, under the Companies Act No.17 of 1982 and is licensed by the Securities and Exchange Commission of Sri Lanka (SEC). The CDS was re-registered as per the Companies Act No.7 of 2007 on 30th November 2007 with PV 1270 as the new number assigned to the Company.

Central Depository Systems (Pvt) Ltd is a Member of Asia-Pacific Central Securities Depository Group (ACG).

The policy making body of the CDS is the Board of Directors composed of six members.

The CDS Secretariat, headed by the Chief Executive Officer is responsible for the operations of the CDS, and is accountable to the Board of Directors.

VISION, MISSION AND CORPORATE CONDUCT

The Vision and Mission statements are given on Page 04 of the Annual Report. The business activities of the company are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission.

PRINCIPAL ACTIVITIES

The principal activity of the Company is acting as a depository for listed securities, performs the corporate actions services, registrar services and Facilitation of the Securities and fund Settlement.

There were no significant changes in the nature of principal activities of the Company during the financial year under review.

REVIEW OF OPERATION

A review of the activities of the CDS during the year is contained in the Chairman's Message on pages 16 to 17, the Chief Executive Officer's Message on pages 18 to 20, Senior Vice President of CDS's Message on pages 21 to 23 and the Operational Review on pages 50 to 58 the Annual Report 2023. These reports form an integral part of the Annual Report.

FUTURE DEVELOPMENTS

An overview of the future development of the CSE is given in the Chairman's Message on pages 16 to 17, the Chief Executive Officer's Message on pages 18 to 20, Senior Vice President of CDS's Message on pages 21 to 23 and the Operational Review on pages 50 to 58 the Annual Report 2023 These reports form an integral part of the Annual Report.

FINANCIAL STATEMENTS

The Financial Statement of the Company has been prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS, the Companies Act No. 07 of 2007 and other applicable statutory and regulatory requirements.

The Financial Statement of the Company for the year ended 31st December 2023, duly signed by the Senior Vice President- Finance and Administration and two of the Directors of the Company on pages 83 to 109 form an integral part of the Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Statement of Directors' Responsibility for the Financial Reporting given on page 79 forms an integral part of the Annual Report of the Board of Directors.

AUDITOR'S REPORT

KPMG, the Auditors of the Company carried out the audit on the Financial Statements for the year ended 31 December 2023 and their report on those statements which forms an integral part of the Report of the Board of Directors, on page 82 of this Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of the Financial Statements are given on pages 87 to 92.

GOING CONCERN

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the "going-concern" basis in preparing these Financial Statements.

INCOME

The income of the Company for 2023 was Rs.643 Mn (2022: Rs 654 Mn). An analysis of the income is given in Note 04,05 & 08 to the Financial Statements.

FINANCIAL RESULTS AND APPROPRIATIONS

The Company has recorded a Profit before tax of Rs.258 Mn (2022: Profit before tax Rs.328 Mn) and Profit after tax of Rs. 177 Mn (2022: Rs.238 Mn) for the year 2023.

The company's total other comprehensive income for the year 2023 was Nil (total other comprehensive income was Nil in 2022)

TAXATION

The income tax rate applicable on the Company and the subsidiary company was 30% for the year ended 31st December 2023(2022 –24% in first half of the year & 30% in second half of the year).

DIVIDEND

The Board of Directors of the CDS has not recommended a Dividend.

RESERVES

A summary of the consolidated reserves is given below.

As at 31st December	2023	2022
	Rs. 000	Rs. 000
Stated Capital	100,000	100,000
Other Reserve	166	166
Retained Earnings	1,422,094	1,244,872
Total	1,522,260	1,345,038

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

The total capital expenditure on acquisition of property and equipment and intangible assets of the Company Nil (2022: Nil). Details of property and equipment are given in Note 11 to the Financial Statements.

PROPERTY AND EQUIPMENT

Details of property and equipment are given in Note 11 to the financial statements.

DONATIONS

During the year Company has not made any donations. (Rs. Nil in 2022).

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.

OUTSTANDING LITIGATION

No any outstanding litigation against the Company.

EVENTS AFTER THE REPORTING DATE

Events after the Reporting Date has been disclosed in Note 23 of the Financial Statements.

BOARD OF DIRECTORS

The following Directors held office as at the Statement of Financial Position date:

NAME OF THE DIRECTORS

Mr. Dilshan Wirasekara (Chairman)
 Mr. Ray Abeywardena
 Mr. Dimuthu Abeysekera
 Mr. Kosala Gamage
 Mr. Arjuna Herath
 Mr. Jayantha Fernando
 Mr. Suren De Silva
 Mr. Sujeewa Peiris (Since 9th August 2023)

CDS Board has been reconstituted w.e.f 02nd January 2024 . The reconstituted CDS Board is as follows.

Name of the Directors

Mr. Ray Abeywardena (Chairman)
 Mr. Kosala Gamage
 Mr. Arjuna Herath
 Mr. Jayantha Fernando
 Ms. Priyanthi Pieris
 Mr. Channa de Silva

The number of Directors shall not be less than five (05) nor more than ten (10). The Board of Directors of the CSE serve as Directors of the CDS. Being the parent company, CSE appoints all of the Directors of the CDS. The CSE may at any time and from time to time remove any Director of the CDS and appoint another in place of the person so removed or fill any vacancy in the office of Director howsoever created.

The details of the Directors' meetings which comprise Board meetings, Special Board Meetings, Risk Committee Meetings, Audit Committee Meetings, HR Committee Meetings, Nominations Committee meetings and the attendance of Directors at these meetings are given on page 32 of the Annual Report.

BOARD SUB COMMITTEE

CDS has its own Board Sub Committees. The composition of the Board sub committees, comprising of Non-Executive Directors is provided on pages 30 to 36.

The report of the Board Audit Committee is given on pages 80 to 81.

DIRECTORS' INTEREST REGISTER

The CDS maintains a Directors' Interests Register in compliance with the provision of the Companies Act No. 7 of 2007. The Directors of the CDS has disclosed their interests in other companies to the Board and those interests are recorded in the Interests Register conforming to the provisions of the Companies Act No.7 of 2007. The particulars of those entries are set out on Note 23 to the Financial Statements and form an integral part of the Annual Report of the Board of Directors.

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

RELATED PARTY TRANSACTIONS

The Directors have also disclosed transactions if any, that could be classified as related party transactions in terms of LKAS 24 “Related Party Disclosures” which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in Note 23 to the financial statements forming part of the Annual Report of the Board of Directors.

DIRECTORS’ REMUNERATION

The Company has not made any payments on account of Directors’ remuneration.

ENVIRONMENTAL PROTECTION

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

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. A separate report on risk management is given on pages 37 to 39.

Internal Control

The strong internal controls are integral to the sound management of the Company, hence the Board committed to maintain strict financial, operational and risk management controls over all its activities including safeguard the assets of the Company and prevent and detect frauds.

There is an ongoing process for identifying, recording, evaluating and managing the risks that are faced by the Company, and the Directors have reviewed this process, through the Board Audit and Risk Committee including internal reviews, internal audits and system audits.

CORPORATE GOVERNANCE

The Directors and Management of the CDS have placed emphasis on conforming to the best corporate governance practices and procedures. A separate report on Corporate Governance is given on pages 29 to 36 in the Annual Report.

AUDITORS

The Company’s Auditor’s during the period under review was KPMG, Chartered Accountants. Audit Fees and reimbursement of expenses paid to KPMG during the year under review by the Company amounted to Rs. 561,600 (Rs. 480,000 in 2022). Further, Rs.219,000 (Rs. 204,899 in 2022) was paid on account of tax related services. The detail of their remuneration is given in Note 7 to the Financial Statements.

As far as the Directors are aware the Auditors do not have any interest with the CDS other than those disclosed above.

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

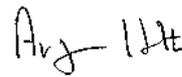
ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

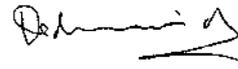
For and on behalf of the Board of Directors.



Mr. Ray Abeywardena
Chairman



Mr. Arjuna Herath
Director



Corporate Services (Private) Limited
Secretaries

06th May 2024
Colombo

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to Financial Statements, is set out in the Report of the Auditors' on the Annual Report.

As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2023, and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flows for the year then ended and Notes thereto.

The Financial Statements of the Company give a true and fair view of:

the state of affairs of the Company as at the Statement of Financial Position date and the Profit or Loss of the Company for the financial year ended on the Statement of Financial Position date.

The Directors have ensured that, in preparing these Financial Statements:

1. The appropriate accounting policies have been selected and applied in a consistent manner. Material departures, if any have been disclosed and explained;
2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

The Directors confirm that the Financial Statements of the CDS for the year ended 31st December 2023 presented in this Annual Report have been prepared in accordance with the Sri Lanka Accounting Standards prefixed SLFRS and LKAS, Companies Act No: 7 of 2007 and Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995.

The Directors have adopted the going concern basis in preparing the Financial Statements. The Directors are of the view that the CDS has adequate resources to continue in operation.

The Directors have taken reasonable steps to safeguard the assets of the CDS and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view of preventing and detecting fraud and other irregularities. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy.

Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, with every opportunity to carry out any reviews and tests that were considered appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

The Financial Statements of the Company and its Subsidiary have been certified by the Company's Senior Vice President-Finance and Administration, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the Financial Statements of the Company has been signed by two Directors on 29th February 2024 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act No.7 of 2007.

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

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

By order of the Board



Corporate Services (Private) Limited
Secretaries

06th May 2024
Colombo

AUDIT COMMITTEE REPORT

The Audit Committee of the Colombo Stock Exchange (CSE), the parent company of Central Depository Systems (Pvt) Ltd (CDS), functions as the Audit Committee of the company.

COMPOSITION OF THE COMMITTEE

Audit Committee of the Colombo Stock Exchange (CSE) comprises of 2 appointed Directors and 1 elected Director.

The members of the Audit Committee appointed by the Board are;

Mr. Arjuna Herath-Chairman

Mr. Suren De Silva

Mr. Sujeewa Pieris
(Appointed w.e.f. 9th August 2023)

All 3 members of the Audit Committee are Non-Executive Directors.

The Chief Executive Officer, Chief Regulatory Officer, Chief Information Officer, Senior Vice President- Finance & Administration, Vice President -Internal Audit, other relevant Senior Management members and External Auditors & Internal Auditors attend the meetings of the Audit Committee on invitation.

RESPONSIBILITIES AND DUTIES OF THE COMMITTEE

The responsibilities and duties of the Committee were based on the Terms of Reference (TOR) adopted by the Company in terms of best practices. The TOR as approved by the Board of Directors, include the following functions:

- To review significant accounting and reporting issues, including complex or unusual transactions, recent professional and regulatory pronouncements, and understand their impact on financial statements of the Company.
- To review the effectiveness of the Company's internal control systems.

- To monitor and review the effectiveness of the Company's internal audit function, in the context of the overall financial control and risk management of the Company.
- To assess independence and objectivity of the external auditor.
- To make recommendations to the Board of Directors on the appointment, reappointment and removal of the CSE's external auditor.

MEETINGS OF THE COMMITTEE

During the year, five (5) Audit Committee meetings were held to discuss relevant matters including, but not limited to budget, investments, reports of the Internal and External Auditors and Annual/Quarterly accounts. The Company Secretary functions as the Secretary to the Audit Committee. Minutes of each committee meeting were recorded and submitted for confirmation at the immediate subsequent committee meeting and subsequently presented to the Board for ratification.

INTEGRITY OF FINANCIAL STATEMENTS

The Committee reviewed the appropriateness of the accounting policies used and the financial statements of the group to assess their integrity and compliance with Accounting Standards. The Committee reviewed and discussed with the management, the quarterly financial statements and recommended the same for approval of the Board. The Committee during the year reviewed and approved changes in Authority Limits and reviewed the Fixed Assets verification audit reports and provided the recommendation to the management to address the audit recommendations.

INTERNAL CONTROLS

The Committee reviewed the effectiveness of the Group's internal control systems and recommended, where necessary, appropriate remedial measures.

EXTERNAL AUDIT

The independence of the External Auditor was evaluated by the Committee and the Committee also reviewed the non-audit services provided by the Auditors to ensure that the provision of such services does not impair the External Auditors' independence. The Committee met with the External Auditor during the year to discuss their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence.

The Auditors presented all relevant matters arising from the audit with the key Management Letter points and the Committee discussed the management responses as well.

The Audit Committee reviewed the Consolidated Financial Statements audited by the External Auditor for the financial year ended 31st December 2023 and recommended the Financial Statements for submission to the Board. The Committee also reviewed and recommended to the Board of Directors the Letter of Representation to be given to the External Auditors for the year 2023.

The Audit Committee met with the engagement partner of the External Auditor during the year, in the absence of Key Management Personnel to ensure that there were no limitations of the scope in relation to the audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The Committee concluded that there was no cause for concern.

The Audit Committee recommended for approval at the Annual General Meeting, the re-appointment of the External Auditor and for the Board of Directors to fix the Auditors' remuneration.

INTERNAL AUDIT

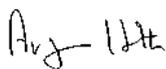
The Internal Audit Charter governing the Mission, Purpose, Responsibilities, Scope and Accountability of the Internal Audit Division was presented to the Audit Committee Meeting in early 2023.

The Purpose of the Internal Audit Division as highlighted in the Internal Audit Charter is as follows:

- Overall Risk Management Process
- Strengthen the Internal Controls in all areas
- Ensure Compliance with Policies, Procedures and Regulations
- Recommend opportunities for Process Improvement and enhancing Efficiency
- Enhancing System Controls

In-line with the above requirements, an internal audit plan was developed and executed with the approval of the Audit Committee. Improved Policies, Procedures and Controls arising from the audits were recommended for implementation. The findings of the internal auditor together with management comments and agreed action plans were reviewed by the Committee during the year and approved for implementation. An IT systems audit was also conducted with the assistance of an external service provider and recommended controls are in the process of being implemented.

On behalf of the Audit Committee;



Arjuna Herath
Chairman – Audit Committee

Colombo

06th May 2024

INDEPENDENT AUDITOR'S REPORT



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426
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TO THE SHAREHOLDERS OF CENTRAL DEPOSITORY SYSTEMS (PRIVATE) LIMITED REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Central Depository Systems (Private) Limited ("the Company"), which comprise the statement of financial position as at December 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for professional Accountants (including Sri Lanka Independence Standards) 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.

OTHER INFORMATION

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

Our opinion on the financial statements does not cover the other information and we 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: http://slaasc.com/auditing/auditors_responsibility.php. This description forms part of our auditor's report.

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.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
04 March 2024

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

C. P. Jayatilake FCA
Ms. S. Joseph FCA
S. A. U. Karunaratne FCA
R. H. Rajan FCA
A.M.R.P. Alahakoon ACA

T. J. S. Rajakarier FCA
W. K. D. C. Abeyratne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

W. W. J. C. Perera FCA
S. T. D. L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
R. W.M.Q.W.D.B. Rathnadiwakara FCA

Principals: S.R.J. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTI

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As At 31st December		2023	2022
	Note	Rs.'000	Rs.'000
Revenue	4	257,344,238	391,501,145
Other Income	5	60,180,680	51,690,402
		317,524,918	443,191,547
Staff Cost	6	(81,769,998)	(62,744,262)
Other Operating Expenses	7	(304,280,922)	(258,625,735)
Impairment Charges and Other Credit Losses on Financial Assets		948,162	(5,101,835)
Net Finance Income	8	325,444,487	211,223,866
Profit before Taxation		257,866,647	327,943,581
Income Tax Expenses	9	(80,644,582)	(89,916,367)
Profit for the Year		177,222,065	238,027,214
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		177,222,065	238,027,214
Earnings per Share	10	17.72	23.80

The Notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION

As at 31 December,		2023	2022
	Note	Rs.	Rs.
ASSETS			
Non Current Assets			
Property & Equipment	11	44	44
Investments in LFSB	12	1,165,966	1,165,966
Financial Investment at amortised Cost	13	104,326,320	100,296,099
Total Non Current Assets		105,492,330	101,462,109
Current Assets			
Inventories		80,833	357,170
Trade and Other Receivables	14	61,138,052	65,737,381
Other Investments	15	1,409,743,260	1,198,933,897
Cash and Cash Equivalents	16	316,261,006	391,226,964
Total Current Assets		1,787,223,151	1,656,255,412
Total Assets		1,892,715,481	1,757,717,521
EQUITY AND LIABILITIES			
Stated Capital	17	100,000,000	100,000,000
Retained Earnings		1,422,094,238	1,244,872,173
Other Reserve		165,965	165,965
Total Equity		1,522,260,203	1,345,038,138
Current Liabilities			
Brokers' Liquidity and Margin Deposit		225,203,777	326,252,558
Accrued Expenses and Sundry Creditors		13,853,648	20,882,774
Amounts due from Related Company	18	89,105,315	4,729,300
Income Tax Payable		42,292,538	60,814,751
Total Current Liabilities		370,455,278	412,679,383
Total Equity and Liabilities		1,892,715,481	1,757,717,521

The Notes annexed form an integral part of these Financial Statements.

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



Kusal Nissanka

Senior Vice President - Finance & Administration

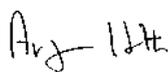
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed on behalf of the Board;



Ray Abeywardena

Chairman



Arjuna Herath

Director

29 February 2024

Colombo.

STATEMENT OF CHANGES IN EQUITY

	Stated Capital	Other Reserve	Retained Earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.
Balance as at 01 January 2022	100,000,000	165,965	1,006,844,959	1,107,010,924
Total Comprehensive Income				
Profit for the Year	-	-	238,027,214	238,027,214
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income / (Expense) for the Year	-	-	238,027,214	238,027,214
Balance as at 31 December 2022	100,000,000	165,965	1,244,872,173	1,345,038,138
Balance as at 01 January 2023	100,000,000	165,965	1,244,872,173	1,345,038,138
Total Comprehensive Income				
Profit for the Year	-	-	177,222,065	177,222,065
Other Comprehensive Income	-	-	-	-
Total Other Comprehensive Income for the Year, Net of Tax	-	-	-	-
Total Comprehensive Income for the Year	-	-	177,222,065	177,222,065
Balance as at 31 December 2023	100,000,000	165,965	1,422,094,238	1,522,260,203

The Notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December,		2023	2022
	Note	Rs.	Rs.
Cash Flows from Operating Activities			
Profit before Taxation		257,866,647	327,943,581
Adjustments For:			
Interest Income	8	(325,444,487)	(210,488,726)
Fair Value Gain on Financial Assets Measured at FVTPL	8	-	(735,140)
Impairment provision		(4,931)	4,580
Gratuity Provision-Transfer from Related Company		11,814,889	4,117,621
Provision of Bad Debts	14	(943,231)	5,097,255
Operating Loss before Working Capital Changes		(56,711,113)	125,939,171
Changes in Working Capital			
Decrease/(Increase) in Inventories		276,337	(196,996)
Decrease in Receivables		3,916,064	33,125,615
Decrease in Amounts receivable from Related Company		72,561,126	106,846,362
(Decrease)/ Increase in Payables		(7,029,126)	3,163,314
Decrease in Brokers Deposit		(101,048,781)	(851,932,450)
		(88,035,493)	(583,054,984)
Income tax paid		(99,166,795)	(114,295,012)
Net Cash Flows Generated from (Used in) Operating Activities		(187,202,288)	(697,349,996)
Cash Flows from Investing Activities			
Interest Received		271,766,780	131,910,603
(Increase) / Decrease Investment in Fixed Deposit		250,000,000	(50,000,000)
Increase Investment in Treasury Bills		(409,530,450)	(203,671,883)
(Increase) / Decrease Investment in Treasury Bonds		-	(99,586,656)
(Increase) / Decrease in Investments in Unit Trusts		-	51,031,019
Net cash Generated from Investing Activities		112,236,330	(170,316,917)
Net (Decrease)/Increase in Cash and Cash Equivalents		(74,965,958)	(867,666,913)
Cash and Cash Equivalents at beginning of the Year		391,226,964	1,258,893,877
Cash and Cash Equivalents at End of the Year		316,261,006	391,226,964
Analysis of Cash and Cash Equivalents at End of the year			
Overnight Repos		311,495,401	388,843,169
Cash at Bank		4,673,005	2,291,195
Cash in Hand		75,000	75,000
RTGS Account		17,600	17,600
Cash & Cash Equivalents	16	316,261,006	391,226,964
Net Cash & Cash Equivalents at End of the Year		316,261,006	391,226,964

The Notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1. Domicile and Legal Form

Central Depository Systems (Private) Limited is a Limited Liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 4 - 01, West Block, World Trade Center, Echelon Square, Colombo 01, and the principal place of business is situated at Ground Floor - M & M Center, 341/5, Kotte Road, Rajagiriya.

1.2. Principal Activities and Nature of Operations

The principal activity of the Company is clearing and settlement of securities traded in the Colombo Stock Exchange and to act as depository for such securities. All employees of the Company are seconded from the Colombo Stock Exchange.

1.3. Parent Enterprise

The Company is the fully owned subsidiary of the Colombo Stock Exchange.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Financial Statements 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 Notes to the Financial Statements thereto, have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No. 07 of 2007.

The Financial Statements were authorized for issue by the Board of Directors on 29th February 2024.

2.2. Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial assets at Fair Value through Profit or Loss (FVTPL) are measured at fair value;
- Financial assets at Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value; and
- Liabilities for defined benefit obligations are measured at its present value.

2.3. Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional currency. Financial information presented in Sri Lanka Rupees has been rounded to the nearest rupee.

2.4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of Assets, Liabilities, Income and Expenses. Actual results may differ from these estimates.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Company.

3.1. Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in

foreign currencies at the Reporting Date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the profit or loss.

3.2. Financial Instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) - debt investment; fair value through other comprehensive income (FVOCI) - equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

NOTES TO THE FINANCIAL STATEMENTS

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets -Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g.

liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3.3. Property and Equipment

3.3.1. Recognition and Measurement

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost 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 that equipment.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3.3.2. Subsequent Costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in the profit or loss as incurred.

3.3.3. Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives of the Property, Plant & Equipment of the Company as at 31st December 2023 are as follows:

	Rate
Furniture & Fittings	10 years
Hardware and Software	5-10 years
Office Equipment	5 years
Telephones	4 years

The depreciation rates are determined separately for each significant part of an item of Property & Equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognized.

3.4. Intangible Assets

Intangible Assets consist of application software used in trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.

3.4.1. Basis of Recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with the LKAS 38, Intangible Assets.

3.4.2. Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

3.4.3. Amortization

Intangible Assets are amortized on a straight-line basis to profit or loss, from the date when the asset

NOTES TO THE FINANCIAL STATEMENTS

is available for use, over the best estimate of its useful economic life.

3.4.4. Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

3.4.5. De recognition of Intangible Assets

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use. Gain or losses arising from de recognition of an intangible asset are measured as the difference between the net disposals proceed and the carrying amount of the asset and are recognized in profit or loss.

3.5. Inventories

Inventories include stationeries measured at the lower of cost and net realizable value.

3.6. Impairment of Assets

3.6.1 Non-derivative Financial Assets Financial instruments and contract assets

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when:

- the Customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to

the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures to recovery of amount due.

3.7. Employee Benefits

3.7.1. Short – Term Employee Benefits

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 plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.7.2. Defined Contribution Plan – Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contribution into separate entity and will have no legal or constructive obligation to pay further amounts.

All employees who are eligible for Employees' Provident Fund and Employees' Trust Fund are covered by relevant contributions to the defined contribution plans and are recognized as an expense in profit or loss when incurred.

(a) Employees' Provident Fund

The Company and employee contribute 12% and 8% respectively on the basic salary of each employee to the employees' approved provident fund.

(b) Employees' Trust Fund

The Company contributes 3% of the basic salary of each employee to the employee's trust fund.

3.8. Provisions

A provision is recognized if the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.9. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

3.9.1. CDS Fees

CDS fees on securities traded on the stock exchange are recognized on a trade date basis.

3.9.2. Listed Company Fees

Listed Company Fee is charged based on the number of trades and Rs.15/- will be charged per trade, subject to a minimum charge of Rs.25,000/- and a maximum charge of Rs.750,000/- per annum. It has been revised Rs.15/- will be charged per trade, subject to a minimum charge of Rs.37,500/- and a maximum charge of Rs.1,125,000/- per annum w.e.f.03rd April 2023.

3.9.3. Charges for Computer Information

The CDS charge a fee on a pre-determined basis from listed companies for the service rendered pertaining to providing information and fees are recognized on an accrual basis.

3.9.4. Other Income Participant Fees

- Participant fees are recognized on an accrual basis and charged from custodian Banks as monthly fee of Rs. 10,000/- for Normal service & Rs.15,000/- for enhances services and it has been increased to Rs.25,000/- for monthly services w.e.f.01st March 2023.

Registrar Services and Corporate Actions Income

- Company provides registrar services and facilitates corporate actions for listed companies and shareholders of listed companies.

3.9.5. Net Finance Income

- Dividend from Unit Trust is recognized in profit or loss on an accrual basis when the Company's right to receive the dividend is established.
- Interest income is recognized in profit or loss as it accrues, using the effective interest method.

3.10. Taxation

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 taxes. Income tax expense is recognized in the income statement.

3.10.1. Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Reporting Date, and any adjustment to tax payable in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and subsequent amendments thereto.

The Company is Liable for income tax at the rate of 30% on the taxable profit for the year ended 31st December 2023 and at the rate of 24% on the taxable profit for the period ended 30th June 2022 and at the rate of 30% on the taxable profit w.e.f. 1st July 2022.

3.10.2. Other Tax Exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether

additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.10.2.1. Value Added Tax (VAT)

Value Added Tax is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. VAT is payable at 8% up to 31st May 2022, at 12% from 01st June 2022 to 30th September 2022 and at 15% w.e.f. 1st October 2022.

3.10.2.2. Social Security Contribution Levy (SSCL)

Social Security Contribution Levy shall be paid by any person carrying on the business of supplying financial services on the liable turnover specified in the Second Schedule of the Social Security Contribution Levy Act, No. 25 of 2022 (SSCL Act) at the rate of 2.5% w.e.f. 1st October 2022.

3.11. Related party transactions

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

3.12. Statement of cash flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flow', whereby operating activities, investing activities and financing activities are separately recognised.

Cash and cash equivalents comprise of short-term, highly

NOTES TO THE FINANCIAL STATEMENTS

liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

3.13. New Accounting Standards Issued but not Effective

The Institute of Chartered Accountants of Sri Lanka has issued number of new Sri Lanka Accounting Standards (SLFRSs/ LKASs) and amendments that are effective for annual periods beginning after the current financial year. Accordingly these standards have not been applied in preparing these financial statements and the Company plans to apply these standards if applicable as and when they become effective.

Company does not expect the following new Accounting standards, amendments and interpretations that will become effective for future accounting periods will have a significant impact on the Company's financial statements.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after 1 January 2024.

Other Standards

- Lease liability in a sale and leaseback (Amendments to IFRS 16)
- Lack of exchangeability (Amendments to IAS 21)

3.14. Changes in accounting policies

Several amendments apply from 1 January 2023, but do not have an impact on the Financial Statements of the Company. The Company has not early adopted any standards or amendments that have been issued but are not yet effective.

For the year ended 31 December,		2023	2022
		Rs.	Rs.
4	REVENUE		
	CDS Fees	185,447,673	306,548,035
	Listed Company Fees	52,265,405	63,980,960
	Charges for Computer Information	19,631,160	20,972,150
		257,344,238	391,501,145
5	OTHER INCOME		
	Participant Fees	3,550,000	1,770,000
	Miscellaneous Income	17,208,604	20,203,856
	Registrar Services and Corporate Actions Income	39,422,076	29,716,546
		60,180,680	51,690,402
6	STAFF COST		
	Salaries	56,566,643	47,122,754
	Bonus	6,730,222	5,881,486
	Terminal Benefits (Gratuity)	11,814,889	4,117,621
	Staff Welfare	2,490,150	1,992,047
	Medical and Insurance Expenses	3,629,406	2,975,496
	Transport & Travelling	538,688	654,858
		81,769,998	62,744,262

The Number of Employees at the end of the Year 2023 was 24 (2022 - 25).

For the year ended 31 December,		2023	2022
		Rs.	Rs.
7	OTHER OPERATING EXPENSES		
	Rent	10,152,917	13,860,117
	Administration Expenses	19,357,292	14,385,459
	CDS Statement Expenses	268,682	303,974
	Stationery Expenses	1,052,356	1,019,770
	Maintenance Expenses	49,454,852	38,226,901
	CDS System Maintenance	127,289,467	115,321,868
	Training Expenses	196,823	1,464,121
	Conference Expenses	2,260,217	-
	Disallowed VAT	32,950,468	24,932,616
	Social Security Contribution Levy (SSCL)	4,755,014	1,323,476
	Investor Education & Foreign Road Show Expenses	15,821,987	10,909,584
	Publication & Website Expenses	3,617,532	4,827,095
	Issuer Relation Expenses	534,467	62,744
	CSE Profit Margin	10,489,825	8,323,042
	Management Fee	2,000,000	2,000,000
	Auditors Remuneration	691,127	537,671
	Other Professional Charges	9,427,113	9,642,120
	SMS Alert Expenses	392,856	460,853
	Risograph Expenses	2,755	-
	Other Project Cost	13,565,172	11,024,324
		304,280,922	258,625,735
For the year ended 31 December,		2023	2022
		Rs.	Rs.
8	NET FINANCE INCOME		
	Interest Income	325,444,487	210,488,726
	Fair Value Gain on Financial Assets Measured at FVTPL	-	735,140
		325,444,487	211,223,866
For the year ended 31 December,		2023	2022
		Rs.	Rs.
9	TAXATION		
9.1	Income Tax Expense		
	Current tax expense (Note 09.2)	80,620,012	89,916,367
	under/(over) adjustment	24,570	
		80,644,582	89,916,367

NOTES TO THE FINANCIAL STATEMENTS

Income tax has been computed according to the provisions of the the Inland Revenue Act No. 24 of 2017 in 2018 and the Inland Revenue Act No.10 of 2006 and subsequent amendments thereto in 2017. Taxation is provided at 30% of taxable profit of the company for the year ended 2023 and 24% of taxable profit of the company for the period ended 30th June 2022 and at 30% of taxable profit of the company with effective from 1st July 2022.

9.2 Reconciliation on Accounting Profit to Income Tax

For the year ended 31 December,	2023	2022
	Rs.	Rs.
Profit before Taxation	257,866,647	327,943,581
Adjustment on Disallowable Expenses	10,866,727	9,219,456
Adjustment on Allowable Expenses	-	(4,792,862)
Investment Income	(325,444,487)	(210,488,726)
Business Income	(56,711,113)	121,881,449
Investment Income	325,444,487	210,488,726
Assesable Income	268,733,374	332,370,175
Total Assessable Income	268,733,374	332,370,175
Tax Loss Utilized	-	-
Taxable Income	268,733,374	332,370,175
Income Tax	80,620,012	89,916,367
Income Tax on Current year Profit	80,620,012	89,916,367

10 EARNINGS PER SHARE

Earnings per ordinary share has been calculated by dividing the profit attributable to the Ordinary Shareholders by the Weighted Average Number of Ordinary Shares in issue during the Year.

For the Year Ended 31 December	2023	2022
	Rs.	Rs.
Profit attributable to Ordinary Shareholders (Rs.)	177,222,065	238,027,214
Weighted Average Number of Ordinary Shares in issue during the Year	10,000,000	10,000,000
Earnings per Share (Rs.)	17.72	23.80

11 PROPERTY & EQUIPMENT

Company	Furniture & Fittings	Computers & Office Equipment	Telephones	Total
	Rs.	Rs.	Rs.	Rs.
Cost				
As at 01 January 2023	391,317	2,997,156	60,850	3,449,323
Additions / Transfers	-	-	-	-
Disposals / Transfers	-	-	-	-
As at 31 December 2023	391,317	2,997,156	60,850	3,449,323
Accumulated Depreciation				
As at 01 January 2023	391,293	2,997,140	60,848	3,449,281
Additions / Transfers	-	-	-	-
Disposals / Transfers	-	-	-	-
As at 31 December 2023	391,293	2,997,140	60,848	3,449,281
Net Book Value				
As at 31 December 2023	25	17	2	44
As at 31 December 2022	25	17	2	44
Intangible Assets				
		2023	2022	
		Rs.	Rs.	
Cost				
Balance as at 01 January		432,695	432,695	
Acquisition and Transfers during the year		-	-	
Balance as at 31 December		432,695	432,695	
Accumulated Amortization				
Balance as at 01 January		432,695	432,695	
Charge for the year		-	-	
Balance as at 31 December		432,695	432,695	
Net Book Value		-	-	

Intangible Assets consist of application software used in settlement of the Central Depository Systems (Pvt) Ltd.

NOTES TO THE FINANCIAL STATEMENTS

12 INVESTMENT IN LFSB

As at 31 December	2023	2022
	Rs.	Rs.
Ordinary Shares	1,000,000	1,000,000
	1,000,000	1,000,000
Fair Value Gain on Financial Assets Measured at FVTOCI	165,966	165,966
	1,165,966	1,165,966

Lanka Financial Services Bureau Ltd (LFSB) issued 100,000 Ordinary shares to the Central Depository Systems (Pvt) Ltd. LFSB is the SWIFT service Bureau for Sri Lanka which facilitates inter-bank transactions.

13 FINANCIAL INVESTMENT AT AMORTISED COST

As at 31 December	2023	2022
	Rs.	Rs.
Investments in Treasury Bonds	99,586,656	99,586,656
Interest Receivable	4,739,664	709,443
	104,326,320	100,296,099

14 TRADE & OTHER RECEIVABLES

As at 31 December	2023	2022
	Rs.	Rs.
Trade Debtors	59,185,046	63,737,010
Provision for Impairment	(7,774,807)	(8,718,038)
	51,410,239	55,018,972
Other Receivables	9,727,813	10,718,409
	61,138,052	65,737,381

15 OTHER INVESTMENTS

Treasury bills

As at 31 December	2023	2022
	Rs.	Rs.
Investments in Treasury Bills	1,272,238,176	862,707,727
Interest Receivable	137,505,084	75,907,725
	1,409,743,260	938,615,452

Fixed deposits

Investments in Fixed Deposits	-	250,000,000
Interest Receivable	-	10,323,376
	-	260,323,376

Less : Impairment Charges on Financial Assets	-	(4,931)
	-	260,318,445

	1,409,743,260	1,198,933,897
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16 CASH & CASH EQUIVALENTS

As at 31 December	2023	2022
	Rs.	Rs.
Repo and Overnight Repos	311,495,401	388,843,169
Cash at Bank	4,673,005	2,291,195
Cash in Hand	75,000	75,000
RTGS Account	17,600	17,600
	316,261,006	391,226,964

17 STATED CAPITAL

As at 31 December	2023	2022
	Rs.	Rs.
Issued and Fully Paid		
Ordinary Shares	100,000,000	100,000,000
	100,000,000	100,000,000

The above amount represents 10,000,000 Ordinary Shares.

18 AMOUNTS DUE FROM RELATED COMPANY

As at 31 December	2023	2022
	Rs.	Rs.
Relationship		
Colombo Stock Exchange Parent Company	-	-
	-	-
Amounts due to Related Company		
Relationship		
Colombo Stock Exchange Parent Company	89,105,315	4,729,300
	89,105,315	4,729,300

19 GRATUITY PROVISION

Gratuity provision is made in the Financial Statements of Colombo Stock Exchange (CSE) and the relevant cost is apportioned to the Central Depository Systems (Pvt) Ltd based on the actual provision.

20 CONTINGENCIES & COMMITMENTS**20.1 Tax Assessments Against the CDS**

The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs.2.2 Mn for the Year of Assessment 2016/17, Rs.3.9 Mn for the Year of Assessment 2017/18, and Rs.1.5 Mn for the Year of Assessment 2019/2020 and assessment notice for Value Added Tax amounting to Rs.0.7 Mn for the tax period of Quarter 1 2018, Rs.0.3 Mn for the tax period of Quarter 1 2020, Rs.0.1 Mn for the tax period of Quarter 2 of 2020, Rs. 0.01 Mn for the tax period of Quarter 3 2020, Rs.0.3 Mn for the tax period of Quarter 4 2020 and Rs.0.08 Mn for the tax period of Quarter 1 2021. The CDS has appealed to quash the income tax and VAT assessment issued by the Department of Inland Revenue. The management of CDS is of the view that the above assessment will not have any material impact on the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

21 FINANCIAL INSTRUMENTS

21.1 Financial Risk Management

Overview

The Company has exposure to the following risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Financial Statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. In discharging its governance responsibility it operates through Risk & Audit Committee. The primary function of the Committee is to ensure the establishment of appropriate risk management framework within the Group. The Risk Committee is assisted in these functions by Internal Audit and the results are reported to the Risk & Audit Committee. The Risk Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Credit risk

Credit risk is the risk of financial loss to the company if counterparty to a financial instrument fails to meet its contractual obligations. The company is exposed to credit risk primarily from investment in unit trust, trade & other receivables which are financial assets and cash and bank balances with financial institutions. Fact sheets of the unit trust are observed and reported to investment committee. Fixed deposit investments are in financial institutions which are having good credit ratings. Receivables are monitored to ensure that exposure to bad debts are minimised.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to honour its financial obligations as they fall due.

Finance division monitors the cash flow forecasts of the Company to ensure sufficient cash available to meet operational needs.

The following are the remaining contractual maturities at the end of the reporting period of financial assets and liabilities.

21.2 Accounting Classification and Fair Values

As at 31 December 2023

		Financial Assets at Amortised Cost	Financial Assets at FVTPL	Financial Assets at FVOCI	Financial Liabilities measured at Amortized Cost	Total Carrying Amount	Fair Value
	Note	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in Hand	16	75,000	-	-	-	75,000	75,000
Balances with Banks & Financial Institutions	16	316,186,006	-	-	-	316,186,006	316,186,006
Other Investment	15	1,409,743,260	-	-	-	1,409,743,260	1,409,743,260
Financial Investment at amortised Cost	13	104,326,320	-	-	-	104,326,320	104,326,320
Investments in LFSB	12	-	-	1,165,966	-	1,165,966	1,165,966
Trade and Other Receivables	14	61,138,052	-	-	-	61,138,052	61,138,052
Total Financial Assets		1,891,468,638		1,165,966	-	1,892,634,604	1,892,634,604

As at 31 December 2023							
		Financial Assets at Amortised Cost	Financial Assets at FVTPL	Financial Assets at FVOCI	Financial Liabilities measured at Amortized Cost	Total Carrying Amount	Fair Value
	Note	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Liabilities							
Due to Brokers		-	-	-	225,203,777	225,203,777	225,203,777
Amounts due to Related Company		-	-	-	89,105,315	89,105,315	89,105,315
Other Financial Liabilities		-	-	-	13,853,648	13,853,648	13,853,648
Total Financial Liabilities		-	-	-	328,162,740	328,162,740	328,162,740

As at 31 December 2022							
		Financial Assets at Amortised Cost	Financial Assets at FVTPL	Financial Assets at FVOCI	Financial Liabilities measured at Amortized Cost	Total Carrying Amount	Fair Value
	Note	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in Hand	16	75,000	-	-	-	75,000	75,000
Balances with Banks & Financial Institutions	16	391,151,964	-	-	-	391,151,964	391,151,964
Financial Assets at FVTPL	16	-	-	-	-	-	-
Other Investment		1,198,933,897	-	-	-	1,198,933,897	1,198,933,897
Investments in LFSB	12	-	-	1,165,966	-	1,165,966	1,165,966
Financial Investment at amortised Cost	13	100,296,099	-	-	-	100,296,099	100,296,099
Trade and Other Receivables	14	65,737,381	-	-	-	65,737,381	65,737,381
Total Financial Assets		1,756,194,341	-	1,165,966	-	1,757,360,307	1,757,360,307
Liabilities							
Due to Brokers		-	-	-	326,252,558	326,252,558	326,252,558
Amounts due to Related Company		-	-	-	4,729,300	4,729,300	4,729,300
Other Financial Liabilities		-	-	-	20,882,774	20,882,774	20,882,774
Total Financial Liabilities		-	-	-	351,864,632	351,864,632	351,864,632

21.3 Fair Values of Financial Instruments

21.3.1 Valuation Models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs that have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE FINANCIAL STATEMENTS

21.3.2 Financial Instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

31 December 2023	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Investments in LFSB	-	-	1,165,966	1,165,966
Total Financial Assets	-	-	1,165,966	1,165,966
Liabilities				
	-	-	-	-
31 December 2022				
Assets				
Investments in LFSB	-	-	1,165,966	1,165,966
Total Financial Assets	-	-	1,165,966	1,165,966
Liabilities				
	-	-	-	-

21.3.3.1 Level 2 Fair Value Measurements

Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 2 of the fair value hierarchy.

Financial Assets at FVTPL	2022
	Rs.
Balance at 01 January 2022	50,295,879
Total gains or losses:	
- in profit or loss	735,140
Purchases	-
Redemption	(51,031,019)
Balance at 31 December 2022	-
Balance at 31 December 2023	-

21.3.3.2 Unobservable inputs Used in Measuring Fair Value

The fair value of Unit Trust investments are determined by the relevant Unit Trust Fund Management Company. The Unit Trust Fund Management company provides the fair value of the Group's investment portfolio monthly.

21.3.3.3 Financial Instruments Not Measured at Fair Value

This table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2023	Level 01	Level 02	Level 03	Total Fair Values	Total Carrying Amount
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash & Cash Equivalents	-	-	75,000	75,000	75,000
Balances with Banks & Financial Institutions	-	-	316,186,006	316,186,006	316,186,006
Other Investment	-	-	1,409,743,260	1,409,743,260	1,409,743,260
Financial Investment at amortised Cost	-	-	104,326,320	104,326,320	104,326,320
Other Receivables	-	-	61,138,052	61,138,052	61,138,052
Total Financial Assets	-	-	1,891,468,638	1,891,468,638	1,891,468,638
Liabilities					
Due to Brokers	-	-	225,203,777	225,203,777	225,203,777
Amounts due to Related Company	-	-	89,105,315	89,105,315	89,105,315
Other Financial Liabilities	-	-	13,853,648	13,853,648	13,853,648
Total Financial Liabilities	-	-	328,162,740	328,162,740	328,162,740
31 December 2022					
	Level 01	Level 02	Level 03	Total Fair Values	Total Carrying Amount
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash & Cash Equivalents	-	-	75,000	75,000	75,000
Balances with Banks & Financial Institutions	-	-	391,151,964	391,151,964	391,151,964
Other Investment	-	-	1,198,933,897	1,198,933,897	1,198,933,897
Financial Investment at amortised Cost	-	-	100,296,099	100,296,099	100,296,099
Other Receivables	-	-	65,737,381	65,737,381	65,737,381
Total Financial Assets	-	-	1,756,194,341	1,756,194,341	1,756,194,341
Liabilities					
Due to Brokers	-	-	326,252,558	326,252,558	326,252,558
Amounts due to Related Company	-	-	4,729,300	4,729,300	4,729,300
Other Financial Liabilities	-	-	20,882,774	20,882,774	20,882,774
Total Financial Liabilities	-	-	351,864,632	351,864,632	351,864,632

Assets for which Fair Value approximates Carrying Value

For Financial assets and Financial Liabilities that have a short term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their values.

22 RELATED PARTY TRANSACTIONS

22.1 Transactions with Key Management Personnel and their Close Family Members

According to Sri Lanka Accounting Standard (LKAS 24) "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including Executive and Non-Executive Directors) have been classified as Key Management Personnel of the Company.

NOTES TO THE FINANCIAL STATEMENTS

- 22.2 Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependants of the KMPs domestic partner.**

However, during the year Company had not incurred any compensations to Key Management Personnels. (2023 - Nil)

22.3 Transactions with Group Companies and Director Related Entities

Company	Relationship		2023	2022	
			Rs.	Rs.	
a) Mr. Ray Abeywardena					
Acuity Stockbrokers (Pvt) Ltd	Chairman	CDS	Sale of CDS forms & Other CDS Charges	914	691
			Amount receivable on sale of CDS forms as at year end	914	-
			Collateral Management Fee	47,346	63,170
			Collateral Management Fee receivable as at year end	1,487	5,897
			Interest Payable for Member Firm's Margin Requirement	3,090,219	650,529
			Interest paid for Member Firms' margin deposit	352,398	4,069,735
			Member Firms' liquidity deposit as at year end	-	27,088,853
			Member Firms' liquidity deposit receivable as at year end	12,967,817	-
Lanka Ventures PLC	Director	CDS	Listed company fees	38,462	25,000
			Receipts for computer information & other CDS Charges	4,718	6,888
			Amount receivable for computer information provided as at year end	1,179	3,538
LVL Energy Fund Limited	Director	CDS	Listed Company fee	65,200	50,642
			Computer information & other CDS Charges	4,718	8,068
			Listed Company fee receivable as at year end	26,738	22,787
			Amount receivable for computer information provided as at year end	1,179	4,718
b) Mr. Dilshan Wirasekara					
First Capital Holding PLC	Director/ CEO	CDS	Charges for computer information	56,048	195,909
			CDS Service Charges	1,153,846	649,105
			Amount Receivable for computer information charges	23,613	131,728
			Amount Receivable for service charges	746,908	569,635
First Capital Equities (Pvt) Limited	Director	CDS	Collateral Management Fee	47,470	50,149

NOTES TO THE FINANCIAL STATEMENTS

Company	Relationship			2023	2022
				Rs.	Rs.
			Amount Receivable for Stamp cost - Sub Division of shares	N/A	136,502
d)	Mr. Dimuthu Abeysekera				
Asha Securities Limited	Director	CDS	CDS Forms	5,567	3,508
			Payment of interest for Member Firms' Margin Requirement	-	5,098,773
			Collateral Management Fee	47,013	28,447
			Collateral Management Fee receivable as at year end	1,011	5,897
			Member Firms' liquidity deposit & entrance deposit as at year end	-	17,452,911
			Member Firms' liquidity deposit & entrance deposit payable as at year end	10,000,000	-
			Payment of interest for Member Firms' liquidity deposit	2,896,719	
			Interest Payable for Member Firm's liquidity deposit	344,338	640,978
e)	Mr. Asanga Seneviratne (Until 22nd September 2022)				
Nation Lanka Equities (Pvt) Ltd	Chairman	CDS	Collateral Management Fee	N/A	29,708
			Interest for Member Firms' liquidity deposit	N/A	1,161,735
			Member Firms' liquidity deposit & entrance deposit as at 22nd September 2022	N/A	18,249,922
			Collateral Management Fee receivable	N/A	10,287
Anilana Hotels and Properties	Managing Director	CDS	Computer information charges and New listing	N/A	5,510
			CDS Service Charges	N/A	36,615
			Amount Receivable for computer information charges	N/A	82,645
			Amount Receivable for service charges	N/A	283,160
f)	Mr. Kosala Gamage (From 20th October 2022)				
Lanka Securities (Pvt) Ltd	Director	CDS	CDS Forms	-	548
			Collateral Management Fee	30,071	12,861
			Collateral Management Fee & CDS Forms receivable as at year end	12	12,563
			Interest for Member Firms' liquidity deposit	616,882	214,282
			Interest Payable for Member Firm's Margin Requirement	199	530,035
g)	Mr. Sujeewa Pieris (From 09th August 2023)				
Bartleet Religare Securities	Director/ CEO	CDS	Management Collateral fee, CDS Forms & Daily/Weekly Document Charges	31,076	N/A

Company	Relationship		2023	2022
			Rs.	Rs.
		Management Collateral fee, CDS Forms & Daily/Weekly Document Charges receivables as at year end	3,029	N/A
		Interest for Member Firms' liquidity deposit	1,116,910	N/A
		Interest for Member Firms' liquidity deposit payable as at year end	483,712	N/A
Dipped Product PLC	Director	CDS		
		Computer information & Daily/Weekly Document Charges	37,803	N/A
		Computer information & Daily/Weekly Document Charges receivable as at year end	58,974	N/A
		CDS Service Charges	305,815	N/A
		Amount Receivable for service charges	305,815	N/A
h)	Mr. Arjuna Herath			
Senkadagala Finance PLC	Non Executive Director	CDS		
		Computer Information & CDS Daily transaction entitlement chargers	34,795	N/A
		Computer Information & CDS Daily transaction entitlement chargers receivables as at year and	8,256	N/A
		CDS Service Charges	38,462	N/A
Watawala Plantation PLC	Non Executive Director	CDS		
		Computer information charges & other charges	389,231	N/A
		CDS Service Charges	352,923	N/A
		Registrar services - Dividend	3,556,853	N/A
		Computer information charges & other charges receivable as at year end	191,077	N/A
		CDS Service Charges receivable as at year end	180,554	N/A
		Registrar services - Dividend receivable as at year end	1,357,726	N/A
Cargills Bank PLC	Non Executive Director	CDS		
		Registrar Service - IPO	811,992	N/A
		Registrar Service - IPO receivable as at year end	811,992	N/A
i)	Colombo Stock Exchange			
	Parent	Fund Transfer In	383,144,375	610,114,385
		Fund Transfer Out	91,950,000	410,170,551
		Expenses transferred	(226,488,321)	(182,067,440)
		Cheque received on behalf of CDS	812,929	3,904,396
		Cheque received on behalf of CSE	(1,254,420)	(1,254,506)

NOTES TO THE FINANCIAL STATEMENTS

Company	Relationship	2023	2022
		Rs.	Rs.
	Interest Income	101,284	189,064
	CDS Rental Income & Management Fee	(148,741,862)	(131,679,329)

23 EVENTS OCCURRING AFTER THE REPORTING PERIOD

"There have been no material events that took place since 31st December 2023 which would have a material effect on the company that need disclosure in the financial statements other than the following;

Central Depository Systems (Pvt) Limited acquired the Registrar Business of PW Corporate Secretarial (Private) Limited with effective from 01st January 2024."

24 CAPITAL COMMITMENTS

The Company has following purchase commitments in the business as at 31 December;

	2023	2022
	Rs.	Rs.
Approved & contracted	33,000,000	-

25 COMPARATIVE INFORMATION

To facilitate comparison, relevant balances pertaining to the previous year have been reclassified to confirm to current year classification and presentation where necessary.

26 DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Company is responsible for the preparation and presentation of these Financial Statement in accordance with LKASs and SLFRSs.

FIVE YEAR SUMMARY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December,	2023	2022	2021	2020	2019
	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue	257,344,238	391,501,145	613,852,124	235,691,631	114,588,087
Other Income	60,180,680	51,690,402	52,717,983	26,065,804	18,395,574
	317,524,918	443,191,547	666,570,107	261,757,435	132,983,661
Staff Cost	(81,769,998)	(62,744,262)	(59,693,578)	(46,845,685)	(36,752,586)
Other Operating Expenses	(304,280,922)	(258,625,735)	(172,431,410)	(134,893,498)	(144,378,354)
Impairment Charges and Other Credit Losses on Financial Assets	948,162	(5,101,835)	(1,833,962)	56,191	(1,804,196)
Net Finance Income	325,444,487	211,223,866	51,344,319	59,505,241	67,091,338
Profit before Taxation	257,866,647	327,943,581	483,955,476	139,579,684	17,139,863
Income Tax Expenses	(80,644,582)	(89,916,367)	(110,406,309)	(40,771,620)	(3,892,757)
Profit for the Year	177,222,065	238,027,214	373,549,167	98,808,064	13,247,106
Other Comprehensive Income	-	-	-	-	-
Total Comprehensive Income for the Year	177,222,065	238,027,214	373,549,167	98,808,064	13,247,106

STATEMENT OF FINANCIAL POSITION

For the Year Ended 31 December,	2023	2022	2021	2020	2019
	Rs.	Rs.	Rs.	Rs.	Rs.
ASSETS					
Non Current Assets					
Property & Equipment	44	44	44	44	44
Intangible Assets	-	-	-	-	72,661
Investments in LFSB	1,165,966	1,165,966	1,165,966	1,165,966	1,165,966
Financial Investment at amortised Cost	104,326,320	100,296,099	-	-	-
Total Non Current Assets	105,492,330	101,462,109	1,166,010	1,166,010	1,238,671
Current Assets					
Inventories	80,833	357,170	160,174	167,207	161,868
Amounts due from Related Company	-	-	106,234,683	31,909,027	86,181,758
Trade and Other Receivables	61,138,052	65,737,381	100,101,317	55,942,797	23,645,744
Financial Assets at FVTPL	-	-	50,295,879	620,749,259	511,060,146
Other Investments	1,409,743,260	1,198,933,897	871,256,848	-	-
Income Tax Receivable	-	-	-	-	3,519,937
Cash and Cash Equivalents	316,261,006	391,226,964	1,258,893,877	143,144,949	25,423,520
Total Current Assets	1,787,223,151	1,656,255,412	2,386,942,778	851,913,239	649,992,973
Total Assets	1,892,715,481	1,757,717,521	2,388,108,788	853,079,249	651,231,644
EQUITY AND LIABILITIES					
Stated Capital	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Retained Earnings	1,422,094,238	1,244,872,173	1,006,844,959	633,295,792	534,487,728
Other Reserve	165,965	165,965	165,965	165,965	165,965
Total Equity	1,522,260,203	1,345,038,138	1,107,010,924	733,461,757	634,653,693
Current Liabilities					
Brokers' Liquidity and Margin Deposit	225,203,777	326,252,558	1,178,185,008	87,500,582	12,791,392
Accrued Expenses and Sundry Creditors	13,853,648	20,882,774	17,719,460	3,946,366	3,786,559
Amounts due from Related Company	89,105,315	4,729,300	-	-	-
Income Tax Payable	42,292,538	60,814,751	85,193,396	28,170,544	-
Total Current Liabilities	370,455,278	412,679,383	1,281,097,864	119,617,492	16,577,951
Total Equity and Liabilities	1,892,715,481	1,757,717,521	2,388,108,788	853,079,249	651,231,644

GRI INDEX

Statement of use	The Central Depository Systems (Pvt) Ltd has reported in accordance with the GRI Standards for the period 1st January 2023 to 31st December 2023
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	Not applicable

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(S) Omitted	Reason	Explanation
General disclosures					
GRI 2: General Disclosures 2021	2-1 Organizational details	3, 4, Inner Back Cover	A gray cell indicates that reasons for omission are not permitted for the disclosure or that a GRI Sector Standard reference number is not available.		
	2-2 Entities included in the organization's sustainability reporting	3, 31			
	2-3 Reporting period, frequency and contact point	3			
	2-4 Restatements of information	3			
	2-5 External assurance	3			
	2-6 Activities, value chain and other business relationships	40-60			
	2-7 Employees	63			
	2-8 Workers who are not employees		2-8	Not Applicable	CSE Does not engage workers who are not employees
	2-9 Governance structure and composition	30			
	2-10 Nomination and selection of the highest governance body	30			
	2-11 Chair of the highest governance body	30			
	2-12 Role of the highest governance body in overseeing the management of impacts	30			
	2-13 Delegation of responsibility for managing impacts	30			
	2-14 Role of the highest governance body in sustainability reporting	29, 30			
	2-15 Conflicts of interest	33-35			
	2-16 Communication of critical concerns	33-35			
	2-17 Collective knowledge of the highest governance body	35			
	2-18 Evaluation of the performance of the highest governance body	33, 35			

GRI Standard/ Other Source	Disclosure	Location	Omission		
			Requirement(S) Omitted	Reason	Explanation
	2-19 Remuneration policies	64			
	2-21 Annual total compensation ratio		2-21	Confidentiality	Confidentiality constraints
	2-24 Embedding policy commitments	31			
	2-25 Processes to remediate negative impacts	33, 35			
	2-26 Mechanisms for seeking advice and raising concerns	63			
	2-28 Membership associations	4			
	2-29 Approach to stakeholder engagement	42			
	2-30 Collective bargaining agreements		2-30	Not Applicable	No collective agreements

CORPORATE INFORMATION

GRI 2-1

Name

Central Depository Systems (Private) Limited.

Legal Status

A Private Limited Company Incorporated in Sri Lanka

Company Registration Number

PV 1270

Parent Entity

Colombo Stock Exchange

Registered Office

04-01, West Block, World Trade Center,
Echelon Square, Colombo 1, Sri Lanka.

Secretaries

Corporate Services (Private) Limited

Auditors

KPMG

Lawyers

M/s Julius & Creasy, Attorneys-at-Law
M/s FJ and G de Saram, Attorneys-at-Law

Bankers/ Settlement Banks

Bank of Ceylon
Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Sampath Bank PLC

Central Depository Systems (Private) Limited

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Email : cdsinfo@cse.lk
Website : www.cds.lk

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and produced by
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