CBC FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

CBC FINANCE LIMITED
FINANCIAL STATEMENTS
FOR YEAR ENDED
31 DECEMBER 2022

KPMG
(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CBC FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CBC Finance Limited, ("the Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. These financial statements do not include the other information.

Our opinion on the financial statements do not cover the other information and we do not express any form of assurance conclusion thereon.

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.

KPMG

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
17 March 2023

CBC FINANCE LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2022 Rs.	09 months ended 31 December 2021 Rs.
Gross income	9	**1,636,161,181**	**944,665,412**
Interest income		1,523,736,327	867,325,363
Interest expenses		(986,329,636)	(334,440,001)
Net interest income	10	537,406,691	532,885,362
Fee and commission income		51,187,547	47,139,286
Fee and commission expenses		(9,931,409)	(2,733,253)
Net fee and commission income	11	41,256,138	44,406,033
Other operating income	12	61,237,307	30,200,763
Total operating income		639,900,136	607,492,158
Impairment charges and other losses	13	(249,161,510)	(308,796,124)
Net operating income		390,738,626	298,696,034
Operating expenses			
Personnel expenses	14	(164,812,691)	(89,536,207)
Depreciation and amortization		(47,196,748)	(27,276,191)
Other operating expenses	15	(139,837,491)	(68,434,520)
Operating profit before taxes on financial services		38,891,696	113,449,116
Taxes on financial services		(29,165,462)	(25,336,328)
Profit before taxation		**9,726,234**	**88,112,788**
Income tax expense	16	29,856,689	(54,869,724)
Profit for the period		**39,582,923**	**33,243,064**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation surplus of property, plant and equipment, net of tax			
Effect on change in tax rate	16	(6,615,780)	-
		(6,615,780)	-
Actuarial gains / losses on defined benefit plans, net of tax			
Actuarial gain / (losses) on defined benefit plans	30	7,785,255	(1,772,400)
Deferred tax (charge) / reversal on actuarial losses	16	(2,335,577)	425,376
Effect of change in tax rate	16	396,510	-
		5,846,188	(1,347,024)
Unquoted equity securities, net of tax			
Net change in fair value of FVOCI financial assets	37	19,402	2,560
Deferred tax (charge) on fair value reserve	16	(5,821)	(614)
Effect of change in tax rate	16	(118,628)	-
		(105,047)	1,946
Items that are or may be reclassified to profit or loss			
Net change in fair value of FVOCI financial assets, net of tax			
Net change in fair value of FVOCI financial assets		(8,493,914)	114,499
Deferred tax reversal on fair value reserve	16	2,548,174	42,361
Effect of change in tax rate	16	9,687	-
		(5,936,053)	156,860
Other comprehensive income for the period, net of tax		**(6,810,692)**	**(1,188,218)**
Total comprehensive income for the period		**32,772,231**	**32,054,846**
Basic earnings per share	17	**0.18**	**0.15**

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

CBC FINANCE LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31 December,	Notes	2022 Rs.	2021 Rs.
ASSETS			
Cash and cash equivalents	19	96,306,555	154,599,310
Financial investments at fair value through other comprehensive income	20	1,598,013,279	432,297,623
Financial investments at amortized cost	21	-	406,243,569
Loans and advances	22	8,505,035,651	8,712,636,883
Investment properties	23	26,350,000	25,150,000
Property, plant and equipment	24	316,894,006	276,258,743
Intangible assets	25	30,608,371	29,393,058
Right of use assets	26	67,406,857	53,319,549
Deferred tax assets	32	277,932,277	193,579,595
Other assets	27	36,588,809	29,569,726
Total assets		**10,955,135,805**	**10,313,048,056**
LIABILITIES			
Deposit liabilities	28	5,116,205,410	5,068,847,716
Due to banks	29	2,467,544,765	1,769,503,838
Employee benefits	30	11,330,128	14,972,957
Lease liabilities	31	66,555,073	58,005,421
Current tax liabilities	33	37,092,827	44,140,864
Other liabilities	34	78,935,975	102,564,487
Total liabilities		7,777,664,178	7,058,035,283
EQUITY			
Stated capital	35	3,254,999,963	3,254,999,963
Accumulated losses	36	(205,842,157)	(138,978,745)
Other reserves	37	128,313,821	138,991,555
Total equity		3,177,471,627	3,255,012,773
Total liabilities and equity		**10,955,135,805**	**10,313,048,056**

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

....
W.M.N.S Sardarathne
Senior Manager - Finance

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

Approved and signed for and on behalf of the Board,

....
D.M.U.N. Dissanayake
Managing Director/ Chief Executive Officer

....
S.M.S.C. Jayasuriya
Director

16 March 2023
Kandy

CBC FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

	Stated capital	Other reserves					Retained earnings / (Accumulated losses)	Total equity
		Capital reserve	Revaluation reserve	Statutory reserve fund	Fair value reserve	General reserve		
	Rs.	Rs.	Rs	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2021	3,254,999,963	50,000	86,114,318	29,687,279	1,221,110	20,097,889	(169,212,632)	3,222,957,927
Comprehensive income								
Profit for the period	-	-	-	-	-	-	33,243,064	33,243,064
Other comprehensive income for the year net of tax	-	-	-	-	158,806	-	(1,347,024)	(1,188,218)
Total comprehensive income	**-**	**-**	**-**	**-**	**158,806**	**-**	**31,896,040**	**32,054,846**
Transactions recognized directly in Equity								
Transfers during the period	-	-	-	1,662,153	-	-	(1,662,153)	-
	-	**-**	**-**	**1,662,153**	**-**	**-**	**(1,662,153)**	**-**
Balance as at 31 December 2021	**3,254,999,963**	**50,000**	**86,114,318**	**31,349,432**	**1,379,916**	**20,097,889**	**(138,978,745)**	**3,255,012,773**
Balance as at 01 January 2022	3,254,999,963	50,000	86,114,318	31,349,432	1,379,916	20,097,889	(138,978,745)	3,255,012,773
Surcharge levied under Surcharge Act	-	-	-	-	-	-	(110,313,377)	(110,313,377)
Restated balance as at 01 January 2022	3,254,999,963	50,000	86,114,318	31,349,432	1,379,916	20,097,889	(249,292,122)	3,144,699,396
Comprehensive income								
Profit for the year	-	-	-	-	-	-	39,582,923	39,582,923
Other comprehensive income for the year net of tax	-	-	(6,615,780)	-	(6,041,100)	-	5,846,188	(6,810,692)
Total comprehensive income	**-**	**-**	**(6,615,780)**	**-**	**(6,041,100)**	**-**	**45,429,111**	**32,772,231**
Transactions recognized directly in Equity								
Transfers during the year	-	-	-	1,979,146	-	-	(1,979,146)	-
	-	**-**	**-**	**1,979,146**	**-**	**-**	**(1,979,146)**	**-**
Balance as at 31 December 2022	**3,254,999,963**	**50,000**	**79,498,538**	**33,328,578**	**(4,661,184)**	**20,097,889**	**(205,842,157)**	**3,177,471,627**

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

CBC FINANCE LIMITED
STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2022 Rs.	09 months ended 31 December 2021 Rs.
Cash flows from operating activities			
Profit before taxation		9,726,234	88,112,788
Adjustments for:			
Interest expenses	10	986,329,636	334,440,001
Impairment charges and other losses	13	249,161,510	308,796,124
Interest income from bank deposits and government securities	10	(282,488,280)	(39,462,846)
Dividend income	12	(240,000)	(240,000)
Depreciation	24	23,114,521	13,602,057
Amortization		24,082,226	13,674,134
Provision for defined benefit plans	30	4,501,065	2,635,278
(Profit) on sale of property, plant and equipment		(47,281)	(176,377)
Fair value losses on investment properties	23	(1,200,000)	-
Operating profit before working capital changes		1,012,939,631	721,381,159
Increase in loans and receivables		(41,560,278)	(951,293,890)
Increase in other assets		(40,463,994)	(30,218,310)
Increase in deposit liabilities		(640,570,229)	(55,780,904)
Increase / (decrease) in other liabilities		(21,414,959)	45,663,850
Cash generated from / (used in) operations		268,930,171	(270,248,095)
Taxes paid	33	(67,665,464)	(110,323,064)
Surcharge levied under Surcharge act	36	(110,313,377)	-
Gratuity paid	30	(358,639)	(865,575)
Net cash flows generated from / (used in) operating activities		**90,592,691**	**(381,436,734)**
Cash flows from investing activities			
Purchase of property, plant and equipment & CWIP	24	(63,953,735)	(41,059,236)
Proceeds from sale of property, plant and equipment		251,232	315,938
(Purchase) / Proceeds from maturity of financial investments - FVOCI		(1,174,190,168)	79,816,262
Proceeds from maturity / (Purchase) of financial investments - at amortized cost		406,243,569	(178,926,804)
Purchase of intangible assets	25	(5,939,936)	(1,518,308)
Interest received		282,488,280	39,462,846
Dividend received	12	240,000	240,000
Net cash flows (used in) from investing activities		**(554,860,758)**	**(101,669,302)**
Cash flows from financing activities			
Loans obtained during the period	29	2,875,000,000	2,170,000,000
Repayments of loans during the period	29	(2,219,352,952)	(1,761,183,119)
Interest paid on loans	29	(280,821,579)	(40,728,086)
Interest paid on overdraft		(39,689)	(18,432)
Net cash flows (used in) / generated from financing activities		**374,785,780**	**368,070,363**
Net increase in cash and cash equivalents		**(89,482,287)**	**(115,035,673)**
Cash and cash equivalents at the beginning of the period		132,138,510	247,174,183
Cash and cash equivalents at the end of the period *		**42,656,223**	**132,138,510**
*** Analysis of cash and cash equivalents at the end of the period**			
Cash and bank balances	19	96,306,555	154,599,310
Bank overdraft	29	(53,650,332)	(22,460,800)
		42,656,223	**132,138,510**

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

1. Reporting entity

1.1 General

CBC Finance Limited ('the Company'), regulated under the Finance Business Act No. 42 of 2011, was incorporated in 1987 as a Limited Liability Company domiciled in Sri Lanka under provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No 7 of 2007 under the Company Registration No. PB 276.

The registered office and the principal place of business of the Company is located at No. 187, Katugastota Road, Kandy.

1.2 Principal activities and nature of operations

The principal activities of the Company are granting of Lease Facilities, Hire Purchase, Mortgage Loans and other credit facilities, whilst accepting public deposits from customers. There were no significant changes in the nature of the principal activities of the Company during the financial period under review.

1.3 Parent entity and ultimate parent entity

The Company's parent enterprise and the ultimate parent enterprise is Commercial Bank of Ceylon PLC.

1.4 Number of employees

The number of employees as at 31 December 2022 is 176 (31 December 2021: 145).

2. Basis of Preparation

2.1 Statement of compliance

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

Further tax liability arising from the surcharge tax Act No. 14 of 2022 has been accounted as recommended by statement of Alternative treatment (SOAT) issued by the institute of charted accountants of Sri Lanka as disclosed under the note 16.4.1 on income tax note.

2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31st December 2022 were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 17 March 2023.

2.3 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 classified as Fair Value through Other Comprehensive Income are measured at fair value.
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation.
- Land and buildings measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation.

- Right-of-use assets measured at cost and lease liability measured at the present value of the lease payments that are not paid.
- Investment property measured at cost at the time of acquisition and subsequently at fair value.

2.4 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in Sri Lankan Rupees, which is the Company’s functional and presentation currency.

Rounding

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

2.5 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statements of Financial Position are listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 40.

2.6 Materiality and aggregation

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

Offsetting

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

2.7 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous financial year in the Financial Statements in order to enhance the understanding of the current period’s Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

During the previous period, the financial year of the Company was changed to a calendar year commencing the year 2022, to make it in line with the parent Bank. As such the income statement for the previous period is for the nine months ended 31 December 2021 and not entirely comparable with the current year.

2.8 Use of judgments and estimates

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

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

The Company considered the impact of COVID -19 in preparing the Financial Statements in line with the circulars and guidelines issued by the CBSL and the CA Sri Lanka. While the specific areas of judgment may not change, the impact

Use of judgments and estimates (CONT.)

of COVID-19 resulted in the application of further judgment within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Further, changes to estimates were made in the measurement of Company's assets where applicable.

Further, the Company considered the impact of prevailing extraordinary macroeconomic circumstances of country in preparing the Financial Statements in line with the circulars and guidelines issued by the CBSL. While the specific areas of judgment may not change, the impact of economic downturn resulted in the application of further judgment within those areas and the limited recent experience of the economic and financial impacts of such an event. Further, changes to estimates were made in the measurement of Company's assets where applicable. The impact of the prevailing extraordinary macroeconomic circumstances on each of these accounting estimates is discussed further below and/or in the relevant notes to Financial Statements.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- **Note 3.2 -** classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.

- **Note 3.2.2 -** establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval of models used to measure ECL.

- **Note 11 –** revenue recognition: whether revenue is recognized over time or at a point in time;

a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties as at 31 December 2022 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- **Note 3.2.2** – Impairment of financial assets;
- **Note3.9** – Impairment of non-financial assets;
- **Note 3.6.2** – Fair value of investment property;
- **Note 3.7.4** – revaluation of property, plant and equipment;
- **Note 3.11.1.1** – measurement of defined benefit obligations: key actuarial assumptions;
- **Note 3.12 and 3.13** – provisions and contingencies;
- **Note 5.1** – recognition of current tax expense;
- **Note 5.1.2** – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized and
- **Note 7** – Determination of the fair value of financial instruments with significant unobservable inputs.

Going Concern

In preparing these financial statements, the management has assessed the existing and anticipated effect of country's extraordinary macroeconomic circumstances on the Company and the appropriateness of the use of the going concern basis of preparation of financial statements.
The Company has been evaluating the resilience of its businesses, considering a wide range of factors such as expected revenue streams, profitability, cost management initiatives implemented by the Company, changes in working capital, management of capital expenditure, debt repayments, cash reserves and available sources of financing including unutilised facilities and in order to be able to continue business under current global economic conditions.

Furthermore, Management do not see any material uncertainties that may cast significant doubt upon the ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the directors are satisfied that the Financial Statements continue to be prepared on going concern basis.

3. Significant accounting policies – statement of financial position

The significant accounting policies applied by the Company in the preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Company, unless otherwise indicated.

The Institute of Chartered Accountants of Sri Lanka has issued a number of new amendments to Sri Lanka Accounting Standards (SLFRSs/ LKASs) that are effective for the current financial year. These amendments and interpretations did not have any significant impact on the reported financial statements of the Company.

3.1 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

3.2 Financial instruments

Recognition and initial measurement

Loans and advances 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 or financial liability is initially measured at fair value plus, for an item not at 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.

"Day 1" Profit or Loss

When the transaction price of the instrument differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value as a 'Day 1' profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or Loss when the inputs become observable, or when the instrument is derecognised.

Classification and subsequent measurement of financial assets

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

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:

- 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.

In addition, 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 classified as measured at FVOCI and amortised cost and financial liabilities classified as measured at amortised cost are presented in Note 19.

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 (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 of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as 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;
- leverage features;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model.

3.2.1 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.2.2 Identification and measurement of Impairment of financial assets

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost; and
- debt investments measured at FVOCI.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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 30 days past due.

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The Company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 and prevailing extraordinary macroeconomic circumstances in line with the directions issued by the CBSL. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgments in the assessment of the impact of the COVID-19 outbreak and economic downturn on the loans and advances portfolio of the Company, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures.

The impact of the outbreak and economic downturn has been assessed and adjusted in these Financial Statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka. Accordingly, customers operating in risk elevated industries were assessed for lifetime ECL unless such exposures have specifically been identified as Stage 1 reflecting forward looking view of the economy in relation to the business.

The management decided to increase the weightings assigned for worst case scenario while reducing the weightings assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators. In addition, management overlay adjustment on the ECL computation, based on the qualitative indicators on forward looking macro-economic factors were considered with the objective of capturing the impact of COVID-19 and economic downturn related uncertainties and volatilities.

	2022	2021
Base case	35%	58%
Best case	5%	14%
Worst case	60%	28%

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Individual assessment of impairment

For financial assets above a predetermined threshold (i.e. for individually significant financial assets), if there is objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred). The carrying amount of the asset was reduced through the use of a provision account and the amount of impairment loss was recognised in profit or loss. Interest income is accrued and recorded in "interest income" on the reduced carrying amount/impaired balance for stage 03 loans and others to be continued on gross carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The present value of the estimated future cash flows was discounted at the financial asset's original EIR.

Collective assessment of impairment

Those financial assets for which, the Company determined that no provision was required under individual impairment, are then collectively assessed for any impairments that had been incurred but not identified. For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of similar risk characteristics such as collateral type and product type. Future cash flows on a group of financial assets that were collectively evaluated for impairment, are estimated based on the historical loss experiences of assets with similar credit risk characteristics to those in the group.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letter of guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and to fall in line with the CBSL directives. To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

Restructured / Rescheduled financial assets

The Company renegotiates loans to customers in financial difficulties (referred to as 'rescheduled/restructured') to maximise collection opportunities and minimise the risk of default. Under the Company's policy, loan rescheduled/restructured is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Company Credit Committee regularly reviews reports on rescheduled/restructured activities.

For financial assets modified as part of the Company's rescheduled/restructured policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.
Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of rescheduled/restructured may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour as agreed under the modified contractual terms over a period as specified in the Central Bank directives before the exposure is no longer considered to be credit-impaired/in default such that it upgrade to Stage 1 or 2 by the Company's Recovery Department based on their independent evaluation of the customers.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Purchased or originated credit impaired financial assets

Originated credit impaired assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-Off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in other operating income in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3.3 Cash and cash equivalents

'Cash and cash equivalents' include notes and coins in hand and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.4 Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- finance lease / hire purchase receivables.

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

3.5 Financial investments

The 'financial investments' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

3.6 Investment Property

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date.

3.6.1 Classification of investment property

Management uses its judgment to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Company are classified as investment property. On the other hand, a property used in production or supply of goods and services or administrative purposes and thus generates cash flows that are attributable not only to property but also to other assets used in the production or supply process are classified as property, plant & equipment. The Company assesses the accounting classification of its investment properties on an annual basis, taking into consideration the current use of such properties.

3.6.2 Fair valuation of investment property

Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location.

3.6.3 Gain or loss on disposal of investment property

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by a Chartered valuation surveyor. Any gain or loss arising from a change in fair value is recognised through profit or loss.

3.6.4 Derecognition of investment property

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Company considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer, if any.

3.6.5 Transfer in and out of investment property

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

3.7 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets.

3.7.1 Recognition

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

3.7.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

3.7.3 Cost model

The Company applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

3.7.4 Revaluation model

The Company applies the Revaluation Model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to profit or loss. In this circumstance, the increase is recognised as income only to extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in profit or loss or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balances existing in the Revaluation Reserve in respect of that asset, is not transferred any part of revaluation reserve to Retained Earnings on retirement or disposal of the asset.

3.7.5 Subsequent cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to profit or loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

3.7.6 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

3.7.7 Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets. 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 derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

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

Class of asset	Period
Buildings	30 - 35 years
Furniture and Fittings	8 years
Office Equipment	8 years
Motor Vehicles	5 years
Computers& Accessories	5 years
Telephone System	4 years
Electrical Equipment	8 years
Sign Boards	8 years
Fixtures and Fittings	8 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

3.7.8 Changes in estimates

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.8 Intangible assets

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

3.8.1 Basis of recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

3.8.2 Computer software

Cost of all computer software licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.8.3 Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

3.8.4 Derecognition of intangible assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in profit or loss when the item is derecognised.

3.8.5 Amortisation of intangible assets

Intangible assets, except for goodwill, are amortised on a straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The Company assumes that there is no residual value for its intangible assets.

Class of asset	Period
Computer software	10 years

3.8.6 Lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'Right of use assets' and lease liability in the statement of financial position.

Short-term leases and leases of low-value assets

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

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies SLFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from SLFRS 16.

3.9 Impairment of non–financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or Cash Generating Unit’s (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

3.10 Share capital

3.10.1 Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with LKAS 12.

3.10.2 Dividends payable

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.
Dividends for the period that are declared after the reporting date are disclosed in Notes to the Financial Statements as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 (Events after the Reporting Period).

3.11 Employee benefits

3.11.1 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan' as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

3.11.1.1 Defined benefit plan – gratuity

All the employees of the Company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the reporting period in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The defined benefits obligation is calculated annually by Independent actuary using Projected Unit Credit Method as recommended by LKAS 19 (Employee Benefits).

The assumptions based on which the results of actuarial valuation was determined, are included in Note 31 to the financial statements.

3.11.1.2 Recognition of actuarial gains or losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

3.11.1.3 Funding arrangements

The Gratuity liability is not externally funded.

3.11.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability.

3.11.2.1 Employees' Provident Fund

The Company and the Employees contribute 12% and 8% respectively on the salary of each employee to the Government Provident Fund.

3.11.2.2 Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

3.13 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless the probability of settlement is remote.

3.14 Earnings per Share (EPS)

The Company presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3.15 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Company has identified four operating segments based on products and services, as follows:

- Leasing and Hire Purchases
- Mortgage Loans
- Personal, Business and Other Unsecured Loans
- Investments and Others

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Company basis and are not allocated to operating segments.
Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 31 December 2022 or 31 December 2021.

4. Significant accounting policies – Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

4.1 Interest income and interest expenses

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.
The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost; and
- interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI include financial liabilities measured at amortised cost.

4.2 Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate

Other fee and commission income – including sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.
A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the

Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.
Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

4.3 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in other revenue based on the underlying classification of the equity investment.

4.4 Expenditure recognition

Expenses are recognized in the Statement of Profit or Loss and Other Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the period.

5 Significant accounting policies - Taxation

5.1 Income tax

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognised in Equity or in OCI.

5.1.1 Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current period and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Reporting date.

Accordingly, Provision for taxation is based on the profit for the period adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto.

5.1.2 Deferred taxation

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.
Unrecognized deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rate enacted or substantively enacted at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

5.1.3 Tax exposures

In determining the amount of current and deferred tax, the Company considers the favourable / adverse impact to the tax liability due to assessments, revision to legislature etc. Such changes to tax liabilities could impact the tax expense in the period in which such revision is considered, as an over or under provision.

As per Notice dated 15 December 2022 issued by the Inland Revenue Department on “Changes to the Inland Revenue Act No. 24 of 2017”, effective from 1st October 2022, Corporate Income Tax rate was revised from 24% to 30%. Such revised tax rate been considered in computing the income tax liabilities and deferred taxation.

5.2 Value Added Tax (VAT) on financial services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed at 18%.

The VAT on Financial service is recognized as expense in the period it becomes due.

5.3 Social Security Contribution Levy (SSCL)

Social Security Contribution Levy shall be paid by any person carrying on the business of supplying of financial services, on the liable turnover specified in the second schedule of the Social Security Contribution Levy Act No. 25 of 2022, at the rate of 2.5% with effect from 1 October 2022. SSCL is payable on 100% of the value addition attributable to financial services.

The value addition attributable to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act No. 14 of 2002.

5.4 Regulatory Provisions

5.4.1 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

The CIL is recognized as expense in the period it becomes due.

5.4.2 Deposit Insurance and Liquidity Support Scheme

All Licensed Finance Companies were required to insure their deposit liabilities in the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" in terms of the regulations, No. 2 of 2021, issued on 06 August 2021, and accordingly, the Company paid a premium of 0.15% of the eligible deposits as deposit insurance premium.

5.4 Surcharge Tax

As per provisions of the Government Bill issued on 07 February 2022 (to be passed in parliament for enactment), if the aggregate of the taxable income of the holding company and all subsidiaries in a group of companies, for the Year of Assessment 2020/21, exceed rupees two thousand million (Rs. 2 Billion), each company in the group of companies is liable to pay Surcharge Tax calculated at 25% on the taxable income (after deducting profit from dividends received from subsidiaries included in the taxable income). The surcharge tax was paid in two equal instalments on 31 March and 30 June of 2022, to the Commissioner General of Inland Revenue.

6. Significant accounting policies – Statement of cash flows

The cash flow statement has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows', whereby operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand and balances with banks.

7. Fair value measurement

7.1 Fair value measurement

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

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

A value of measurement of a non-financial asset takes in to account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and buildings.

7.2 Fair value hierarchy

The Company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.
Level 1
Inputs that are unadjusted quoted market prices in an active market for identical instruments.

When available, the Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2
Inputs other than quoted prices included within Level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market prices in active markets for similar instruments,
(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c) other valuation techniques in which almost 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 have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exists and other valuation models.
Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.
Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.
Models are adjusted to reflect spread for bid and ask prices to reflect cost to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1 'profit or loss') is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

8. New accounting standards issued but not effective as at reporting date

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

8.1 Classification of liabilities as current or non-current (amendments to LKAS 1)

The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023. However, the IASB has subsequently proposed further amendments to LKAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2024. Due to these ongoing developments, the company is unable to determine the impact of these amendments on the consolidated financial statements in the period of initial application. The company is closely monitoring the developments.

8.2 Deferred tax arising from a single transaction (amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences. Eg. Leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases and decommissioning liabilities associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions the amendments apply to transactions that occur after the beginning of the earliest period presented. The Company does not recognise any deferred tax asset or liability on such single transactions.

8.3 Other standards

• Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2).
• Definition of accounting estimates (amendments to LKAS 8).

		Notes	Year ended 31 December 2022 Rs.	09 months ended 31 December 2021 Rs.
9	**GROSS INCOME**			
	Interest income	**10.1**	1,523,736,327	867,325,363
	Fee and commission income	**11.1**	51,187,547	47,139,286
	Other operating income	**12**	61,237,307	30,200,763
	Total income		**1,636,161,181**	**944,665,412**
10	**NET INTEREST INCOME**			
10.1	**Interest income**			
	Cash and cash equivalents		6,424,821	9,310,188
	Financial investments measured at FVOCI		271,538,724	12,314,142
	Financial investments at amortized cost		4,524,735	17,838,516
	Loans and advances		1,241,248,047	827,862,517
	Total interest income		**1,523,736,327**	**867,325,363**
10.2	**Interest expenses**			
	Interest on deposit liabilities		687,927,923	285,649,448
	Due to banks		292,065,615	44,984,383
	Interest expense on lease liabilities		6,336,098	3,806,170
	Total interest expenses		**986,329,636**	**334,440,001**
	Net interest income		**537,406,691**	**532,885,362**

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

Financial assets measured at amortised cost	1,252,197,603	855,011,221
Financial assets measured at FVOCI	271,538,724	12,314,142
Total	**1,523,736,327**	**867,325,363**
Financial liabilities measured at amortised cost	**986,329,636**	**334,440,001**

11 NET FEE AND COMMISSION INCOME

11.1 Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services. The table also includes a reconciliation of the disaggregated fee and commission income.

Fee and commission income		
Loans and advances related services	33,823,981	38,477,662
Other financial services	17,363,566	8,661,624
Total fee and commission income	**51,187,547**	**47,139,286**
Fee and commission expenses		
Loans and advances related services	9,283,122	2,327,159
Other financial services	648,287	406,094
Total fee and commission expenses	**9,931,409**	**2,733,253**
Net fee and commission income	**41,256,138**	**44,406,033**

The fees and commission presented in this note include income of Rs. 51.1 million (31.12.2021: Rs. 47.1 million) and expense of Rs. 9.9 million (31.12.2021: Rs. 2.7 million) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

11 NET FEE AND COMMISSION INCOME (CONT.)

11.2 Performance obligations and revenue recognition policy

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate finance service	The Company provides lending services to retail and corporate customers, including provision of other loan facilities. Transaction-based fees for interchange and loans are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

		Notes	Year ended 31 December 2022 Rs.	09 months ended 31 December 2021 Rs.
12	**OTHER OPERATING INCOME**			
	Dividend income		240,000	240,000
	Recoveries of loans written-off		56,707,005	28,853,874
	Profit on disposal of property, plant and equipment		84,386	176,377
	Rental and other income		3,005,916	930,512
	Fair value gain on investment properties		1,200,000	-
	Total		**61,237,307**	**30,200,763**
13	**IMPAIRMENT CHARGES AND OTHER LOSSES**			
	Loans and advances			
	Individual impairment		(355,901,641)	355,901,641
	Collective impairment		625,734,432	(39,096,123)
	Total impairment charges - Loans and advances	**22.1**	269,832,791	316,805,518
	Other financial assets		(256,680)	-
	Interest unwinding on stage three contracts		(20,414,601)	(8,009,394)
	Total impairment charges		**249,161,510**	**308,796,124**
14	**PERSONNEL EXPENSES**			
	Salaries and other related expenses		91,776,647	57,463,959
	Employer's contribution to Employees' Provident Fund		9,052,299	5,640,174
	Employer's contribution to Employees' Trust Fund		2,265,024	1,410,044
	Gratuity charge for the year	**30.1.1**	4,501,065	2,635,278
	Other staff related expenses		57,217,656	22,386,752
	Total		**164,812,691**	**89,536,207**
15	**OTHER OPERATING EXPENSES**			
	Directors' emoluments		4,040,000	3,000,000
	Auditors' remuneration - Audit & audit related services		3,000,000	2,964,996
	Professional and legal expenses		8,673,840	2,602,349
	General insurance expenses		964,394	497,178
	Office administration and establishment expenses		118,501,953	53,682,172
	Sales, marketing and business promotional expenses		4,657,304	5,687,825
	Total		**139,837,491**	**68,434,520**
16	**INCOME TAX CHARGE / (REVERSAL)**			
16.1	**Amounts recognized in profit or loss**			
	Current tax expense			
	Provision for the year		44,163,766	52,958,829
	Under provision in relation to prior years		16,453,661	-
			60,617,427	**52,958,829**
	Deferred tax expense			
	Reversal / (origination) of deferred tax asset		(28,762,107)	1,910,895
	Effect on change in tax rate		(61,712,009)	-
		32	**(90,474,116)**	**1,910,895**
	Total		**(29,856,689)**	**54,869,724**

16 INCOME TAX CHARGE / (REVERSAL) (CONT.)

16.2 Amount recognized in OCI

	Note	Year ended 31 December 2022 Rs.	09 months ended 31 December 2021 Rs.
Income that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		(2,335,577)	425,376
Net change in fair value of unquoted equity securities		(5,821)	(614)
Effect of change in tax rate		(6,337,898)	-
		(8,679,296)	**424,762**
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)		2,548,174	42,361
Effect of change in tax rate		9,687	-
	32	**(6,121,435)**	**467,123**

16.3 Reconciliation of effective tax rate

	Effective Tax Rate 2022	Year ended 31 December 2022 Rs.	Effective Tax Rate 2021	09 months ended 31 December 2021 Rs.
Profit for the period		39,582,923		33,243,064
Income tax charge		(29,856,689)		54,869,724
Profit before taxation		9,726,234		88,112,788
Tax using the domestic corporation tax rates of 24% and 30%	27%	2,626,083	24%	21,147,069
Tax effect of aggregate disallowed items	1005%	97,774,691	132%	116,456,901
Tax effect of aggregate allowable expenses	-888%	(86,401,944)	-136%	(119,516,483)
Tax effect of capital portion of rentals	310%	30,164,936	40%	34,871,345
Adjustment for prior years	169%	16,453,661	0%	-
Deferred tax reversal due to rate reduction		(28,762,107)		-
Deferred tax reversal due to temporary difference	-634%	(61,712,009)	2%	1,910,892
	-307%	**(29,856,689)**	62%	**54,869,724**

16.4 Amounts recognized directly in equity

There were no items recognized directly in equity during the year ended 31 December 2022 and 2021 except the following item disclosed in the note no 16.4.1.

16.4.1 Surcharge tax

As per the Surcharge Tax Act No. 14 of 2022 which was certified on 8th April 2022, the Company is liable for the surcharge tax of Rs. 110 million out of the taxable income of Rs. 441 million pertaining to the year of assessment 2020/21. According to the said Act, the surcharge tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the surcharge tax expense is accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka, in April 2022.

The impact of the surcharge tax under the Surcharge Tax Act on the comparative year would have been as given below:

	Rs.
Profit after tax for 31/03/2021	64,490,579
Surcharge tax levied under Surcharge Act	(110,313,377)
Comparable Profit for the year 2020/2021	(45,822,798)

16.5 The income tax provision of the company is calculated on its adjusted profits at the standard rate of 30% (tax rate has changed to 30% from 24% w.e.f. 01.10.2022), in accordance with the Inland Revenue Act No. 24 of 2017 and amendments thereto.

17 BASIC EARNINGS PER SHARE

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

	Year ended 31 December 2022	09 months ended 31 December 2021
Profit attributable to ordinary shareholders for basic earnings per share (Rs.)	39,582,923	33,243,064
Weighted average number of ordinary shares in issue for basic earnings per share	221,793,474	221,793,474
Basic earnings per ordinary share (Rs.)	**0.18**	**0.15**

17.1 There were no potentially dilutive ordinary shares outstanding at any time during the year, hence diluted earnings per share is equal to the basic earnings per share.

18 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2022	At amortized cost	Fair value through OCI	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	96,306,555	-	-	96,306,555
Financial investments	-	1,598,013,279	-	1,598,013,279
Loans and advances	8,505,035,651	-	-	8,505,035,651
Other assets (Note 27)	18,783,757	-	-	18,783,757
Total financial assets	**8,620,125,963**	**1,598,013,279**	**-**	**10,218,139,242**
Liabilities				
Deposit liabilities	-	-	5,116,205,410	5,116,205,410
Due to banks	-	-	2,467,544,765	2,467,544,765
Lease liabilities	-	-	66,555,073	66,555,073
Other liabilities (Note 34)	-	-	14,655,117	14,655,117
Total financial liabilities	**-**	**-**	**7,664,960,365**	**7,664,960,365**

As at 31 December 2021	At amortized cost	Fair value through OCI	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	154,599,310	-	-	154,599,310
Financial investments	406,243,569	432,297,623	-	838,541,192
Loans and advances	8,712,636,883	-	-	8,712,636,883
Other assets (Note 27)	15,803,009	-	-	15,803,009
Total financial assets	**9,289,282,771**	**432,297,623**	**-**	**9,721,580,394**
Liabilities				
Deposit liabilities	-	-	5,068,847,716	5,068,847,716
Due to banks	-	-	1,769,503,838	1,769,503,838
Lease liabilities	-	-	58,005,421	58,005,421
Other liabilities (Note 34)	-	-	25,951,290	25,951,290
Total financial liabilities	**-**	**-**	**6,922,308,265**	**6,922,308,265**

As at 31 December,		**2022**	**2021**
		Rs.	**Rs.**
19 CASH AND CASH EQUIVALENTS			
Cash in hand held in local currency		15,153,730	5,546,041
Balances with licensed commercial banks		81,152,825	149,053,269
Total		**96,306,555**	**154,599,310**
20 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
Investments in unquoted equities	**20.1**	2,120,228	2,100,826
Investments in government securities		1,595,893,051	430,196,797
Total		**1,598,013,279**	**432,297,623**

20.1 Unquoted equities

	2022			2021		
	Number of shares	Cost	Carrying value/ fair value	Number of shares	Cost	Carrying value/ fair value
		Rs.	Rs.		Rs.	Rs.
Credit Information Bureau	100	123,700	2,120,228	100	123,700	2,100,826
Total		**123,700**	**2,120,228**		**123,700**	**2,100,826**

These are investments held for regulatory purposes. When measuring fair values of Financial Investments the Company used the latest publicly available financial statements. No strategic investment were disposed of during the year and there were no transfers at any cumulative gain or loss with in equity relating to these investments.

As at 31 December,	**2022**	**2021**
	Rs.	**Rs.**
21 FINANCIAL INVESTMENTS AT AMORTIZED COST		
Securities purchased under resale agreements	-	406,243,569

-	**406,243,569**

Securities purchased under resale agreements, worth of Rs. 406,243,569 has been fully withdrawn at their maturity during the year.

As at 31 December,

		Notes	2022 Rs.	2021 Rs.
22	**LOANS AND ADVANCES**			
	Loans and advances		12,057,422,676	11,627,260,505
	Less: Unearned income		2,378,049,911	1,740,496,439
	Gross loans and advances		9,679,372,765	9,886,764,066
	Less: Allowance for impairment losses	**22.1**	1,174,337,114	1,174,127,183
	Net loans and advances		**8,505,035,651**	**8,712,636,883**
22.1	**Allowance for impairment losses**			
	As at 01 January / April		1,174,127,183	956,605,747
	Charge for the period - individual impairment		(355,901,641)	355,901,641
	Charge for the period - collective impairment		625,734,432	(39,096,123)
	Write off for the year		(269,622,860)	(99,284,082)
	As at 31 December		**1,174,337,114**	**1,174,127,183**

Loans and advances with the contractual amount of Rs. 269,622,860 has written down during the 2022 are still subject to enforcement activity.

		Notes	2022 Rs.	2021 Rs.
22.1.1	**Analysis of allowance for impairment losses by product**			
	Leases	**22.2.1**	151,006,238	105,940,157
	Hire purchase	**22.2.2**	123	125
	Mortgage loans	**22.2.3**	455,695,487	533,178,065
	Other loans	**22.2.4**	567,635,266	535,008,836
			1,174,337,114	**1,174,127,183**

The Company assesses impairment based on collective models developed for specific products. Further Impairment has not been assessed based on individual impairment model for the year ended 31.12.2022 since lack of information to perform to back-testing to ensure the model accuracy due to unavailability of sufficient past data due to moratoria/concessions granted during the year based on the circular's issued from the Central Bank of Sri Lanka and limitations to re-access the accuracy and reliability of estimated future cash flow projections and the other objective evidences and related assumptions under prevailing unstable economic situation of the country. Accordingly, cumulative provision amounting to Rs. 355,901,641/- under individual impairment model was reversed during the year and record the impairment charge of Rs. 625,734,432/- over the total portfolio considered for impairment under collective approach.

		Notes	2022 Rs.	2021 Rs.
22.2	**Analysis by product**			
	Leases	**22.2.1**	1,978,163,272	1,664,945,533
	Hire purchase	**22.2.2**	-	-
	Mortgage loans	**22.2.3**	3,987,219,037	4,645,527,475
	Other loans	**22.2.4**	2,539,653,342	2,402,163,875
			8,505,035,651	**8,712,636,883**
22.2.1	**Leases**			
	Gross lease receivable			
	Within one year	**22.2.1 (a)**	1,348,955,413	1,104,987,150
	One to five years	**22.2.1 (b)**	779,895,282	665,300,358
	Over five years	**22.2.1 (c)**	318,815	598,182
			2,129,169,510	1,770,885,690
	Less: Allowance for impairment losses		151,006,238	105,940,157
	Net lease receivable		**1,978,163,272**	**1,664,945,533**
22.2.1 (a)	**Gross lease receivable within one year**			
	Total lease receivable within one year		1,612,998,599	1,291,231,345
	Less: Unearned income		264,043,186	186,244,195
			1,348,955,413	**1,104,987,150**
22.2.1 (b)	**Gross lease receivable within one to five years**			
	Total lease receivable within one to five years		1,030,896,117	812,388,815
	Less: Unearned income		251,000,835	147,088,457
			779,895,282	**665,300,358**
22.2.1 (c)	**Gross lease receivable over five years**			
	Total lease receivable over five years		326,297	637,760
	Less: Unearned income		7,482	39,578
			318,815	**598,182**
22.2.2	**Hire purchase**			
	Gross hire purchase receivable			
	Within one year	**22.2.2 (a)**	123	125
			123	125
	Less: Allowance for impairment losses		123	125
	Net hire purchase receivable		-	-

As at 31 December,		Notes	2022 Rs.	2021 Rs.
22	**LOANS AND ADVANCES (CONT.)**			
22.2	**Analysis by product (CONT.)**			
22.2.2	**Hire purchase (CONT.)**			
22.2.2 (a)	**Gross hire purchase receivable within one year**			
	Total hire purchase rentals receivable		123	125
	Less: Unearned income		-	-
			123	**125**
22.2.3	**Mortgage loans**			
	Gross mortgage loans receivable			
	Within one year	**22.2.3 (a)**	1,811,945,747	2,175,988,262
	One to five years	**22.2.3 (b)**	2,387,979,447	2,753,744,390
	Over five years	**22.2.3 (c)**	242,989,331	248,972,888
			4,442,914,524	5,178,705,540
	Less: Allowance for impairment losses		455,695,487	533,178,065
	Net mortgage loans receivable		**3,987,219,037**	**4,645,527,475**
22.2.3 (a)	**Gross mortgage loans receivable within one year**			
	Total mortgage loans receivable		2,333,592,022	2,732,082,856
	Less: Unearned income		521,646,275	556,094,594
			1,811,945,747	**2,175,988,262**
22.2.3 (b)	**Gross mortgage loans receivable within one to five years**			
	Total mortgage loans receivable		3,256,808,166	2,773,769,549
	Less: Unearned income		868,828,719	20,025,159
			2,387,979,447	**2,753,744,390**
22.2.3 (c)	**Gross mortgage loans receivable over five years**			
	Total mortgage loans receivable		272,726,205	268,865,354
	Less: Unearned income		29,736,874	19,892,466
			242,989,331	**248,972,888**
22.2.4	**Other loans**			
	Gross other loans receivable			
	Within one year	**22.2.4 (a)**	2,430,533,707	2,644,345,819
	One to five years	**22.2.4 (b)**	676,556,121	284,070,292
	Over five years	**22.2.4 (c)**	198,780	8,756,600
			3,107,288,608	2,937,172,711
	Less: Allowance for impairment losses		567,635,266	535,008,836
	Net other loans receivable		**2,539,653,342**	**2,402,163,875**
22.2.4 (a)	**Gross other loans receivable within one year**			
	Total other loans receivable		2,773,876,008	2,790,157,451
	Less: Unearned income		343,342,301	145,811,632
			2,430,533,707	**2,644,345,819**
22.2.4 (b)	**Gross other loans receivable within one to five years**			
	Total other loans receivable		775,993,283	949,370,650
	Less: Unearned income		99,437,162	665,300,358
			676,556,121	**284,070,292**
22.2.4 (c)	**Gross other loans receivable over five years**			
	Total other loans receivable		205,857	8,756,600
	Less: Unearned income		7,077	-
			198,780	**8,756,600**

22.2.4 (d) Other loans includes personal loans, business loans and other unsecured loans.

As at 31 December,	**2022 Rs.**	**2021 Rs.**
23 INVESTMENT PROPERTIES		
Cost/Valuation		
As at 01 January / April	25,150,000	25,150,000
Fair value gain	1,200,000	-
As at 31 December	**26,350,000**	**25,150,000**

23.1 Details of investment properties

Location	Date of valuation	Extent (Perches)	Price per perch Rs.	Fair value of the investment property	Carrying value of investment property before fair valuation	Fair value gain/(losses) recognized in income statement
Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	31.12.2022	18.70	325,000	6,075,000	5,800,000	275,000
Lot 01, plan No: 1366, Boyagama, Pilimathalawa		312.00	65,000	20,275,000	19,350,000	925,000

23.2 Measurement of Fair Value

The fair value measurement for the investment property of the Company has been categorized as a Level 3 fair value measurement based on the inputs to the valuation techniques used.

Details of the professional valuer	Location	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value
K.M.U Dissanayake, Incorporated Valuer B. Sc. (E.M.V.) Sp. (Sri Lanka) A.I.V. (Sri Lanka) - R/No : A 359	Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	Market comparable method - price per perch (Note - 24.2.1)	Rs. 325,000 p.p.	The estimated fair value would increase / (decrease) if price per perch would higher / (lesser)
	Lot 01, plan No: 1366, Boyagama, Pilimathalawa		Rs. 65,000 p.p.	

23.2.1 Market Comparable Method

The comparison method to property valuation is an approach which uses the value of recently sold comparable assets to determine the value of a property.

For the year ended 31 December 2022

24 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Furniture and fittings	Office equipment	Computers and accessories	Sign boards	Telephone system	Electrical equipment	Motor vehicles	Fixtures and fittings	Total 31.12.2022
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At cost/ valuation											
Balance as at 01 January	83,730,000	112,220,000	10,403,955	16,131,676	59,469,831	4,016,481	1,234,045	10,382,020	21,883,498	8,628,201	328,099,707
Additions	-	3,469,635	3,563,730	8,589,442	25,606,292	1,665,432	520,000	5,921,272	-	5,929,923	55,265,726
Disposals	-	-	-	(408,858)	(1,427,368)	-	(11,930)	-	-	-	(1,848,156)
Balance as at 31 December	**83,730,000**	**115,689,635**	**13,967,685**	**24,312,260**	**83,648,755**	**5,681,913**	**1,742,115**	**16,303,292**	**21,883,498**	**14,558,124**	**381,517,277**
Depreciation											
Balance as at 01 January	-	4,576,032	7,372,669	9,601,980	28,199,159	1,386,309	879,021	3,362,379	16,011,621	2,506,492	73,895,662
Charge for the year	-	2,686,477	868,364	1,986,566	11,675,263	642,929	266,302	1,494,282	1,924,474	1,569,864	23,114,521
Disposals	-	-	-	(341,753)	(1,290,523)	-	(11,930)	-	-	-	(1,644,206)
Balance as at 31 December	**-**	**7,262,509**	**8,241,033**	**11,246,793**	**38,583,899**	**2,029,238**	**1,133,393**	**4,856,661**	**17,936,095**	**4,076,356**	**95,365,977**
Building work- in-progress (Note 24.12)											30,742,706
Carrying value											
As at 31 December 2022	**83,730,000**	**108,427,126**	**5,726,652**	**13,065,467**	**45,064,856**	**3,652,675**	**608,722**	**11,446,631**	**3,947,403**	**10,481,768**	**316,894,006**

For the nine months ended 31 December 2021

24 PROPERTY, PLANT AND EQUIPMENT (CONT.)

	Land	Buildings	Furniture and fittings	Office equipment	Computers and accessories	Sign boards	Telephone system	Electrical equipment	Motor vehicles	Fixtures and fittings	Total 31.12.2021
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
At cost/ valuation											
Balance as at 01 April	83,730,000	112,220,000	10,014,585	13,708,963	44,216,931	3,748,581	1,234,670	7,081,613	21,767,873	7,017,774	304,740,990
Additions	-	-	389,370	2,422,713	15,465,810	267,900	27,800	3,300,407	390,000	1,610,427	23,874,427
Disposals	-	-	-	-	(212,910)	-	(28,425)	-	(274,375)	-	(515,710)
Balance as at 31 Decembe	**83,730,000**	**112,220,000**	**10,403,955**	**16,131,676**	**59,469,831**	**4,016,481**	**1,234,045**	**10,382,020**	**21,883,498**	**8,628,201**	**328,099,707**
Depreciation											
Balance as at 01 April	-	2,609,767	6,674,906	8,497,970	21,848,038	1,008,319	746,008	2,680,592	14,837,760	1,766,394	60,669,754
Charge for the year	-	1,966,265	697,763	1,104,010	6,443,608	377,990	142,300	681,787	1,448,236	740,098	13,602,057
Disposals	-	-	-	-	(92,487)	-	(9,287)	-	(274,375)	-	(376,149)
Balance as at 31 Decembe	**-**	**4,576,032**	**7,372,669**	**9,601,980**	**28,199,159**	**1,386,309**	**879,021**	**3,362,379**	**16,011,621**	**2,506,492**	**73,895,662**
Building work- in-progress (Note 24.12)											22,054,698
Carrying value											
As at 31 December 2021	**83,730,000**	**107,643,968**	**3,031,286**	**6,529,696**	**31,270,672**	**2,630,172**	**355,024**	**7,019,641**	**5,871,877**	**6,121,709**	**276,258,743**

The Property, Plant and Equipment do not include any assets subject to operating lease where the Company is the Lessor.

24.1 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment including the capital work in progress to the aggregate value of Rs. 63,953,734/- (Year ended 31.12.2021 - Rs. 41,059,236/-). Also, there is a cash payments amounting to Rs. 63,953,734/- (Year ended 31.12.2021 -Rs.41,059,235/-) was paid during the financial year for purchases of property, plant and equipment.

24.2 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

24.3 Capitalisation of borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year ended 31 December 2022 (Year ended 31.12.2021: Nil).

24.4 Amount of contractual commitments for the acquisition of property, plant and equipment

The Company had no contractual commitments for the acquisition of property, plant and equipment as at the reporting date. (Year ended 31.12.2021: Nil)

24.5 Property, plant and equipment included fully depreciated assets amounting to Rs. 39,562,235/- as at 31 December 2022 (as at 31.12.2021 - Rs. 36,698,043/-).

24 PROPERTY, PLANT AND EQUIPMENT (CONT.)

24.6 Measurement of fair values

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's land and buildings every 3 years.

The fair value measurement of all of the land and buildings has been categorized as a Level 3 fair value based on the inputs to the valuation techniques used.

24.7 Information on valuation of freehold Land and Buildings of the Company.

Date of valuation: 30 March 2020

Name of the professional valuer/Location and Address	Location of the property	Extent (Perches)	Method of valuation and significant unobservable inputs	Range of estimation for unobservable inputs	Carrying value before valuation of		Revaluation amount of		Revaluation gain Recognized on	
					Land Rs.	Buildings Rs.	Land Rs.	Buildings Rs.	Land Rs.	Buildings Rs.
K.M.U Dissanayake A.I.V. Incorporated Valuer,	No. 187, Katugastota Road, Kandy.	11.93	• Valuation on Comparative Method. • Useful life period of the Building. • Price per perch for land • Price per square foot for building (Note - 25.11)	• Useful life period of the Building is 32 years • Price per perch Rs. 5,500,000/- • Price per sq.foot Rs. 9,000/-	59,662,500	73,656,176	65,630,000	85,320,000	5,967,500	11,663,824
Rambukpitiya, Sri Lanka.	No. 182, Katugastota Road, Kandy.	3.29		•Useful life period of the Building is 27 years • Price per perch Rs. 5,500,000/- • Price per sq.foot Rs. 7,250/-	16,400,000	23,368,077	18,100,000	26,900,000	1,700,000	3,531,923
					76,062,500	**97,024,253**	**83,730,000**	**112,220,000**	**7,667,500**	**15,195,747**

24.7.1 The carrying amount of Company's revalued assets that would have been included in these Financial Statements had these assets been carried at cost less accumulated depreciation is as follows:

As at 31 December,	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	40,313,868	-	40,313,868	40,313,868	-	40,313,868
Buildings	49,485,023	11,488,687	37,996,336	49,485,023	10,498,987	38,986,036
Total	**89,798,891**	**11,488,687**	**78,310,204**	**89,798,891**	**10,498,987**	**79,299,904**

24.8 Fair value measurement hierarchy - Measurement of the fair value of the Land and Building is using the unobservable inputs, which need to be treated as Level 3 in accordance with SLFRS 13 Fair Value Measurement.

24.9 Impairment of property, plant and equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 December 2022 specially considering the present economic condition. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment. The management has taken necessary actions to safeguard the assests to ensure its future economic value would not diminish.

24.10 Property, plant and equipment pledged as security

Details of property, plant and equipment which have been pledged as securities as at the reporting date are disclosed in Note 29.4.

24.11 Market Comparable Method

The comparison method to property valuation is an approach which uses the value of recently sold comparable assets to determine the value of a property.

24.12 Building work-in-progress

As at 31 December,	2022 Rs.	2021 Rs.
As at 01 January / April	22,054,698	4,869,889
Additions during the year	8,688,008	17,184,809

As at 31 December	30,742,706	22,054,698

As at 31 December,		Notes	2022 Rs.	2021 Rs.
25	**INTANGIBLE ASSETS**			
	Computer software			
	Cost			
	As at 01 January /April		44,713,678	43,195,370
	Additions during the period		5,939,936	1,518,308
	As at 31 December		**50,653,614**	**44,713,678**
	Amortization			
	As at 01 January /April		15,320,620	11,996,329
	Additions for the period		4,724,623	3,324,291
	As at 31 December		**20,045,243**	**15,320,620**
	Carrying value as at 31 December		**30,608,371**	**29,393,058**
26	**RIGHT OF USE ASSETS**			
	As at 01 January /April		53,319,549	40,590,614
	Adjustments		361,933	-
	Additions during the period		33,082,978	24,646,180
	Removal during the period		-	(1,567,402)
	Amortization for the period		(19,357,603)	(10,349,843)
	As at 31 December		**67,406,857**	**53,319,549**
27	**OTHER ASSETS**	**Notes**		
	Financial			
	Refundable deposits		7,401,600	6,970,600
	Debtors		1,783,178	1,783,178
	Insurance premium receivable		13,836,874	11,543,806
			23,021,652	**20,297,584**
	Allowance for impairment losses - debtors & insurance premium receivable	**27.1**	(4,237,895)	(4,494,575)
			18,783,757	**15,803,009**
	Non-financial			
	Prepayments		14,479,077	12,627,507
	Other receivables		3,325,975	1,066,410
	WHT receivable		-	72,800
			17,805,052	**13,766,717**
	Total		**36,588,809**	**29,569,726**
27.1	**Allowance for impairment losses - debtors & insurance premium receivable**			
	Debtors		(1,783,178)	(1,783,178)
	Insurance premium receivable		(2,454,717)	(2,711,397)
			(4,237,895)	**(4,494,575)**
28	**DEPOSIT LIABILITIES**			
	Savings deposits		50,606,635	145,125,057
	Fixed deposits		5,065,598,775	4,923,722,659
			5,116,205,410	**5,068,847,716**

As at 31 December,

	Notes	2022 Rs.	2021 Rs.
29 DUE TO BANKS			
Bank overdrafts		53,650,332	22,460,800
Securitized borrowings	**29.1**	2,280,285,530	1,553,177,878
Unsecuritized borrowings	**29.2**	133,608,903	193,865,160
Total		**2,467,544,765**	**1,769,503,838**

29.1 Securitized borrowings

For the year ended 31 December 2022

	As at 01.01.2022	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.12.2022
	Rs.	Rs.	Rs.	Rs.	Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	1,553,177,878	2,575,000,000	258,167,947	(2,106,060,295)	2,280,285,530
Total	**1,553,177,878**	**2,575,000,000**	**258,167,947**	**(2,106,060,295)**	**2,280,285,530**

For the year ended 31 December 2021

	As at 01.04.2021	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.12.2021
	Rs.	Rs.	Rs.	Rs.	Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	610,607,345	2,170,000,000	20,838,079	(1,248,267,546)	1,553,177,878
Total	**610,607,345**	**2,170,000,000**	**20,838,079**	**(1,248,267,546)**	**1,553,177,878**

29.2 Unsecuritized borrowings

For the year ended 31 December 2022

	As at 01.01.2022	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.12.2022
Direct bank borrowings	Rs.	Rs.	Rs.	Rs.	Rs.
Sampath Bank PLC	-	300,000,000	2,683,562	(302,683,562)	-
DFCC Bank PLC	193,865,160	-	31,174,417	(91,430,674)	133,608,903
Total	**193,865,160**	**300,000,000**	**33,857,979**	**(394,114,236)**	**133,608,903**

For the year ended 31 December 2021

	As at 01.04.2021	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.12.2021
Direct bank borrowings	Rs.	Rs.	Rs.	Rs.	Rs.
Bank Of Ceylon	483,740,794		10,998,682	(494,739,476)	-
DFCC Bank PLC	239,640,153		13,129,190	(58,904,183)	193,865,160
Total	**723,380,947**	**-**	**24,127,872**	**(553,643,659)**	**193,865,160**

As at 31 December,

29 DUE TO BANKS (CONT.)

29.3 Institutional borrowings

Institution	As at 01/01/2022 (Rs)	Loan obtained during the year (Rs)	Interest expense for the year (Rs)	Repayments		As at 31/12/2022 (Rs)	Tenure of loan	Security offered	Prevailing interest rate
				Capital (Rs)	Interest (Rs)				
Commercial Bank of Ceylon PLC	1,553,177,878	2,575,000,000	258,167,947	1,858,336,000	247,724,295	2,280,285,530	5 Years / revolving	Primary property mortgage & Mortgage over lease and loan receivables	20.20%
Sampath Bank PLC	-	300,000,000	2,683,562	300,000,000	2,683,562	-	Revolving	Commercial Bank letter of Comfort	-
DFCC Bank PLC	193,865,160	-	31,174,417	61,016,952	30,413,722	133,608,903	5 Years	Commercial Bank letter of Comfort	29.85%
	1,747,043,038	2,875,000,000	292,025,926	2,219,352,952	280,821,579	2,413,894,433			

29.4 Assets pledged

The following assets have been pledged as security for liabilities.

Nature of assets	Facility	2022 Rs.	2021 Rs.
Lease and loan receivable	Commercial Bank of Ceylon	2,897,275,043	3,263,946,730
Property at No. 182 & 187, Katugastota Road, Kandy	Commercial Bank of Ceylon	75,000,000	75,000,000
		2,972,275,043	**3,338,946,730**

As at 31 December,	Notes	2022 Rs.	2021 Rs.
30 EMPLOYEE BENEFITS			
30.1 Defined benefit plans			
Movement in the present value of the defined benefit obligations			
As at 01 January / April		14,972,957	11,430,854
Included in profit or loss			
Current service cost	30.1.1	2,883,986	1,949,427
Interest cost		1,617,079	685,851
		4,501,065	2,635,278
Included in other comprehensive income			
Actuarial (gain) / losses during the period	30.1.2	(7,785,255)	1,772,400
Payments made during the period		(358,639)	(865,575)
As at 31 December		**11,330,128**	**14,972,957**

30.1.1 Expense recognized in profit or loss

	2022 Rs.	2021 Rs.
Current service cost for the period	2,883,986	1,949,427
Interest cost for the period	1,617,079	685,851
Total	**4,501,065**	**2,635,278**

30.1.2 Amount recognized for defined benefit obligation in other comprehensive income

	2022 Rs.	2021 Rs.
Cumulative losses as at 1 January / April	4,652,368	2,879,968
Actuarial (gain) / losses recognized during the period	(7,785,255)	1,772,400
Cumulative (gain) / losses as at 31 December	**(3,132,887)**	**4,652,368**

30.1.3 Actuarial assumptions

	2022	2021
Financial assumptions		
Discount rate	18% p.a.	10.8% p.a.
Salary increment rate	15% p.a.	15% p.a.
Demographic assumptions		
Staff turnover	15%	13%
Mortality	A 1967/70 Mortality Table	
Disability	10% of Mortality Table	
Retirement age	Normal retirement age, the employees who are aged over the specified retirement age have been assumed to retire on their respective next birthday.	

The average duration of the defined benefit plan obligation at the end of the reporting period is 6.05 years for the Company (2021 – 6.88 years)

As per the guidelines issued by the Institute of Chartered Accountants of Sri Lanka, the discount rates have been adjusted to convert the coupon bearing yield to a zero[1]coupon yield to match the characteristics of the gratuity payment liability and the resulting yield to maturity for the purpose of valuing Employee benefit obligations as per LKAS 19.

An actuarial valuation of the gratuity was carried out as at 31 December 2022 by Mr. M. Poopalanathan, AIA, of Actuarial and Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method", recommended by LKAS 19.

As at 31 December,

30 EMPLOYEE BENEFITS (CONT.)

30.1.4 Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2022		2021	
	Increase (Rs.)	Decrease (Rs.)	Increase (Rs.)	Decrease (Rs.)
Discount rate (1% movement)	(501,968)	550,266	(1,073,492)	1,230,940
Salary increment rate (1% movement)	573,258	(530,571)	1,190,698	(1,061,198)

31 LEASE LIABILITIES

	2022 Rs.	2021 Rs.
As at 01 January / April	58,005,421	43,830,248
Adjustments	(4,775,972)	-
Additions during the period	33,082,978	24,646,180
Removal during the period	-	(1,817,914)
Accrual of interest for the period	6,336,098	3,806,170
Payments made during the period	(26,093,452)	(12,459,263)
Balance as at 31 December	**66,555,073**	**58,005,421**

31.1 Amounts recognised in financial statements

31.1.1 Amounts recognised in profit or loss under SLFRS 16

Interest on lease liabilities	6,336,098	3,806,170
Right-of-use asset amortization	19,357,603	10,349,843
Expenses relating to short term leases	1,190,450	2,169,375

31.1.2 Amounts recognised in statement of cash flows under SLFRS 16

Lease interest paid	(6,336,098)	(3,806,170)
Payment of lease liabilities	(19,757,354)	(8,653,093)

31.1.3 Undiscounted lease payable

The following table sets out the maturity analysis of lease payment showing the undiscounted lease payments to be paid after the reporting date.

	Rs.	Rs.
Less than one year	25,147,783	16,551,892
One to two years	26,193,687	17,253,280
Two to three years	20,123,935	18,041,730
Three to four years	12,671,630	11,520,560
Four to five years	2,641,001	3,270,150
	86,778,036	**66,637,612**

As at 31 December,	Notes	2022 Rs.	2021 Rs.
32 DEFERRED TAX ASSETS			
As at 01 January / April		(193,579,595)	(195,023,364)
Origination / (reversal) of temporary differences			
- Recognized in profit or loss	32.2	(90,474,116)	1,910,892
- Recognized in other comprehensive income	32.2	6,121,434	(467,123)
As at 31 December		**(277,932,277)**	**(193,579,595)**

32.1 Summary of net deferred tax

As at 31 December,	2022		2021	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
Deferred tax liabilities				
Accelerated depreciation for tax purposes - Lease assets (Note 32.4)	28,242,065	8,472,620	139,964,051	33,591,372
Accelerated depreciation for tax purposes - Own assets	58,222,317	17,466,695	49,361,707	11,846,810
Accelerated depreciation for tax purposes - Right of use assets	67,406,857	20,222,057	53,319,549	12,796,692
Revaluation surplus on buildings	66,412,909	19,923,873	67,962,843	16,311,082
Tax on capital assets (lands) (Note 32.3)	43,416,132	13,024,840	43,416,132	10,419,872
Unrealized gain on FVOCI	-	-	69,571	16,697
	263,700,280	**79,110,085**	**354,093,853**	**84,982,525**
Deferred tax assets				
Defined benefit plans	11,330,128	3,399,038	14,972,956	3,731,697
Carried forward unclaimed impairment losses	1,099,085,535	329,725,661	1,083,908,161	260,137,959
Amortization of lease liabilities	66,555,073	19,966,522	58,005,421	13,921,301
Unrealized losses on FVOCI	6,658,837	1,997,651	-	-
Fair value losses on investment properties	6,511,634	1,953,490	7,711,634	771,163
	1,190,141,207	**357,042,362**	**1,164,598,172**	**278,562,120**
Net deferred tax assets as at 31 December	**(926,440,927)**	**(277,932,277)**	**(810,504,319)**	**(193,579,595)**

32.2 Deferred tax assets and liabilities are attributable to the following:

	Recognized in Profit or Loss		Recognized in Other Comprehensive Income		Statement of Financial Position	
	Year ended 31.12.2022	09 months ended 31.12.2021	Year ended 31.12.2022	09 months ended 31.12.2021	As at 31.12.2022	As at 31.12.2021
Deferred tax liabilities	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Accelerated depreciation for tax purposes - Lease assets (Note 32.4)	(25,118,752)	(19,573,358)	-	-	8,472,620	33,591,372
Accelerated depreciation for tax purposes - Own assets	5,619,885	856,081	-	-	17,466,695	11,846,810
Amortization of right of use assets	7,425,365	3,054,945	-	-	20,222,057	12,796,692
Revaluation surplus on buildings	(398,027)	(267,836)	4,010,818	-	19,923,873	16,311,082
Revaluation surplus on lands (Note 32.3)	-	-	2,604,961	-	13,024,840	10,419,872
Unrealized gain on FVOCI	-	69,841	(16,697)	(53,144)	-	16,697
	(12,471,529)	(15,860,327)	6,599,082	(53,144)	79,110,085	84,982,525
Deferred tax assets						
Defined benefit plans	(1,606,401)	(562,916)	1,939,067	(425,376)	3,399,038	3,731,697
Carried forward unclaimed impairment losses	(69,587,702)	21,736,176	-	-	329,725,661	260,137,959
Amortization of right of use assets	(6,045,221)	(3,402,041)	-	-	19,966,522	13,921,301
Unrealized loss on FVOCI	419,064	-	(2,416,715)	11,397	1,997,651	-
Fair value losses on investment properties	(1,182,327)	-	-	-	1,953,490	771,163
	(78,002,587)	17,771,219	(477,648)	(413,979)	357,042,362	278,562,120
Deferred tax effect on statement of profit or loss and other comprehensive income	**(90,474,116)**	**1,910,892**	**6,121,434**	**(467,123)**		
Net deferred tax assets as at 31 December					**(277,932,277)**	**(193,579,595)**

As at 31 December,

32 DEFERRED TAX ASSETS (CONT.)

32.3 As per the Inland Revenue Act No. 24 of 2017, which is effective from 1 April 2018, Capital Assets attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 30% (2021 - 24%) on the revaluation surplus relating to freehold land in these Financial Statements.

32.4 As per the Inland Revenue Act No. 24 of 2017, which is effective from 1 April 2018, Finance Lease agreements need to be considered as a loan granted by the lessor to the lessee. Accordingly, the previous method of calculating the profits from the business of finance lease has been changed and the leasing business would be subject to tax on profits derived from such operations being the lease interest less expenses.

However, any profit, loss, receipt or payment in respect of any finance lease agreement entered into, prior to 1 April 2018, will be computed in accordance with the respective provisions of the Inland Revenue Act, No. 10 of 2006. Therefore, a deferred tax liability has been recognised on accelerated depreciation for tax purposes on lease assets as at 31 December 2022 which were entered into prior to 1 April 2018.

32.5 Effect of change in tax rate

As at 31 December,	2022		2021	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
Deferred tax liabilities				
Balance as at beginning of the period	354,093,853	84,982,525	420,399,983	100,895,996
Impact of change in tax rate recognised in income statement	-	(8,938,405)	-	-
Impact of change in tax rate recognised in OCI	-	(9,687)	-	-
Originating / (reversing) during the period	(90,393,573)	3,075,652	(66,306,129)	(15,913,471)
Balance as at end of the period	**263,700,280**	**79,110,085**	**354,093,853**	**84,982,525**
Deferred tax assets				
Balance as at beginning of the period	1,164,598,172	278,562,120	1,237,495,785	295,919,360
Impact of change in tax rate recognised in income statement	-	70,650,415	-	-
Impact of change in tax rate recognised in OCI	-	6,337,898	-	-
Originating / (reversing) during the period	25,543,035	1,491,929	(72,897,613)	(17,357,240)
Balance as at end of the period	**1,190,141,207**	**357,042,362**	**1,164,598,172**	**278,562,120**
Net deferred tax assets as at 31 December	**(926,440,927)**	**(277,932,277)**	**(810,504,319)**	**(193,579,595)**

As at 31 December,	2022 Rs.	2021 Rs.
33 CURRENT TAX LIABILITIES		
As at 01 January / April	44,140,864	101,505,099
Provision for the period	44,163,766	52,958,829
Under provision in relation to prior years	16,453,661	-
Payments made during period	(67,665,464)	(110,323,064)
As at 31 December	**37,092,827**	**44,140,864**
34 OTHER LIABILITIES		
Financial		
Trade payables	14,655,117	25,951,290
	14,655,117	**25,951,290**
Non-financial		
Accrued expenses	62,417,003	70,885,442
Stamp duty payable	1,863,855	5,727,755
Total	**78,935,975**	**102,564,487**

35 STATED CAPITAL

	2022		2021	
	Number of shares	Value of shares Rs.	Number of shares	Value of shares Rs.
Fully paid ordinary shares				
As at 01 January / April	221,793,474	3,254,999,963	221,793,474	3,254,999,963
As at 31 December	**221,793,474**	**3,254,999,963**	**221,793,474**	**3,254,999,963**

35.1 Shareholders as at ,	2022 Holding %	2022 No of shares	2021 No of shares
Commercial Bank of Ceylon PLC	100	221,793,474	221,793,474
Total	100	221,793,474	221,793,474

The holder of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per individual present at meetings of the shareholders or one vote per share in the case of a poll.

As at 31 December,	Notes	2022 Rs.	2021 Rs.
36 ACCUMULATED LOSSES			
As at 01 January		(138,978,745)	(169,212,632)
Profit for the year		39,582,923	33,243,064
Actuarial losses on defined benefits plans, after tax		5,846,188	(1,347,024)
Transferred to statutory reserve fund	**37.1**	(1,979,146)	(1,662,153)
Surcharge levied under Surcharge Act		(110,313,377)	-
As at 31 December		**(205,842,157)**	**(138,978,745)**
37 OTHER RESERVES			
Capital reserve		50,000	50,000
Statutory reserve fund	**37.1**	33,328,578	31,349,432
Revaluation reserve	**37.2**	79,498,538	86,114,318
Fair value reserve	**37.3**	(4,661,184)	1,379,916
General reserve	**37.4**	20,097,889	20,097,889
Total		**128,313,821**	**138,991,555**
37.1 Statutory reserve fund			
As at 01 January		31,349,432	29,687,279
Transferred from retained earnings		1,979,146	1,662,153
As at 31 December		**33,328,578**	**31,349,432**

'Statutory reserve fund' is a capital reserve which contains profits transferred as required by Department of Supervision of Non Bank Financial Institutions of Central Bank of Sri Lanka, under the Finance Companies (Capital Funds) Direction No. 01 of 2003. Accordingly, 5% of the net profit for the year is transferred to the Statutory reserve fund during the financial year.

As at 31 December,	2022 Rs.	2021 Rs.
37.2 Revaluation reserve		
As at 01 January	86,114,318	86,114,318
Effect of change in tax rate	(6,615,780)	-
As at 31 December	**79,498,538**	**86,114,318**

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings, as at the date of revaluation.

37.3 Fair value reserve

The fair value reserve comprises;

- the cumulative net change in the fair value of equity securities designated at FVOCI and,

- the cumulative net change in fair value of debt securities at FVOCI until the assets are derecognised or reclassified. This amount is reduced by the amount of loss allowance.

37.4 General reserve

The purpose of setting up the general reserve is to meet potential future unknown liabilities and the balance comprises of the amounts appropriated by the Board of Directors as a general reserve.

As at 31 December,

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has an established control framework with respect to the measurement of fair values of investments. The Asset and Liability Committee (ALCO) has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements are carried out by the finance division, which include :

* Verification of observable pricing;
* Re-performance of model valuations;
* Quarterly calibration and back-testing of models against observed market transactions;
* Analysis and investigation of significant daily valuation movements; and
  Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 as explained below.

When third party information, such as broker quotes or pricing services, is used to measure fair value, documents of evidence are obtained from third parties to support the conclusion that such valuations meet the requirements of SLFRS/LKAS.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

31 December 2022	Classification	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets measured at fair value						
Investment in unquoted shares	Fair value through OCI	2,120,228	-	-	2,120,228	2,120,228
Investments in government securities		1,595,893,051	-	1,595,893,051	-	1,595,893,051
		1,598,013,279				
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	96,306,555	-	-	-	-
Financial investment		-	-	-	-	-
Loans and advances		8,505,035,651	-	-	-	-
Other assets (Note 28)		23,021,652	-	-	-	-
		8,624,363,858	**-**	**-**	**-**	**-**
Financial liabilities not measured at fair value						
Deposit liabilities	Amortized cost	5,116,205,410	-	-	-	-
Due to banks		2,467,544,765	-	-	-	-
Lease liabilities		66,555,073	-	-	-	-
Other liabilities (Note 34)		14,655,117	-	-	-	-
		7,664,960,365				

31 December 2021	Classification	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets measured at fair value						
Investment in unquoted shares	Fair value through OCI	2,100,826	-	-	2,100,826	2,100,826
Investments in government securities		430,196,797	-	430,196,797	-	430,196,797
		432,297,623				
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	154,599,310	-	-	-	-
Financial investment		406,243,569	-		-	-
Loans and advances		8,712,636,883	-	-	-	-
Other assets (Note 28)		20,297,584	-	-	-	-
		9,293,777,346				
Financial liabilities not measured at fair value						
Deposit liabilities	Amortized cost	5,068,847,716	-	-	-	-
Due to banks		1,769,503,838	-	-	-	-
Lease liabilities		58,005,421	-	-	-	-
Other liabilities (Note 34)		25,951,290	-	-	-	-
		6,922,308,265				

As at 31 December,

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT.)

38.1 Financial Assets measured at fair value

Methodologies and assumptions used to determine fair value of financial instruments which are already recorded at fair value in the Statement of Financial Position are as follows.

a. Investments in government securities

As Treasury Bills/ Treasury Bonds are valued using Central Bank published rates, investments in government securities are classified under Level 2.

b. Unquoted shares

The unquoted shares, which are held for regulatory purposes, are valued based on internal management information derived from the audited financial statements based on the net asset value of the investee, which is a significant unobservable input in measuring the fair value and hence it is categorized under level 3 in the fair value hierarchy.

c. Level 3 fair values

Reconciliation of level 3 fair value

The following table shows a reconciliation form the opening balances to the closing balances for Level 3 fair values.

	Unquoted equity securities Rs.
Balance as at 1 April 2021	2,098,266
- Net change in fair value (unrealised)	2,560
Balance as at 31 December 2021 (Note 20.1)	**2,100,826**
Balance as at 1 January 2022	2,100,826
- Net change in fair value (unrealised)	19,402
Balance as at 31 December 2022 (Note 20.1)	**2,120,228**

Fair value of the unquoted shares are derived based on the following unobservable input.

Significant unobservable input	Value of the inputs
Net assets value per share	Rs. 21,202

38.2 Financial assets not measured at fair value

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (e.g. fixed rate loans and receivables, fixed rate borrowings) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase / (decrease) in the market interest rate would result in lower / (higher) fair value being disclosed.

Assets for which fair value approximates carrying value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value.

38.3 Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 December 2022.

As at 31 December,

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Remaining contractual period to maturity as at the date of statement of financial position of the liabilities and shareholders' funds employed by the company is detailed below.

	2022			2021		
	Within 12 Months	**After 12 Months**	**Total as at 31/12/2022**	**Within 12 Months**	**After 12 Months**	**Total as at 31/12/2021**
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	96,306,555	-	96,306,555	154,599,310	-	154,599,310
Financial investments - FVOCI	1,595,893,051	2,120,228	1,598,013,279	430,196,797	2,100,826	432,297,623
Financial investments - Amortized cost	-	-	-	406,243,569	-	406,243,569
Loans and advances	4,913,061,526	3,591,974,125	8,505,035,651	5,221,645,122	3,490,991,761	8,712,636,883
Investment properties	-	26,350,000	26,350,000	-	25,150,000	25,150,000
Property, plant and equipment	57,109,339	259,784,667	316,894,006	327,281	275,931,462	276,258,743
Intangible assets	4,321,636	26,286,735	30,608,371	-	29,393,058	29,393,058
Right of use assets	20,439,739	46,967,118	67,406,857	14,089,008	39,230,541	53,319,549
Deferred tax assets	-	277,932,277	277,932,277	-	193,579,595	193,579,595
Other assets	26,237,471	10,351,338	36,588,809	21,869,504	7,700,222	29,569,726
Total assets	**6,713,369,317**	**4,241,766,488**	**10,955,135,805**	**6,248,970,591**	**4,064,077,465**	**10,313,048,056**
Percentage	**61%**	**39%**	**100%**	**61%**	**39%**	**100%**
Liabilities						
Deposit liabilities	3,675,701,128	1,440,504,282	5,116,205,410	4,671,730,646	397,117,070	5,068,847,716
Due to banks	2,023,100,321	444,444,444	2,467,544,765	975,614,949	793,888,889	1,769,503,838
Employee benefits	-	11,330,128	11,330,128	-	14,972,957	14,972,957
Lease liabilities	17,913,752	48,641,321	66,555,073	11,556,107	46,449,314	58,005,421
Income tax liabilities	37,092,827	-	37,092,827	44,140,864	-	44,140,864
Other liabilities	59,395,801	19,540,174	78,935,975	89,003,624	13,560,863	102,564,487
Total liabilities	**5,813,203,829**	**1,964,460,349**	**7,777,664,178**	**5,792,046,190**	**1,265,989,093**	**7,058,035,283**
Equity						
Stated capital	-	3,254,999,963	3,254,999,963	-	3,254,999,963	3,254,999,963
Retained earnings	-	(205,842,157)	(205,842,157)	-	(138,978,745)	(138,978,745)
Other reserves	-	128,313,821	128,313,821	-	138,991,555	138,991,555
Total equity	**-**	**3,177,471,627**	**3,177,471,627**	**-**	**3,255,012,773**	**3,255,012,773**
Total equity and liabilities	**5,813,203,829**	**5,141,931,976**	**10,955,135,805**	**5,792,046,190**	**4,521,001,866**	**10,313,048,056**
Percentage	**53%**	**47%**	**100%**	**56%**	**44%**	**100%**

40 RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard -LKAS 24 - “Related party disclosures ”, the details of which are reported below.

40.1 Parent and ultimate controlling party

On 1 September 2014, Commercial Bank of Ceylon PLC fully acquired the CBC Finance Limited (formerly known as Indra Finance Limited and Serendib Finance Limited) and accordingly the ownership of the Company was transferred to the Commercial Bank of Ceylon PLC. Therefore in the opinion of Directors, Commercial Bank of Ceylon PLC became the parent and ultimate controlling party of the CBC Finance Limited from 1 September 2014 to as of date.

40.2 Transactions with Key Management Personnel (KMP)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company and selected key employees who meet the criteria for KMP.

As Commercial Bank of Ceylon PLC is the ultimate parent of the Company and the Board of Directors of Commercial Bank of Ceylon PLC has the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of Commercial Bank of Ceylon PLC have also been identified as KMP of the Company.

		Year ended 31.12.2022 Rs.	09 months ended 31.12.2021 Rs.
40.2.1	**Compensation of Key Management Personnel**		
	Short term employee benefits	6,200,000	4,620,000
40.2.2	**Transactions with KMP**		
40.2.2.1	**Statement of financial position**		
	Deposit Liabilities	45,351,050	49,001,187
40.2.2.2	**Statement of profit or loss and other comprehensive income**		
	Interest on deposits	7,205,274	2,608,093

40.2.3 Transactions, Arrangements and Agreements Involving Close Family Members (CFMs) of KMP

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner.

		Year ended 31.12.2022 Rs.	09 months ended 31.12.2021 Rs.
40.2.3.1	**Statement of financial position**		
	Deposit Liabilities	16,242,838	21,875,684
40.2.3.2	**Statement of profit or loss and other comprehensive income**		
	Interest on deposits	2,570,243	843,288

40.2.4 Transactions with the parent and related entities

Name of the Company	Nature of transactions	Value of transactions Year ended 31.12.2022 Rs.	Value of transactions 09 months ended 31.12.2021 Rs.	Balance as at 31 December 2022 Rs.	Balance as at 31 December 2021 Rs.
Commercial Bank of Ceylon PLC (Parent)	Overdraft balance as at end of the period	-	-	53,650,332	22,460,800
	OD interest	36,573	17,832	-	-
	Loan balance as at end of the period			2,280,285,530	1,553,177,878
	Loan interest expense	258,167,947	20,838,079	-	-
	Loan interest paid	247,724,295	16,180,446	-	-
	Loans obtained during the period	2,575,000,000	2,170,000,000	-	-
	Loan repayment made during the period	1,858,336,000	1,227,429,467	-	-
	Deposits / Advances held at the end of	-	-	71,705,169	545,443,867
	Interest on deposits / Advances	10,949,556	24,661,643	-	-
	Building Rent received	903,750	675,000	-	-
	Commission for deposits	41,250	-	-	-
Commercial Development Company PLC (Affiliate)	Deposits held at the end of the period	-	-	500,000,000	467,000,000
	New deposits, net of withdrawals	33,000,000	117,000,000		
	Interest on deposits	60,956,690	22,560,014	49,315,068	18,083,301
CBC Tech Solutions Ltd (Affiliate)	Deposits held at the end of the period	-	-	131,477,476	125,250,000
	New deposits, net of withdrawals	6,227,476	55,250,000		
	Interest on deposits	16,063,076	5,775,791	13,308,378	3,472,778
	Software development	956,197	613,278	-	-
Commercial Insuarance Brokers (Affiliate)	Corporate agent fee	218,421	-	-	-

Commercial Bank of Ceylon PLC has provided letters of comfort to Sampath Bank PLC, DFCC Bank PLC and Seylan Bank PLC as security against the term loans obtained amounting to Rs.0.5 Bn, Rs.0.6 Bn and Rs. 0.5 Bn respectively.

For the year ended 31 December 2022

41 RISK MANAGEMENT

INTRODUCTION

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company has exposure to the following risks arising from financial instruments.

1 Credit Risk
2 Liquidity Risk
3 Market Risk
4 Operational Risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by a non-executive director and comprises executive and non-executive directors. Meetings of BIRMC are held regularly, and the Board of Directors is duly updated of its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

The outbreak of COVID-19 since the last quarter of the 2019/20 has caused disruption to many economic activities. The Company has been closely monitoring the impact on the Company's business operation as at year end and also in the immediate future. Further, in response to Covid -19, and the Company's expectations of the economic impacts, calculation of ECL have been revised. Accordingly, as at the reporting date, the expected impacts of Covid -19 have been captured via the modelled outcome as well as a separate management overlay adjustment. In addition forward looking macroeconomic assumptions too were revised in response to Covid -19 pandemic.

Maintaining a liquidity position during this uncertain period remains a key priority for the Company. The management has assessed the impact of the pandemic on the performance and cash flows of the Company and has ensured the financial strength of the Company.

Senior Management involvement in Risk Management

The Business units (i.e. Credit Departments, Collection & Recovery Departments, Branches / Centers and Finance etc.) have primary responsibility for Risk Management. The corporate management team comprising Managing Director/Chief Executive Officer, Chief Operating Officer, Chief Financial Officer / Chief Risk Officer, Head of Human Resource and Operation and Head of Credit and Branch Administration, provide an independent oversight function, acts as the 2nd line of defence.

Risk Measurement & Reporting

The Company's Risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events / worst case scenarios in most of the major type of risks and the results are reported to BIRMC on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept. The Senior Management team meets every week and deliberates on matters of interest in risk management arising from operations. The monthly risk management meeting is held to shortlist matters to be forwarded to BIRMC.

Board Credit Committee

Board Credit Committee is chaired by the Chairman of the Company's Board and comprises non-executive directors. The committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The committee also periodically reviews company's credit policy and lending rates to different business segments, in light of prevailing market conditions and industry dynamics.

A separate Executive credit Committee chaired by the Managing Director / Chief Executive Officer reports to the Board Credit Committee and is responsible for managing the Company's credit risk.

Board Audit Committee Oversight

The Board Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. A separate Management Audit Compliance Committee chaired by the Managing Director / Chief Executive Officer reports to the Board Audit Committee and is responsible for monitor compliance with the Company's risk managemnt policies and procedures.

For the year ended 31 December 2022

41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company’s loans and advances to customers and investments in debt securities. Credit risk constitutes the Company’s largest risk exposure category. This can be broadly categorized into two types; default and concentration risk.

Default risk as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the company’s loans and advances to customers.

Concentration risk is the credit exposure being concentrated as a result of excessive build up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

41.1.1 Management of Credit Risk

The Board of Directors created the Board Credit Committee for the oversight of credit risk. A separate Executive Credit Committee, reporting to the Board Credit Committee, is responsible for managing the Company’s credit risk, including the following.

* Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

* Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Company's Executive Credit Committee, Board Credit Committee or the Board of Directors, as appropriate.

* Reviewing and assessing credit risk: the Company's Executive Credit Committee and Board Credit Committee assess all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

* Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities)

* Developing and maintaining the Company’s processes for measuring ECL: This includes processes for:
    - initial approval, regular validation and back-testing of the models used;
    - determining and monitoring significant increase in credit risk; and
    - incorporation of forward-looking information.

* Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of portfolios are provided to Board Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.

* Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Each business unit is required to implement the Company's credit policies and procedures, with credit approval authorities delegated from the Board Credit Committee. The Executive Credit Committee reports on all credit-related matters to local management and the Board Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and the Company's credit processes are undertaken by Internal Audit.

For the year ended 31 December 2022

41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK (CONT.)

41.1.2 Credit Quality Analysis

The following table sets out information about the overdue status of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3.2.2.

As at 31 December	2022				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
i. ***Loans and advances at amortised cost***					
Current	3,055,985,776	-	-	3,055,985,776	4,572,051,739
Overdue less than 30 days	1,012,129,673	-	-	1,012,129,673	1,019,254,045
Overdue 30 to 180 days	-	2,972,667,622	-	2,972,667,622	2,370,526,174
Overdue more than 180 days	-	-	2,638,589,694	2,638,589,694	1,924,932,108
Gross Carrying amount	**4,068,115,449**	**2,972,667,622**	**2,638,589,694**	**9,679,372,765**	**9,886,764,066**
Loss allowance	(39,085,575)	(274,647,057)	(860,604,482)	(1,174,337,114)	(1,174,127,183)
Carrying amount	**4,029,029,874**	**2,698,020,565**	**1,777,985,212**	**8,505,035,651**	**8,712,636,883**
ii. ***Debt investment securities at amortised cost***					
Low-fair risk	-	-	-	-	406,243,569
Carrying amount	**-**	**-**	**-**	**-**	**406,243,569**
iii. ***Debt investment securities at FVOCI***					
Low-fair risk	1,595,893,051	-	-	1,595,893,051	430,196,797
Carrying amount - fair value	**1,595,893,051**	**-**	**-**	**1,595,893,051**	**430,196,797**
iv. ***Cash and cash equivalents at amortised cost***					
Low-fair risk	96,306,555	-	-	96,306,555	154,599,310
Carrying amount	**96,306,555**	**-**	**-**	**96,306,555**	**154,599,310**
v. ***Other assets at amortised cost***					
Current	9,958,515	-	-	9,958,515	6,902,796
Overdue more than 180 days	-	5,052,228	8,010,909	13,063,137	13,394,788
Gross Carrying amount	**9,958,515**	**5,052,228**	**8,010,909**	**23,021,652**	**20,297,584**
Loss allowance	(48,262)	(396,866)	(3,792,767)	(4,237,895)	(4,494,575)
Carrying amount	**9,910,253**	**4,655,362**	**4,218,142**	**18,783,757**	**15,803,009**

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41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK (CONT.)

41.1.3 Collateral held and other credit enhancements

The Company holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	**Gross receivable**		**Percentage of exposure that is subject to**		**Principal type of collateral**
As at 31 December,	**2022 Rs.**	**2021 Rs.**	**2022**	**2021**	
Loans and advances at amortised cost					
Mortgage lending	4,442,914,524	5,178,705,540	95.47%	94.68%	Residential and commercial properties, movable assets.
Other loans	3,107,288,608	2,937,172,711	42.78%	6.53%	Motor vehicles and equipment
Finance leases	2,129,169,510	1,770,885,690	98.66%	99.75%	Motor vehicles and equipment
Hire purchase	123	125	0.00%	100.00%	Motor vehicles and equipment
	9,679,372,765	**9,886,764,066**			
Debt investment securities					
Financial investments- Amortized cost	-	406,243,569	-	100.00%	Government securities
	-	**406,243,569**			
Other assets at amortised cost					
Refundable deposits	7,401,600	6,970,600	-	-	None
Debtors	1,783,178	1,783,178	-	-	None
Insurance premium receivable	13,836,874	11,543,806	-	-	None
	23,021,652	**20,297,584**			

There was no change in the Company's collateral policy during the year. Further, The Company did not observe any significant deterioration in the quality of the collaterals and other credit enhancements during the reporting period.

The Company has not been recognised allowance for ECL for government securities denominated in Sri Lankan rupees, other financial assets secured by government guarantees, treasury bills and treasury bonds. Except for the above, Company has recognised ECL for all other financial assets classified at amortised cost and debt instruments at FVOCI.

Loan-to-value analysis of loans and advances

The following tables stratify credit exposures from loans and advances by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the forced sale value determined by the professional valuer.

As at 31 December,	**2022 Rs.**	**2021 Rs.**
LTV Ratio		
Less than 50%	1,951,208,840	2,148,726,930
51% - 70%	1,940,568,433	1,377,244,106
71% - 90%	2,490,463,764	1,867,905,235
91%- 100%	404,755,218	915,806,535
More than 100%	1,154,045,381	852,857,943
Unsecured	1,738,331,128	2,724,223,317
	9,679,372,764	**9,886,764,066**

For the year ended 31 December 2022

41 RISK MANAGEMENT (CONT.)
41.1 CREDIT RISK (CONT.)

Credit-impaired loans

As at 31 December, **LTV Ratio**	**2022 Rs.**	**2021 Rs.**
Less than 50%	498,081,115	668,047,540
51% - 70%	383,717,785	189,176,591
71% - 90%	343,238,674	325,053,041
91%- 100%	222,998,661	153,386,584
More than 100%	612,502,750	303,466,969
Unsecured	578,050,709	285,801,383
	2,638,589,694	1,924,932,108

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

	2022 Rs.	**2021 Rs.**
Motor vehicles	1,490,054	2,420,604
Other	37,480,363	-
	38,970,417	2,420,604

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company does not generally use the non-cash collateral for its own operations.

41.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment
Refer accounting policy in Note 3.2.2.

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Generating the term structure of PD

Days past due are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by type of product and borrower.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economics factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include : GDP growth, inflation, interest rate and unemployment. Based on consideration of a variety of external actual and forecast information, the Company formulates a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Company then uses these forecast to adjust its estimates of PDs.

For the year ended 31 December 2022

41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK (CONT.)

41.1.4 Amounts arising from ECL (CONT.)

Inputs, assumptions and techniques used for estimating impairment (CONT.)

Significant increase in credit risk (CONT.)

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending.

Using its expert credit judgement and, where possible, relevant historical loss experiences, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default and cure

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 180 days past due on any material credit obligation to the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

It is the Company's policy to consider a financial instrument as 'cured' and therefore re- classified out of stage 3 when none of the material default criteria have been presented and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank. The corresponding reduction in ECL due to the number of financial assets re- classified out of stage 3 is recognised under "Impairment charge/reversal" in Note 14 to the financial statements.

Once cured, the decision whether to classify an asset as stage 2 or stage 1 mainly depends on the days past due, at the time of the cure. The Company's criterion for 'cure' for rescheduled loans is more stringent than ordinary loans and is explained in Note 3.2.1.

41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK (CONT.)

41.1.4 Amounts arising from ECL (CONT.)

Inputs, assumptions and techniques used for estimating impairment (CONT.)

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company formulates three economic scenarios: a base case, which is the median scenario assigned a 35% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 5% and 60% probability of occurring respectively. The base case is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The management overlays have been kept: a base case - 58%, best case - 14% and worst case - 28% in 2021 due to the uncertainties from COVID - 19 pandemic and the scenarios have realigned further up to above level due to the uncertainties in present economic condition. Also stress the forecasted macro-economic elements to reflect fair forward looking information.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Company has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and IMF.

The economic scenarios used include GDP Growth, Inflation, Interest Rate & Unemployement.

Qualitative drivers of credit risk

- Changes in Lending Policies and Procedure
- Changes in Bankruptcy and lending related Legislations
- Credit Growth
- Position of the Portfolio within the Business Cycle

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading ‘Generating the term structure of PD’.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. Also, the Company uses regulatory LGDs where adequate historical data for recovery rates of claims against defaulted counterparties are not available and management overlays have been kept due to the uncertainties from COVID 19 pandemic and unstable present economic condition.

For the year ended 31 December 2022

41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK (CONT.)

41.1.4 Amounts arising from ECL (CONT.)

Inputs, assumptions and techniques used for estimating impairment (CONT.)
Measurement of ECL (CONT.)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances at amortised cost

As at 31 December,	**2022**			
	Stage 1 **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Balance as at 1 January	88,946,359	188,514,047	896,666,776	1,174,127,182
Transfer to Stage 1	22,191,976	(20,488,068)	(1,703,908)	-
Transfer to Stage 2	(13,926,229)	27,058,233	(13,132,004)	-
Transfer to Stage 3	(8,375,619)	(48,386,073)	56,761,692	-
Net remeasurement of loss allowance	(54,062,401)	122,048,452	209,780,758	277,766,809
New financial assets originated or purchased	21,216,945	24,332,271	15,668,704	61,217,920
Financial assets that have been derecognised	(16,905,456)	(18,431,806)	(33,814,675)	(69,151,937)
Write-offs	-	-	(269,622,860)	(269,622,860)
Balance as at 31 December	**39,085,575**	**274,647,056**	**860,604,483**	**1,174,337,114**

As at 31 December,	**2021**			
	Stage 1 **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Balance as at 1 April	67,335,260	198,248,558	691,021,929	956,605,747
Transfer to Stage 1	71,942,867	(22,534,269)	(49,408,598)	-
Transfer to Stage 2	(13,252,951)	63,905,849	(50,652,898)	-
Transfer to Stage 3	(1,543,083)	(62,669,621)	64,212,704	-
Net remeasurement of loss	(61,260,701)	9,499,673	389,263,265	337,502,237
New financial assets	42,289,199	16,481,956	1,704,344	60,475,499
Financial assets that have	(16,564,232)	(14,418,099)	(50,189,887)	(81,172,218)
Write-offs	-	-	(99,284,082)	(99,284,082)
Balance as at 31 December	**88,946,359**	**188,514,047**	**896,666,777**	**1,174,127,183**

41 RISK MANAGEMENT (CONT.)

41 CREDIT RISK (CONT.)

As at the reporting date, the Company has captured the impact on ECL due to affected borrowers amidst the prevailing extraordinary macro-economic circumstances via the modelled outcome as well as management overlays. Management overlays include additional ECL provisions of Rs. 190 Mn (approx) on assessing lifetime ECL on the exposures outstanding from the borrowers operating in the risk elevated industries and impact on changing the probability weightages assigned for multiple economic scenarios and stressing the qualitative factors used to assess forward looking macro economic indicators on ECL amounting to Rs. 9 Mn (approx.). Further, management overlays include additional ECL provisions of Rs. 16 Mn (approx) when assessing the futuristic PDs and based on the rapid fluctuations on future macro-economic indicators, the Company has adjusted the management overlays a range of 5% to 2% on all indicators for next 05 years.

Modified Financial Assets

Overview of rescheduled/restructured loans & advances upgraded during the year

The Company upgrades rescheduled/restructured loans from life time expected credit losses (stage 3/stage 2) to 12 months expected credit losses (stage 1) as per the upgrading policy described in Note 3.2.2 of the Financial Statements. During the year the Company upgraded Rs.193.84 Mn (2021: Rs 242.28 Mn) worth of rescheduled/ restructured loans to stage 1. Due to this upgrade, the impairment provision against these loans decreased by Rs.29.58 Mn from Rs.33.27 Mn as at 31 December 2021 to Rs 3.69 Mn as at 31 December 2022.

Purchased or originated credit impaired financial assets

The Company did not have originated credit impaired assets as at 31st December 2022 and 2021. The details of policy critirea is explained in note 3.2.2.

Impact due to the uncertain and volatile macroeconomic condition

The Company analyzed the current situation prevailing in the country and further considered the impact of Covid - 19. The ongoing extraordinary macroeconomic circumstances in the country have increased the estimation uncertainty in preparing Financial Statements. However, the specific areas of judgment may not change. The impact of an economic downturn resulted in applying further judgment within those areas and the limited recent experience of such an event's economic and financial impacts. The estimation uncertainty is associated with the extent and duration of the expected economic downturn. This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities. The key to overcoming the current crisis is the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn. Furthermore, with debt restructuring backed by the IMF programme, there would be hope for overcoming the current economic crisis. The changes to estimates were made in measuring Company's assets where applicable.

The Company derives income by way of interest from its loan & advances and by way of financial assets, respectively. The Company has adequate liquid financial resources and unutilized financing sources with banks to service its financial obligations. Based on the expected economic downturn, the estimates and assumptions in Company's Expected Credit Loss model (ECL) have been reviewed, and respective impairments regarding loans & advances have been adequately assessed under a futuristic approach. We do not anticipate any impact on the fair value of our properties and investment properties because of its prime location, other than any future impact due to market conditions. Accordingly, we do not anticipate any decrease in the value of financial assets held by the Company. The Company also do not anticipate any material impairments in respect of any of the assets held by the Company as of date.

41 RISK MANAGEMENT (CONT.)

41.1 CREDIT RISK (CONT.)

41.1.5 Analysis of credit risk concentration

Industry analysis

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

As at 31 December 2022	Cash and bank balances	Financial investments - FVOCI	Financial investments -amortized cost	Loans and advances	Other assets	Total financial assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	-	269,209,233	-	269,209,233
Manufacturing	-	-	-	305,505,465	-	305,505,465
Tourism	-	-	-	727,572,679	-	727,572,679
Transport	-	-	-	182,846,181	-	182,846,181
Construction	-	-	-	1,191,923,444	-	1,191,923,444
Trading	-	-	-	3,178,971,924	-	3,178,971,924
Financial services	96,306,555	-	-	261,200,362	-	357,506,917
Government	-	1,598,013,279	-	-	-	1,598,013,279
Other	-	-	-	2,387,806,363	23,021,652	2,410,828,015
Total	**96,306,555**	**1,598,013,279**	**-**	**8,505,035,651**	**23,021,652**	**10,222,377,137**

As at 31 December 2021	Cash and bank balances	Financial investments - FVOCI	Financial investments -amortized cost	Loans and advances	Other assets	Total financial assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	-	312,148,104	-	312,148,104
Manufacturing	-	-	-	439,629,254	-	439,629,254
Tourism	-	-	-	335,665,571	-	335,665,571
Transport	-	-	-	119,765,454	-	119,765,454
Construction	-	-	-	1,397,198,165	-	1,397,198,165
Trading	-	-	-	3,681,208,470	-	3,681,208,470
Financial services	154,599,310	-	406,243,569	291,737,457	-	852,580,336
Government	-	432,297,623	-	-	-	432,297,623
Other	-	-	-	2,135,284,408	20,297,584	2,155,581,992
Total	**154,599,310**	**432,297,623**	**406,243,569**	**8,712,636,883**	**20,297,584**	**9,726,074,969**

Provincial breakdown for loans and advances within Sri Lanka is as follows.

As at 31 December,	2022	2021
Province	**Rs.**	**Rs.**
Central	2,184,726,887	2,437,110,556
North Central	1,150,364,725	962,642,275
North Western	582,879,552	596,644,585
Sabaragamuwa	1,506,736,122	1,612,390,511
Southern	407,031,859	402,837,004
Western	2,377,876,507	2,701,011,952
Eastern	211,723,917	-
Northern	83,696,082	-
Total	**8,505,035,651**	**8,712,636,883**

41.1.6 Cash and cash equivalents

The Company held Cash and cash equivalents, net of bank overdraft of Rs. 43 Mn as at 31 December 2022 (31 December 2021 - Rs. 132 Mn) which represents its maximum credit exposure on these assets.

Commercial Bank of Ceylon PLC - AA-(lka)
Bank of Ceylon - AA-(lka)
People's Bank - AA-(lka)
Sampath Bank PLC - AA-(lka)
DFCC Bank PLC - A+(lka)
Seylan Bank PLC - A(lka)

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41 RISK MANAGEMENT (CONT.)

41.2 LIQUIDITY RISK

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

Management of liquidity risk

The Company's Board of Directors sets the Company's strategy for managing liquidity risk and oversight of the implementation is administered by Asset and Liability Committee (ALCO). ALCO approves the Company's liquidity policies and procedures. Finance department manages the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Company.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key elements of the Company's liquidity strategy are as follows:

- Maintaining a diversified funding and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Company's financial assets and financial liabilities, and the extent to which the Company's assets are encumbered and so not available as potential collateral for obtaining funding.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk and further, any unprecedented events such as COVID - 19.

41.2.1 Maturity analysis for financial assets and financial liabilities

Remaining contractual period to maturity of the financial assets and financial liabilities of the Company is as follows;

As at 31 December 2022	**On demand**	**Less than 03 Months**	**03-12 Months**	**01-05 Years**	**Over 05 Years**	**Total**
Financial Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	15,153,730	81,152,825	-	-	-	96,306,555
Financial investments - FVOCI	-	1,182,889,390	413,003,661	-	2,120,228	1,598,013,279
Loans and advances	1,928,639,403	645,563,375	2,338,858,748	3,378,010,355	213,963,770	8,505,035,651
Other assets	1,328,717	4,571,499	3,976,311	7,415,130	1,492,100	18,783,757
Total financial assets	**1,945,121,850**	**1,914,177,089**	**2,755,838,720**	**3,385,425,485**	**217,576,098**	**10,218,139,242**
Financial Liabilities						
Deposit liabilities	50,606,637	374,285,787	3,250,808,704	1,440,504,282	-	5,116,205,410
Due to banks	2,636,986	152,151,731	1,868,311,604	444,444,444	-	2,467,544,765
Lease liabilities	-	4,170,875	13,742,877	48,641,321	-	66,555,073
Total financial liabilities	**53,243,623**	**530,608,393**	**5,132,863,185**	**1,933,590,047**	**-**	**7,650,305,248**
Total net financial assets/(liabilities)	**1,891,878,228**	**1,383,568,696**	**(2,377,024,465)**	**1,451,835,437**	**217,576,098**	**2,567,833,994**

As at 31 December 2021	**On demand**	**Less than 03 months**	**03-12 Months**	**01-05 Years**	**Over 05 Years**	**Total**
Financial Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	154,599,310	-	-	-	-	154,599,310
Financial investments - FVOCI	-	430,196,797	-	-	2,100,826	432,297,623
Financial investments - Amortized cost	-	406,243,569	-	-	-	406,243,569
Loans and advances	2,640,785,246	433,073,556	2,147,786,320	3,263,342,431	227,649,330	8,712,636,883
Other assets	-	4,662,059	3,440,728	7,700,222	-	15,803,009
Total financial assets	**2,795,384,556**	**1,274,175,981**	**2,151,227,048**	**3,271,042,653**	**229,750,156**	**9,721,580,394**
Financial Liabilities						
Deposit liabilities	959,168,292	355,537,272	3,357,025,082	397,117,070	-	5,068,847,716
Due to banks	34,061,504	93,333,333	848,220,112	793,888,889	-	1,769,503,838
Lease liabilities	**781,131**	2,122,843	8,652,133	45,952,765	496,549	58,005,421
Total financial liabilities	**994,010,927**	**450,993,448**	**4,213,897,327**	**1,236,958,724**	**496,549**	**6,896,356,975**
Total net financial assets/(liabilities)	**1,801,373,629**	**823,182,533**	**(2,062,670,279)**	**2,034,083,929**	**229,253,607**	**2,825,223,419**

41 RISK MANAGEMENT (CONT.)
41.2 LIQUIDITY RISK (CONT.)
41.2.3 Financial assets available to support future funding (CONT.)

	Encumbered		Unencumbered		
31 December 2021	**Pledged as collateral Rs.**	**Other * Rs.**	**Available as collateral Rs.**	**Other ** Rs.**	**Total Rs.**
Cash and cash equivalents	-	-	154,599,310	-	154,599,310
Financial investments - FVOCI	-	-	430,196,797	2,100,826	432,297,623
Financial investments - Amortized cost	-	-	-	406,243,569	406,243,569
Loans and advances	3,263,946,730	-	5,448,690,153	-	8,712,636,883
Other assets	-	-	15,803,009	-	15,803,009
	3,263,946,730	-	6,049,289,269	408,344,395	**9,721,580,394**

* Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.
** Represents assets that are not restricted for use as collateral, but that the Company would not consider readily available to secure funding in the normal course of business.

41.3 MARKET RISK
Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

Management of market risks
Overall authority for market risk is vested in Board Integrated Risk Management Committee (BIRMC). BIRMC sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Asset and Liability Committee (ALCO) is responsible for the development of detailed risk management policies (subject to review and approval by BIRMC) and for the day-to-day review of their implementation.

Exposure to currency risk
As at the reporting date, there were no any foreign currency exposure to the Company.

41.3.1 INTEREST RATE RISK
Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the interest margin of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arising due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;
▪ Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio.
▪ Yield curve risk arising from unanticipated shifts of the market yield curve.

41.3.1.1 INTEREST RATE EXPOSURE – SENSITIVITY ANALYSIS
The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Company's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

	2022		2021	
Net Interest Income	**Increase in 100 bp Rs.**	**Decrease in 100 bp Rs.**	**Increase in 100 bp Rs.**	**Decrease in 100 bp Rs.**
As at December 31,	2,586,161	(2,586,678)	6,562,762	(6,564,075)
Average for the period	4,663,513	(4,664,446)	6,854,693	(6,856,064)
Maximum for the period	6,290,109	(6,291,367)	7,186,503	(7,187,941)
Minimum for the period	2,586,161	(2,586,678)	6,562,762	(6,564,075)

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41 RISK MANAGEMENT (CONT.)

41.2 MARKET RISK (CONT.)

41.3.1.2 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

As at 31 December 2022	Up to 03 months	03-12 Months	01-03 Years	03-05 Years	Over 05 years	Non interest bearing	Total as at 31/12/2022
Financial assets	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Cash and cash equivalents	71,705,168	-	-	-	-	24,601,387	96,306,555
Financial investments - FVOCI	1,182,889,390	413,003,661	-	-	-	2,120,228	1,598,013,279
Financial investments - Amortized cost	-	-	-	-	-	-	-
Loans and advances	2,574,202,778	2,338,858,748	2,269,224,839	1,108,785,516	213,963,770	-	8,505,035,651
Other assets	5,900,216	3,976,311	7,058,836	356,294	1,492,100	-	18,783,757
Total financial assets	**3,834,697,552**	**2,755,838,720**	**2,276,283,675**	**1,109,141,810**	**215,455,870**	**26,721,615**	**10,218,139,242**
Percentage	**38%**	**27%**	**22%**	**11%**	**2%**	**0%**	**100%**
Financial liabilities							
Deposit liabilities	424,892,424	3,250,808,704	412,376,280	1,028,128,002	-	-	5,116,205,410
Due to banks	154,788,717	1,868,311,604	444,444,444	-	-	-	2,467,544,765
Lease liabilities	4,170,875	13,742,877	38,684,335	9,956,986	-	-	66,555,073
Other liabilities	14,655,117	-	-	-	-	-	14,655,117
Total financial liabilities	**598,507,133**	**5,132,863,185**	**895,505,059**	**1,038,084,988**	**-**	**-**	**7,664,960,365**
Percentage	**8%**	**67%**	**12%**	**14%**	**0%**	**0%**	**100%**
INTEREST SENSITIVITY GAP	**3,236,190,420**	**(2,377,024,465)**	**1,380,778,616**	**71,056,822**	**215,455,870**	**26,721,615**	**2,553,178,877**
Percentage	**127%**	**-93%**	**54%**	**3%**	**8%**	**1%**	**100%**

As at 31 December 2021	Up to 03 months	03-12 Months	01-03 Years	03-05 Years	Over 05 years	Non interest bearing	Total as at 31/12/2021
Financial assets	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Cash and cash equivalents	144,843,866	-	-	-	-	9,755,444	154,599,310
Financial investments - FVOCI	430,196,797	-	-	-	-	2,100,826	432,297,623
Financial investments - Amortized cost	406,243,569	-	-	-	-	-	406,243,569
Loans and advances	3,073,858,802	2,147,786,320	2,175,848,266	1,087,494,165	227,649,330	-	8,712,636,883
Other assets	4,662,059	3,440,728	1,654,622	6,045,600	-	-	15,803,009
Total financial assets	**4,059,805,093**	**2,151,227,048**	**2,177,502,888**	**1,093,539,765**	**227,649,330**	**11,856,270**	**9,721,580,394**
Percentage	**42%**	**22%**	**22%**	**11%**	**2%**	**0%**	**100%**
Financial liabilities							
Deposit liabilities	1,314,705,564	3,357,025,082	330,490,952	66,626,118	-	-	5,068,847,716
Due to banks	127,394,837	848,220,112	758,888,889	35,000,000	-	-	1,769,503,838
Lease liabilities	2,903,974	8,652,133	29,208,290	16,744,475	496,549	-	58,005,421
Other liabilities	25,951,290	-	-	-	-	-	25,951,290
Total financial liabilities	**1,470,955,665**	**4,213,897,327**	**1,118,588,131**	**118,370,593**	**496,549**	**-**	**6,922,308,265**
Percentage	**21%**	**61%**	**16%**	**2%**	**0%**	**0%**	**100%**
INTEREST SENSITIVITY GAP	**2,588,849,428**	**(2,062,670,279)**	**1,058,914,757**	**975,169,172**	**227,152,781**	**11,856,270**	**2,799,272,129**
Percentage	**92%**	**-74%**	**38%**	**35%**	**8%**	**0%**	**100%**

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41 RISK MANAGEMENT (CONT.)

41.4 OPERATIONAL RISK

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, Company policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has established Board Intergrated Risk Management Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Company's Board Integrated Risk Management Committee, with summaries submitted to the Board Audit Committee and senior management of the Company.

41.5 CAPITAL MANAGEMENT

The primary objective of Company's capital management strategy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholder's value.

The Company's strategy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a stronger capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements.

Capital Adequacy

Capital adequacy measures the Company's aggregate capital in relation to the risk, which may arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. The Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital with effect from 1 July 2018. This guidelines requires the Company to maintain minimum capital ratio of 8.5% and minimum risk weighted core capital of 12.5%.

Capital and risk weighted assets	**Minimum Requirement**		**Ratio**	
	2022	**2021**	**2022**	**2021**
Capital to risk weighted asset ratio				
Tier I Capital	8.50%	7.00%	24.89%	25.49%
Total Capital	12.50%	11.00%	24.89%	25.49%

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42 SEGMENTAL INFORMATION

42.1 Basis of segmentation

The Company has the following four strategic divisions, which are its reportable segments. These divisions offer different services, and are managed separately because they require different credit risk management strategies.

The following summary describes the operations of each reportable segment.

Reportable segments	**Operations**
Leasing and Hire Purchase	Finance leases and Hire Purchase related transactions and balances with customers.
Mortgage loans	Mortgage Loans related transactions and balances with customers.
Other loans	Personal Loans, Business Loans and Other Unsecured Loans related transactions and balances with customers.
Investments and others	Financial Investments kept for liquidity requirements and other short term investments related transactions and balances.

The Company's Board of Directors reviews the internal management reports of each division at least monthly.

42.2 Information about reportable segments

	Leasing and Hire Purchase		**Mortgage Loans**		**Other loans**		**Investments and others**		**Total**	
As at 31 December	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
External Revenue										
Interest	272,451,806	137,990,004	611,055,072	484,971,946	357,741,170	204,900,567	282,488,279	39,462,846	1,523,736,327	867,325,363
Fees & commissions	21,490,488	24,548,154	11,330,500	7,533,150	15,953,332	13,238,360	2,413,227	1,819,622	51,187,547	47,139,286
Dividends	-	-	-	-	-	-	240,000	240,000	240,000	240,000
Other income	-	-	-	-	-	-	60,997,307	29,960,763	60,997,307	29,960,763
Total external revenue	**293,942,294**	**162,538,158**	**622,385,572**	**492,505,096**	**373,694,502**	**218,138,927**	**346,138,813**	**71,483,231**	**1,636,161,181**	**944,665,412**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Total revenue before impairment	**293,942,294**	**162,538,158**	**622,385,572**	**492,505,096**	**373,694,502**	**218,138,927**	**346,138,813**	**71,483,231**	**1,636,161,181**	**944,665,412**
Impairment (charges) / Reversal	(45,066,079)	22,501,829	(175,044,381)	(183,322,031)	(29,307,730)	(147,975,922)	256,680	-	(249,161,510)	(308,796,124)
Net revenue	**248,876,215**	**185,039,987**	**447,341,191**	**309,183,065**	**344,386,772**	**70,163,005**	**346,395,493**	**71,483,231**	**1,386,999,671**	**635,869,288**
Profit before tax									9,726,234	88,112,788
Income tax expenses									29,856,689	(54,869,724)
Profit after tax									**39,582,923**	**33,243,064**
Segment assets	**1,666,383,951**	**1,774,452,428**	**4,167,265,758**	**5,376,748,909**	**2,502,121,470**	**2,381,454,014**	**2,317,618,672**	**780,392,705**	**10,955,135,805**	**10,313,048,056**
Segment liabilities	**1,397,285,596**	**1,214,398,283**	**2,958,575,246**	**3,679,734,963**	**1,776,396,101**	**1,629,817,525**	**1,645,407,236**	**534,084,512**	**7,777,664,178**	**7,058,035,283**

For the year ended 31 December 2022

43 CONTINGENCIES

There were no material contingent liabilities as at the reporting date, which require adjustments to or disclosures in the Financial Statements.

43.1 LITIGATIONS AND CLAIMS

There have been no material litigations and claims as at the reporting date, which require adjustments or disclosures in the Financial Statements.

44 COMMITMENTS

There were no material commitments as at the reporting date, which require adjustments to or disclosures in the Financial Statements.

45 EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date, which require adjustments to or disclosure in the Financial Statements.

46 COMPARATIVE INFORMATION

Comparative information has been reclassified where necessary to conform to current year's presentation.

47 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards.