Annual Report 2022

CBC Finance Ltd.

CBC FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

Thus Far... Still Further

Thus Far...Still Further

The Company's journey thus far has been founded on pragmatic strategy and prudent initiative as we work towards a sustainability of enterprise over short-term expansion and gain. We have come far along this path, yet there is still further to go – in fact this is a road that will always be before us to traverse. CBCF is on the right track, as our results this year bear testimony to.

Contents

About the Report

We are pleased to present to our shareholder, the Annual Report of CBC Finance Ltd. for the year from January 01, 2022 to December 31, 2022.

Concise yet comprehensive, the Report documents our journey in a challenging year, and the Company's strategy in weathering the headwinds. With our sights set on a sustainable business based on an ethical foundation, the Report reflects the many strategy and operations by which we have achieved that goal for 2022.

To this end, we have documented our strategy, Corporate Governance practices, risk mitigation and management, financial status, and how we interacted and collaborated with our valuable stakeholders. It also specifies how the Company mentors, manages and rewards, its human capital. The Company's social and environmental responsibility is yet another important aspect for which we have given due recognition in the Report.

REPORT BOUNDARY

The Report covers the operation of CBC Finance Ltd. (CBCF or the Company) and includes financial and non-financial disclosures. Coverage is for twelve months from January 01, 2022 to December 31, 2022, to comply with the Department of Inland Revenue directive for the reporting period and to coincide with the reporting period of our parent Company, Commercial Bank of Ceylon PLC.

COMPLIANCE

The Company operates within all applicable laws, rules, regulations, directions, and standards as required by many regulatory bodies it is accountable to. Its primary regulatory body is the Non-Bank Financial Institutions (NBFI) supervisory arm of the Central Bank of Sri Lanka (CBSL). Above-board corporate governance is a high priority in the Company, and the Board of Directors takes full responsibility for its accurate disclosures in both letter and spirit.

REPORTING FRAMEWORK

Although this is not an integrated report, the Company adheres to the guidelines and requirements contained in the following, in communicating the operation of the Company, for the period under review.

- Sri Lanka Accounting Standards comprising SLFRSs and LKASs promulgated by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- All applicable laws, rules, regulations, and directions of CBSL, as appropriate to an NBFI
- The directions of the Inland Revenue Department
- International Integrated Reporting <IR> Framework, IFRS Foundation at https://www.ifrs.org/issued-standards/ir-framework/
- The Smart Integrated Reporting Methodology™ https://www.smartannualreport.com/ebooks/4th_edition_2020/ index.php
- The Code of Best Practice on Corporate Governance issued by the CA Sri Lanka

QUERIES

Please direct your valuable comments and any queries to the following:

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About Us

CBC Finance Ltd. is a Non-Bank Financial Institution (NBFI) that is a fully owned subsidiary of the Commercial Bank of Ceylon PLC, the largest commercial bank in Sri Lanka, which has also regularly won coveted awards.

It was birthed and incorporated as Indra Finance Ltd. in 1987, a fully owned subsidiary of Indra Traders (Pvt) Ltd. to facilitate the growing demand in the vehicle market. The Commercial Bank of Ceylon PLC acquired the Company in 2014 under the Financial Sector Consolidation Plan implemented by the Central Bank of Sri Lanka and was rebranded as Serendib Finance Ltd. In December 2020, however, it was again rebranded as CBC Finance Ltd. to identify closely with its parent company, the Commercial Bank, which allowed the Company to draw on its parent company's vast expertise and experience.

Our diversified product portfolio provides financial support to various sectors to achieve their goals. Our long-term aim is to add value to our parent company, while supporting the country's economy; our contributions create economic activity in different spheres vital for its growth.

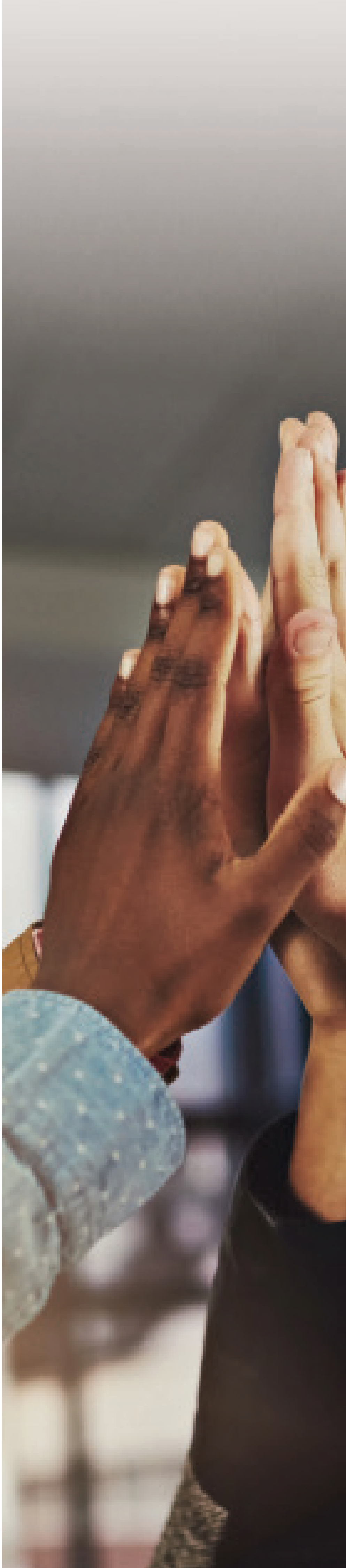
CBC Finance Ltd. is registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, with a credit rating of BBB+(lka) Rating Watch Negative from Fitch Ratings Lanka Ltd.

OWNERSHIP STRUCTURE

THE COMMERCIAL BANK OF CEYLON PLC

100%

CBC FINANCE LTD.



THE FINANCIAL SOLUTIONS WE OFFER

- TIME AND SAVINGS DEPOSITS
- MORTGAGE LOANS
- BUSINESS LOANS
- LEASING

OUR VISION

To be a Financial Institution thriving on public confidence

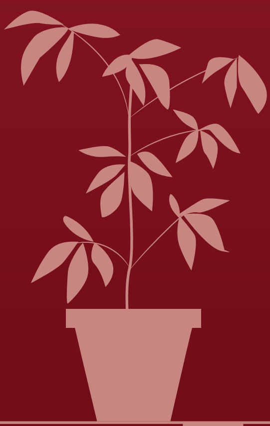
OUR MISSION

Growth and stability within a regulated market

OUR VALUES

- Derive customer confidence through superior service
- Be innovative and creative in delivering tangible value
- Ensure all activities are subject to risk management
- Deliver superior financial returns to attract and retain capital

Our Journey



1987

Indra Finance (Pvt) Ltd. opened for business as a fully owned subsidiary of Indra Traders (Pvt.) Ltd. to cater to the growing market for financing vehicles.

2002

Re-registered as Indra Finance Ltd. under the registration number N(PVS/PBS)3261.

2007

The Company obtained registration as a specialised leasing company on August 06, 2007, in terms of Section 02 of the Finance Leasing Act No. 56 of 2000. Consequent to enacting the new Companies Act No. 07 of 2007, Indra Finance Ltd. was re-registered under the registration number PB276.

2008

The in-house IT team developed and implemented system to fully automate the lease financing process.

2010

The first branch of Indra Finance Ltd. was opened at Hingurakgoda on September 16, 2010.

2013

Indra Finance Ltd. was registered as a finance company on May 08, 2013 in the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011. The in-house developed core leasing system was replaced with an outsourced software module named the "e-financial" system. The Company moved to its Head Office premises at No. 187, Katugastota Road, Kandy.

2014

Commercial Bank acquired full ownership of Indra Finance Ltd. on September 01, 2014. As a result Mr Dharma Dheerasinghe, the Chairman of Commercial Bank of Ceylon PLC was appointed as the Chairman of Indra Finance Ltd.

2015

Consequent to the acquisition by Commercial Bank, the Company was renamed "Serendib Finance Ltd." on May 28, 2015. The Company launched its first website in June 2015.

2019

Fitch Ratings Lanka Ltd. assigned A+ (lka) to Serendib Finance Ltd. for the first time.
The e-financial leasing system, the core operating module was replaced by the International Comprehensive Banking System (ICBS) of Fiserv Inc., the core banking system used by Commercial Bank, in September 2019.

2020

Fitch Ratings Lanka Ltd. upgraded the Company's rating to AA- (lka) which has since been revised to A (lka) following a recalibration of the agency's Sri Lankan national rating scale. The Company was renamed "CBC Finance Ltd."

2021

The Company's Total Assets under management exceeded LKR 10 Bn., while recently commenced deposit-taking provided the Company with a solid deposit base of over LKR 5 Bn.

2022

The Company expanded its services to the North-East region by opening its 11th, 12th, and 13th branches in Trincomalee, Vavuniya, and Batticaloa.


2023

YEAR IN REVIEW

Highlights

	2022	2021 – December (09 Months)	Variance %
Financial performance (LKR Mn.)			
Income	**1,636.16**	944.67	73.20
Net interest income	**537.41**	532.89	0.85
Net operating income	**390.74**	298.70	30.81
Profit before tax	**9.73**	88.11	(88.96)
Profit after tax	**39.58**	33.24	19.08
Position as at the year end (LKR Mn.)			
Loans and receivables	**8,505.04**	8,712.64	(2.38)
Total assets	**10,955.14**	10,313.05	6.23
Total equity	**3,177.47**	3,255.01	(2.38)
Deposit liability	**5,116.21**	5,068.85	0.93
Due to banks	**2,467.54**	1,769.50	39.45
Profitability ratios (%)			
Net interest margin (%)	**4.91**	6.23	(48.02)
Return on assets (PBT) (%)	**0.09**	0.88	(89.61)
Return on equity (PAT) (%)	**1.25**	1.03	19.49
Cost to income ratio (%)	**55.67**	30.49	82.59
Capital adequacy and liquidity			
Capital adequacy ratio (%)	**24.89**	25.49	(2.35)
Liquid assets ratio (Times)	**3.11**	1.81	71.56
Advances to deposits ratio (%)	**166.24**	171.89	(3.29)
Other ratios			
NPA ratio (Gross) (%)	**16.98**	13.14	29.19
NPA ratio (Net) (%)	**8.10**	1.30	274.30
Provision cover ratio (%)	**32.62**	46.58	(29.98)
Manufactured capital			
Number of branches	**13**	10	30.00
Human capital			
Total workforce	**176**	145	21.38

Total assets
LKR 10.95 Bn.

Total income
LKR 1,636 Mn.

Deposit base reached
LKR 5.1 Bn.

Contributed
LKR 239 Mn.
in taxes to the Government

New recruits
58

3,622
hours of training

Jaffna branch established
14 branches
in total

Focus on
CBCF Digital Transformation
supported by CBC Tech Solutions Ltd

Mr Sharhan Muhseen

Mr Dharma Dheerasinghe

Joint Message from the Chairman and his Predecessor

We arrived at a three-pronged strategy. Firstly, we upped our service levels at all customer touchpoints, offering superior service to a customer base severely impacted by the contracted economy. Secondly, we concentrated on new product offerings for hitherto untapped markets, such as the two-wheeler and three-wheeler segments, making inroads into the future sustainably. Thirdly, we opened a branch in Jaffna to expand our customer reach to an under-served market segment.

THE YEAR THAT WAS

The crises that plagued the year under review are all too familiar to the readers of this Report. The operating environment, rife with economic, political, and societal upheavals within the country, was further exacerbated by geopolitical conflicts and global financial turmoil. It should also be noted that the events unfolded on the heels of a waning COVID-19 pandemic, which upended the economy two years prior and completely overhauled how businesses operated. For Sri Lanka, the inter-connected velocity of these events resulted in an acute shortage in foreign exchange, external debt defaults, soaring prices of fuel and other commodities, and a lack of fuel and other essentials, mandating tough regulatory measures to contain out-of-control inflation.

Finance Companies play a vital role in the financial ecosystem by financing MSMEs, and other sectors that are unserved and underserved by the banking system. The industry was, however, challenged to its seams during the year under review. Lending rates exponentially increased, leading to a sharp reduction in demand for credit. The Government's ban on non-essentials to curb the outflow of foreign exchange, including vehicle imports, severely impacted the leasing business, which is one of our core products.

It is against this backdrop that we present to our valued shareholder the Annual Report for the year 2022.

ADAPTING OUR STRATEGY

The Company focused much of its energy on adapting its strategy to counteract and surmount crises. We needed to focus on how best to support our customers in overcoming challenging personal and business financial situations. We prioritised the needs of our customers, who depended on our support, and the security and well-being of our staff, who were laboring under extreme pressure daily to serve CBCF to their best.

We adapted our strategy to understand the need of the hour and, in a larger sense, our contribution to the revival of the national economy. Through loans and advances, we exerted efforts to provide much-needed financial support to MSMEs and homeowners. We set up a sales and marketing department staffed with industry specialists to ensure momentum and traction in our sales effort. The department did remarkably well in penetrating the selected market segments in the last two months of 2022 and the first quarter of 2023.

We arrived at a three-pronged strategy. Firstly, we upped our service levels at all customer touchpoints, offering superior service to a customer base severely impacted by the contracted economy. Secondly, we concentrated on new product offerings for hitherto untapped markets, such as the two-wheeler and three-wheeler segments, making inroads into the future sustainably. Thirdly, we opened a branch in Jaffna to expand our customer reach to an under-served market segment.

In the leasing business, the Company diversified to finance the second-hand vehicle market, establishing partnerships with carefully selected dealerships.

As the year progressed, our concentrated efforts in market penetration while taking good care of our staff that had to cope with hybrid work patterns, and the inputs and insights we received from our parent Company, culminated in CBCF achieving a net interest income of LKR 537.41 Mn. and a profit after tax of LKR 39.58 Mn. Our total asset base grew by 6.23% to reach LKR 10,955 Mn. in 2022 as against LKR 10,313 Mn. in 2021. We are pleased to report that the Capital Adequacy remained at 24.89%, which is well over the minimum ratio stipulated by the regulator, a clear signpost as to the solid financial stability of our Company.

Although the numbers indicate a decline in profit before and after tax for 2022 by 91.7% and 10.7% on annualised terms compared to the nine months ended December 31, 2021, it is impressive that the Company achieved its target of being a LKR 10 Bn. Company, considering the ravages of the economic debacle. We have now set our sights on attaining LKR 20 Bn. by 2024.

The Company was permitted to offer Gold Loans towards the end of 2022. Plans are underway to provide this product in the second quarter of 2023, where gold articles will be the collateral. We envisage gaining a higher customer wallet share through this product.

It is impressive that the Company achieved its target of being a LKR 10 Bn. Company, considering the ravages of the economic debacle. We have now set our sights on attaining LKR 20 Bn. by 2024.

WELL SUPPORTED BY OUR PARENT

We are a fully owned subsidiary of Commercial Bank of Ceylon PLC, the most-awarded premier commercial bank in Sri Lanka. Our financial stability, therefore, is unquestionable. We are also privileged to receive sound financial advice, skillful operational methodologies, time-tested financial knowledge, and applicability, as well as constantly evolving digital platforms innovated and introduced to us by the parent company as constant inputs. This allows CBCF the agility needed in the market in terms of speed and quality of service.

Given the present macroeconomic context and the state of the industry, the need for responsible lending practices and stringent oversight is more critical than ever. We operate a well-risk-mitigated and robust Corporate Governance structure inherited from our parent company, one of the industry's best in the banking and non-banking finance sectors. It is worth mentioning that this aspect sets us apart from the competition and gives us an edge over the rest of the pack in terms of brand visibility, customer confidence, and regulatory respect.

Joint Message from the Chairman and his Predecessor

OUTLOOK

As we look ahead to a sustainable future, we are pleased to report that the Company is tracking well with its pre-COVID target of achieving assets of LKR 20 Bn, with good momentum in our areas of operation. Industry consolidation is an option to be considered here. Our digital roadmap is well articulated with development plans for sales team dashboards, KPIs, digital Know Your Customer (KYC), and ICBS platforms. Investments in digital infrastructure will not only be a tool for cost optimization and augmenting customer experience but also allow us to quantify various aspects of our operation to arrive at data accuracy. We are grateful that our parent, Commercial Bank of Ceylon PLC's robust IT development, supports CBCF strongly in this respect. While we are committed to digitalisation, we are careful to proactively evaluate the return before embarking on significant investments.

CBSL is on a trajectory for more stringent classification and measurement of NPLs. We await the new methodology for classifying loans and advances as constriction in credit expansion naturally impacts growth in loans and advances. Further, implementing the second phase of CBSL's Master Plan for Finance Companies is also awaited, further strengthening the NBFI sector.

Notwithstanding the adverse circumstances, we are proud that CBCF reported a regular standing in the year under review. This, indeed, is due to our resilience and the indomitable determination to circumvent the odds and stay strong as a committed team under the guidance of our parent. Given the depressed macroeconomic environment in which we operated, we are proud to report that we have emerged stronger from the eye of the storm.

ACKNOWLEDGEMENTS FROM DHARMA DHEERASINGHE

I concluded my nine-year tenure as the Chairman of the Company on December 31, 2022. During this period, I worked closely with the Commercial Bank of Ceylon PLC, our parent company, where I served as its Chairman from September 2014 to December 2022. I am thankful to the Bank for the continuous support we received in all areas of our operations. My colleagues on the Board were undoubtedly a pillar of strength with their guidance on matters of relevance. I am confident that Mr Sharhan Muhseen, as the new Chairman, with the support of the other members of the Board, will provide leadership to the Company in the coming years.

Our journey through a difficult period would not have been possible without the untiring efforts of our dedicated Managing Director/ CEO, Mr Upul Dissanayake. His market acumen, foresight, and adaptability to situations are remarkable. Our staff worked under extreme external pressure to ensure we delivered well for our customers. I am thankful for their commitment. I am grateful for the guidance we received from our regulators and their urgent and quick interventions in the industry, where necessary. I am thankful to our customers, whose confidence in us is the impetus for us to stay on course with our sights set on a sustainable future.

ACKNOWLEDGEMENTS FROM SHARHAN MUHSEEN

I assumed the Company's Chairman position on January 01, 2023. I wish to extend my sincere gratitude to Mr Dharma Dheerasinghe, former Chairman, who, together with the other members of the Board, provided visionary leadership for steering the Company during unprecedented times experienced in the recent past.

I sincerely thank Mr Upul Dissanayake, who ensured a smooth transition when taking over my duties as Chairman. His knowledge of the Company and its stakeholders is vast, and I thank him for contributing to the year's performance. I thank the staff for their loyalty and application to duty. I thank our regulators for supporting us through a difficult period. I look forward to a close and cordial working relationship in the future. I appreciate our loyal customers, whose unwavering confidence has always been our greatest strength.

Sharhan Muhseen
Chairman

Dharma Dheerasinghe
Former Chairman

Colombo
June 05, 2023

THE CHALLENGE

Within an operating environment where unprecedented uncertainties were encountered daily in the year under review, Non-Bank Financial Institutions (NBFIs) continued to play a vital role in disbursing much needed loans and advances to segments of the population severely impacted by the situation. This was despite the institutions being at risk of high NPLs, reduced net interest income, lack of liquidity, and pressure on capital adequacy. The fact that the NBFIs continued to play an active role is partly attributable to the reduced appetite for lending by the banks. The impacted customers sought financial intermediaries such as NBFIs, though lending rates were generally higher than in the banking sector. The benefits of the demand for credit tilting towards the NBFIs could not be fully reaped as the deposit re-pricing outweighed the lending rates.

STAUNCH SUPPORT OF THE PARENT

As daunting as the challenge was, we are the Non-Bank Financial Institution (NBFI) arm of the country's largest and most prestigious Bank, the Commercial Bank of Ceylon PLC (the Bank). With the Bank as the parent company, we had its repertoire of financial and managerial resource support to move forward even in highly unprecedented economic conditions. The Bank's input into CBCF's success is spread across all of the Company's operations to include staff training, technological developments and digitization, financial advice and migration of best practices in risk mitigation and corporate governance.

As such, CBCF stayed well over the rising tide to return a marginal profit, which is impressive under our operated circumstances. We continued with a Fitch Rating on par with the other larger NBFIs, and we have been rated an "A" grade company according to the last CBSL consolidated master plan for NBFIs. We are well-capitalised and at no time had any liquidity concerns. We maintained excellent service levels, while our system capabilities and process acumen were far higher than the industry standards, mainly due to the input we received from our parent. As such, we are solid, stable, and here for good, working towards a profitable and sustainable future.

D M U N Dissanayake

Managing Director/ Chief Executive Officer's Review

A long-standing budget deficit and an unsustainable macroeconomic model finally took their toll on the country's economy, while political and societal unrest further impoverished an economically ailing Sri Lanka.

Managing Director/ Chief Executive Officer's Review

PERFORMANCE UNDER PRESSURE

It is worthwhile to detail how we emerged strong from the economic tsunami in the year under review. Prioritising and focusing on the critical areas of business, we reduced the value of loans to concentrate on small ticket items, as we envisaged defaults in loan servicing, given the acute economic hardships the populace encountered. As interest rates soared, we pulled back from the high-cost borrowings while excess funds were strategically invested in short-term government securities to receive a higher risk-free return. We also intensified our collection efforts but were sensitive to customer needs, offering concessions such as late-fee waivers and loan restructuring to those severely impacted.

Another focus area was to enhance profitability while continuing to grow the asset base. The Company's total asset base grew by 6.23% to LKR 10.9 Bn. during the year, although the Sri Lankan economy per se had contracted by 7.8%. The Company's net lending portfolio recorded a marginal decrease of 2.38% to LKR 8.5 Bn. but the Company steadily grew its deposit base to LKR 5.1 Bn. by 0.93% during 2022. Both the Core Capital Ratio and the Total Capital Ratio stood at 24.89% as of December 31, 2022, well above the respective regulatory capital adequacy requirements of 8.50% and 12.50%, a strong indication of being well capitalised. Robust recovery measures that were implemented saw us reducing our impairment charge during the year to LKR 249.1 Mn. which is a reduction of 39.48% in annualised terms. Stage 3 provision coverage ratio stood at 32.62% as of December 2022.

The Company earned an Interest income of LKR 1.5 Bn. recording an increase of 31.76% on an annualised basis. Interest expense increased drastically to LKR 986.3 Mn. by 121.19% annually. The net interest income, therefore, stood at LKR 537.4 Mn. in 2022, a decrease of 24.3% annually. The diminished net interest income is attributable to the sharp rise in the market interest rates amidst efforts to curb rising inflation.

Operating expenses increased to LKR 351.8 Mn. during the year, a rise of 42.4% compared to the previous year on an annualised basis, mainly due to the runaway inflation that prevailed in the country in 2022. The Company achieved a net profit of LKR 39.5 Mn. in 2022, which is remarkable as it came on the heels of a macroeconomic debacle of a magnitude not hitherto experienced, and coupled with the debt moratoria and concessions on loan repayments that the regulator mandated.

The Company's total asset base grew by 6.23% to LKR 10.9 Bn. during the year, although the Sri Lankan economy per se had contracted by 7.8%.

During the year, the Company decreased impairment provision compared to 2021 from LKR 308.8 Mn. to LKR 249.1Mn. The Company also recorded a lower gross non-performing ratio of 16.98% compared to the industry average of 17.41% by the end of 2022. This speaks volumes for how CBCF faced the challenge, adapted its strategy and actively focused on asset growth and containing costs.

EXPANSION IN THE FACE OF ADVERSITY

Simultaneously, we expanded our footprint by opening three new branches during the year in Vavuniya, Batticaloa and Trincomalee to enhance our customer base while providing a convenient service to our valuable customers. The Polonnaruwa branch was relocated to a more customer-friendly and convenient location. As mobility was constrained, we aggressively used social media platforms such as Facebook and LinkedIn to promote lending and deposit products. We launched a Motor Draft product for customers with short-term funding needs to enhance the secured exposure of the product mix and meet customer-specific needs. Vehicle financing was promoted over mortgage and unsecured loan products to improve the quality of the asset portfolio.

SUSTAINABILITY AND COMMUNITY

CBCF granted its valued customers LKR 945 Mn. in moratoria, cognisant of the impact it will have on our balance sheet. As a Company, we are pleased that we could support our customers through the dark days of Sri Lanka's economy and are assured of their enhanced confidence and goodwill towards us.

Lending is done according to a system-driven filter, allowing financing only of those projects that do not harm the environment, safeguarding the broader interests of the community. We work closely with our parent to achieve capital strength, attract low-cost funding, and gain cost advantages essential to operate a business sustainable for the future. Through 2022, we have supported much community needs well documented in the Social and Relationships Chapter on page 39. Similarly, we helped our employees who were severely impacted by paying ex-gratia payments to overcome personal financial difficulties in 2022.

REGULATORY RELATIONSHIP

Regulatory compliance is non-negotiable for our business. We continued to have a cordial relationship with our regulator, the Central Bank of Sri Lanka (CBSL). In line with the Corporate Governance regulations issued by the regulator, two Non-Independent and Non-Executive Directors were appointed to represent the parent company. At the close of the financial year in December 2022, the Company also appointed a new Chairman, a Non-Independent and Non-Executive Director. The Company contributed towards government revenue by paying LKR 239 Mn. through taxes and rates and a further surcharge tax of LKR 110 Mn. during the year.

OUTLOOK

Sri Lanka has set foot on the path to recovery. With the IMF's extended fund facility and the support of other donor countries, the country surmounted fuel shortages and power outages while inflation rapidly decreased. Interest rates are expected to decrease while import restrictions will be gradually relaxed.

Although vehicle imports remain in the balance, we look forward to a recovering Sri Lanka in 2023.

In this positive expectation for the country, CBCF's strategic focus is on aggressively growing its loan book. The newly set up Sales and Marketing Department is a great impetus to the Company in this area, as its specialist resources concentrate on rapid market penetration. We plan to increase our sales personnel to 100 in 2023 to widen our customer reach.

A new branch was opened in Jaffna in March 2023, while two others are due to be opened in Kalutara and Ratnapura. Gold Loans, a product in demand in the market, will be launched in 2023. Backed by secure collateral, it will reduce the credit as well as product concentration risk of the Company. With the support of CBC Tech Solutions Ltd., another subsidiary of our parent company, we plan to offer several digitised products to the customer base and enhance access to our products speedily and efficiently. Similarly, we will further pursue our legal recoveries arm to reduce our NPL ratio.

FELICITATIONS

I sincerely thank Mr Dharma Dheerasinghe, the past Chairman and Mr Sharhan Musheen, the present Chairman, for their visionary leadership and the other members of the Board of Directors for their valuable advice and guidance. The Company's Corporate Management Team, Senior Management Team, Cluster Managers, Branch Managers, and staff at head office and branches have worked tirelessly through a challenging year to man their stations and stay the course for CBCF. I am thankful for their effort. I appreciate and value the cordial support and guidance from our parent from all across operational teams that assist us and buoy us to achieve superior standards.

I am genuinely grateful to the Hon Governor of the Central Bank, the Director of NBFI, and other officials for their timely intervention and continuous support and guidance.

I value our customers' unwavering trust in CBCF and loyalty to the Company. Our other stakeholders are also an integral part of our journey. I wish to thank all of them while looking forward to continued cordiality as we step into better times.

D M U N Dissanayake
Managing Director/Chief Executive Officer

Colombo
June 05, 2023

Financial Review

The financial review provides insights into the Company's financial performance during the year ended December 31, 2022. Accordingly, it should be read in the context of the operating environment given on pages 25 to 27 and in conjunction with the detailed Financial Statements provided on pages 110 to 177.

In this review, the period means the year ended December 31, 2022 and previous period means the nine months period from April 01, 2021 to December 31, 2021. As the performance of the previous period consists of only a nine months period, the results cannot be directly compared with that of the reporting period.

The Company's profit before and after tax for 2022 declined by 91.7% and 10.7% on annualised terms compared to the nine months ended December 31, 2021. Further, Return on Assets (ROA) was down to 0.09% from 0.88% in 2021while Return on Equity (ROE) marginally improved to 1.23% from 1.03%.

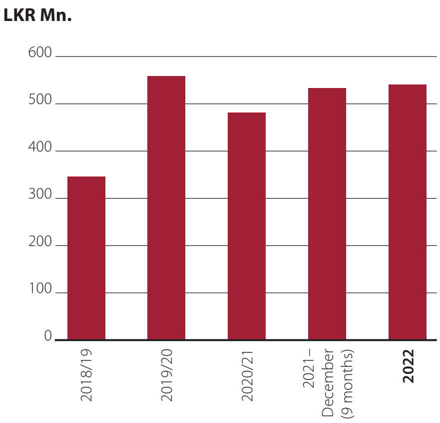
Due to extraordinary macroeconomic conditions in the country, net loans and advances portfolios contracted by LKR 207.6 Mn. during the year. However, the Company retained its deposit base during 2022 which recorded a marginal increase of LKR 47.3 Mn. In addition, the Company managed to grow its total assets by LKR 642 Mn. mainly due to the rise in investment in government securities by LKR 757.3 Mn. to manage excess liquidity which enabled the Company to benefit from high market interest rates.

A SUMMARY OF FINANCIALS

A summary of Key Performance Indicators for the year under review in comparison to the preceding period is given below:

Indicator	Year ended December 31, 2022	09 Months ended December 31, 2021	Variance (%)
Total income (LKR Mn.)	**1,636.16**	944.67	73
Profit after tax (LKR Mn.)	**39.58**	33.24	19
Shareholder's funds (LKR Mn.)	**3,177.47**	3,255.01	(2)
Loans and advances (Gross) (LKR Mn.)	**9,679.37**	9,886.76	(2)
Deposit liabilities (LKR Mn.)	**5,116.21**	5,068.85	1
Bank borrowings (LKR Mn.)	**2,467.54**	1,769.50	39
Net cash flows (LKR Mn.)	**(89.48)**	(115.04)	(22)
Capital adequacy ratio; core capital as a percentage of risk-weighted assets			
– Tier I (%)	**24.89**	25.49	(2)
– Total capital (%)	**24.89**	25.49	(2)
Debt/equity (Times)	**2.39**	2.10	14
Earnings per share (LKR)	**0.18**	0.15	20
Return on assets (before tax) (%)	**0.09**	0.88	(90)
Return on equity (after tax) (%)	**1.25**	1.03	20

Net Interest Income (NII)



Interest income increased by 31.76% on an annualised basis. The interest income for the 09 months ended December 31, 2021 was LKR 867 Mn. and it has been recorded as LKR 1,524 Mn. during the year 2022. That was mainly due to increased interest yields due to the high-interest rate regime that prevailed in 2022. The Company's interest income on loans and advances went up during the year by 12.41% on an annualised basis from LKR 828 Mn. to LKR 1,241 Mn. Further, interest income on government securities went up from LKR 30 Mn. to LKR 276 Mn. during the year, which was an increase of 590% on an annualised basis. The Company was able to gain the advantage of the high-interest rate environment by strategically increasing its government securities portfolio.

Interest expense has also increased to LKR 986 Mn. during the year 2022 when compared to the cost of LKR 334 Mn. for the previous period, which was an increase of 121.41% on an annualised basis. Due to the extraordinary macroeconomic circumstances in the country, the market interest rates drastically increased during the year 2022. As a result, the Company had to incur a higher

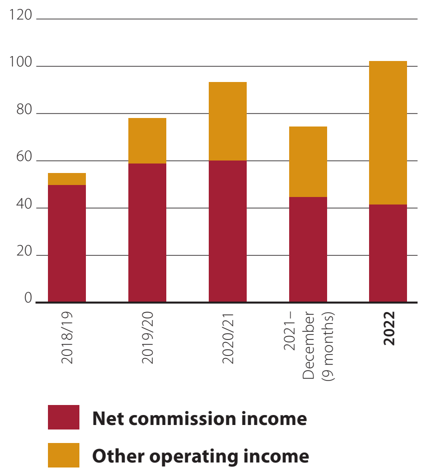
Financial Review

interest cost on its borrowings and deposits. In addition, during the year, bank borrowings also increased by 39.45% from LKR 1.8 Bn. to LKR 2.5 Bn, contributing to the increase in interest costs.

Consequently, there was a considerable drop in Net Interest Income (NII) by 24.36% YoY on an annualized basis. The NII was LKR 537.41 Mn. for the year compared to LKR 532.89 Mn. for the previous period since interest-bearing liabilities got repriced faster than interest-earning assets due to the rapid increase in market interest rates and given the composition and structure of our assets and liabilities.

Non-Interest Income

LKR Mn.



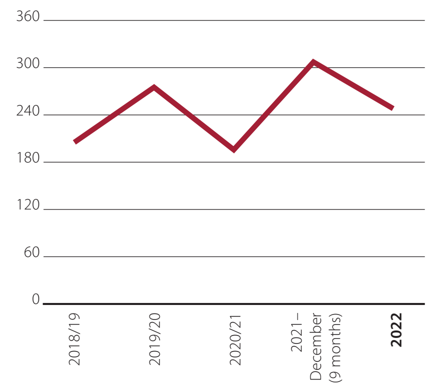
Net fee and commission income recorded a decline of 30.32% (annualised) to LKR 41.26 Mn. compared to LKR 44.41 Mn. during the previous period. This drop in fee income was mainly due to the impact of various restrictions/limitations imposed by the Central Bank of Sri Lanka (CBSL).

However, the impact of the above reduction was more than offset due to a sharp increase in the other operating income during the year to LKR 61.2 Mn. when compared with LKR 30.2 Mn. reported in the previous period, a 52.08% increase on an annualised basis. This increase is mainly caused by the increased recovery of written-down loans during 2022 due to robust recovery measures.

As a result of the above reasons, the total non-interest income increased by 3.03% (annualised) to LKR 102.4 Mn. compared to LKR 74.6 Mn. during the previous period.

Impairment Charges

LKR Mn.

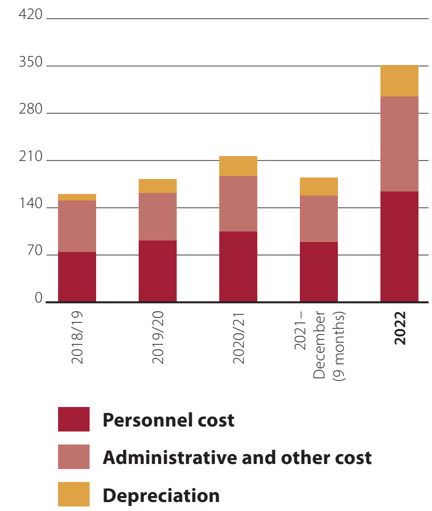


During the year, impairment charges and other losses decreased by 39.48% compared to the previous period on an annualized basis. Accordingly, impairment charge for the year under review was LKR 249.1 Mn. (LKR 308.8 Mn. in the previous period). In addition, the Company implemented aggressive recovery measures upon opening of the country in 2022 after the COVID-19 lockdowns. Meanwhile, CBSL has further extended the moratorium to the affected sectors of the economy.

However, the impairment charge for the year includes management overlays as well to reflect the current adverse macroeconomic environment on the recommendation of external auditors. The Company increased the weightage assigned for the worst-case scenario while reducing the weightages for the base-case and best-case scenarios when assessing the forward-looking Probability of Default (PD) in the collective impairment model. In addition, the customers who operate in risk elevated industries were specially treated in arriving at the impairment by shifting their staging and mainly categorising them under lifetime expected credit losses.

Operating expenses

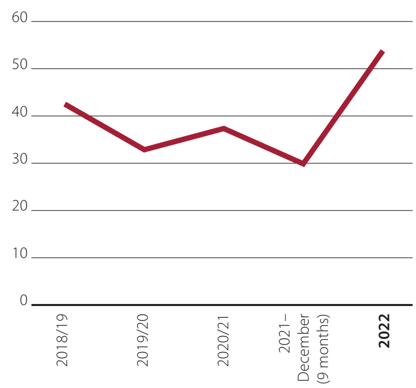
LKR Mn.



Total operating expenses grew by 42.45% on an annualised basis during the year to LKR 351.8 Mn. (LKR 185.2 Mn. for the nine months in the previous period).The increase was mainly due to the increase in occupancy expenses, sales and marketing expenses, personnel costs and other administrative expenses arising from inflationary pressures that prevailed during the year 2022. In addition, the opening of three new branches and an increase in staff during the year also contributed to this rapid increase in operational expenses.

Cost to income ratio

%

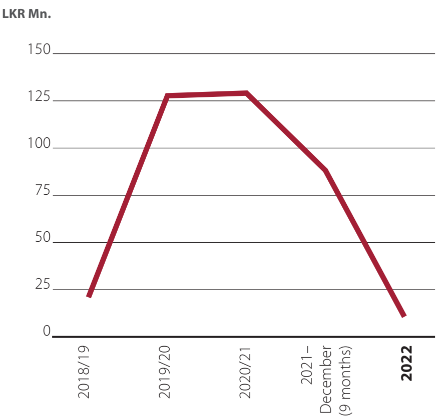


The Cost to Income ratio increased to 55.67% during the year from 30.49 % for the 09 months ended December 31, 2021.

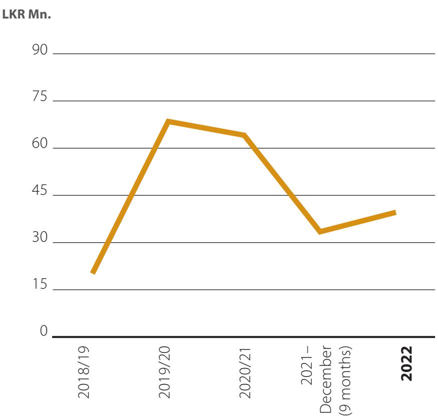
Financial Review

This is mainly due to the narrowing down of the interest margins with the rapid increase in market interest rates from mid-2022. Also, the soaring inflation and the country's economic downturn contributed to this increase in the cost-to-income ratio in 2022.

Profit Before Tax



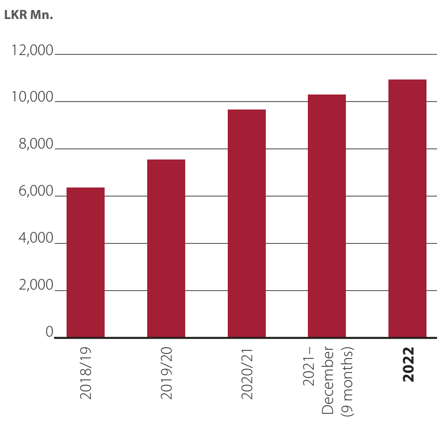
Profit After Tax



Consequent to the drop in NII and increased operating expenses which was only partly offset by the increase in other operating income and the drop in impairment charges, there was a significant drop in the profit before taxation in 2022 by 91.72%, compared to 2021 on an annualised basis.

However, due to an increase in deferred tax assets, the Company recorded an income tax reversal for the year of LKR 29.86 Mn. compared to the income tax charge of LKR 54.87 Mn. for the nine months ended December 31, 2021, thereby reducing the drop in profit after tax to 10.7% in 2022 on an annualised basis for 2021. Consequently, the profit after tax was LKR 39.58 Mn. in 2022 (LKR 33.2 Mn. during the previous period).

Total Assets

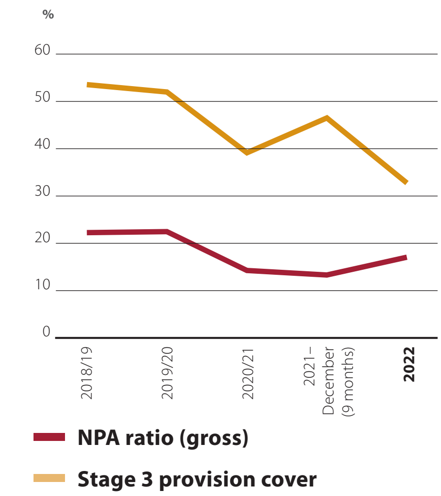


The Company managed to maintain continuous asset growth during the past five years, from 2018/19 to date. The Company's total assets grew by 6.23% in 2022 (2021:6.31%). This was due to increased investments in government securities while loans and advances (net) portfolio recorded a marginal decline.

Due to the adverse macroeconomic environment that prevailed in the country, the Company's loans and advances (net) portfolio dropped marginally by 2.38% in 2022. The leasing portfolio recorded a significant increase of 18.81% during the year, but the mortgage and other loans portfolios recorded a reduction of 7.39%. The Company has strategically increased the investment in government securities to gain advantage of high market interest rates that prevailed in the country from LKR 838.5 Mn. to LKR 1,595.8 Mn. in 2022.

Assets quality

Quality of loan portfolio



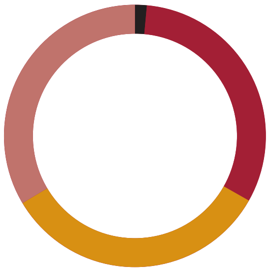
Both the Gross NPA ratio and the Net NPA ratio of the Company increased in 2022 to 16.98% (2021:13.14%) and 8.10% (2021:1.30%), respectively, mainly due to the contraction of the gross portfolio compared to the NPL portfolio.

The stage 3 impairment provision coverage decreased to 32.62% at the end of the year compared to 46.58% at the end of the previous period due to a decrease of 39% in impairment charges.

Further, the cumulative impairment provision for loans and advances as a percentage of the total loans and advances at the end of the year amounted to 12.13% (2021: 11.84%) while the total regulatory provisions for the gross loans and advances portfolio stood at 9.79% (2021: 6.75%) in 2022.

Deposits

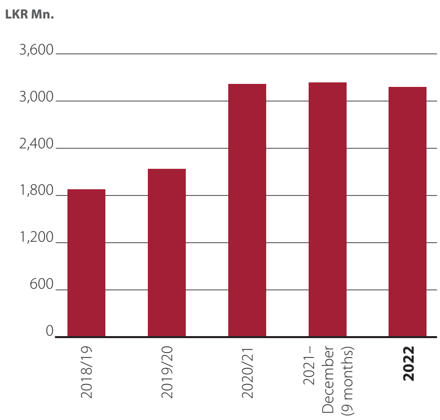
Composition of deposits by year of mobilisation



2019/20	1.46%
2020/21	31.74%
2021 – December (9 Months)	33.25%
2022	33.55%

The Company's deposit base expanded marginally by 0.93% and reached LKR 5.1 Bn. at the end of the year (2021: LKR 5.0 Bn.) though there was intense competition in the market along with the soaring interest rates.

Net Assets



Net assets value per share marginally decreased to LKR 14.33 as of December 31, 2022 compared to LKR 14.68 as of the period ended December 31, 2021. This reduction was caused due to the payment of a surcharge tax of LKR 110 Mn. during the year 2022, which was adjusted through retained earnings that eventually reduced the net assets.

Earnings per share declined to LKR 0.18 compared to LKR 0.15 in the previous period in annualised terms due to the reduction in the net profit during the year.

CAPITAL ADEQUACY/ CAPITAL MANAGEMENT

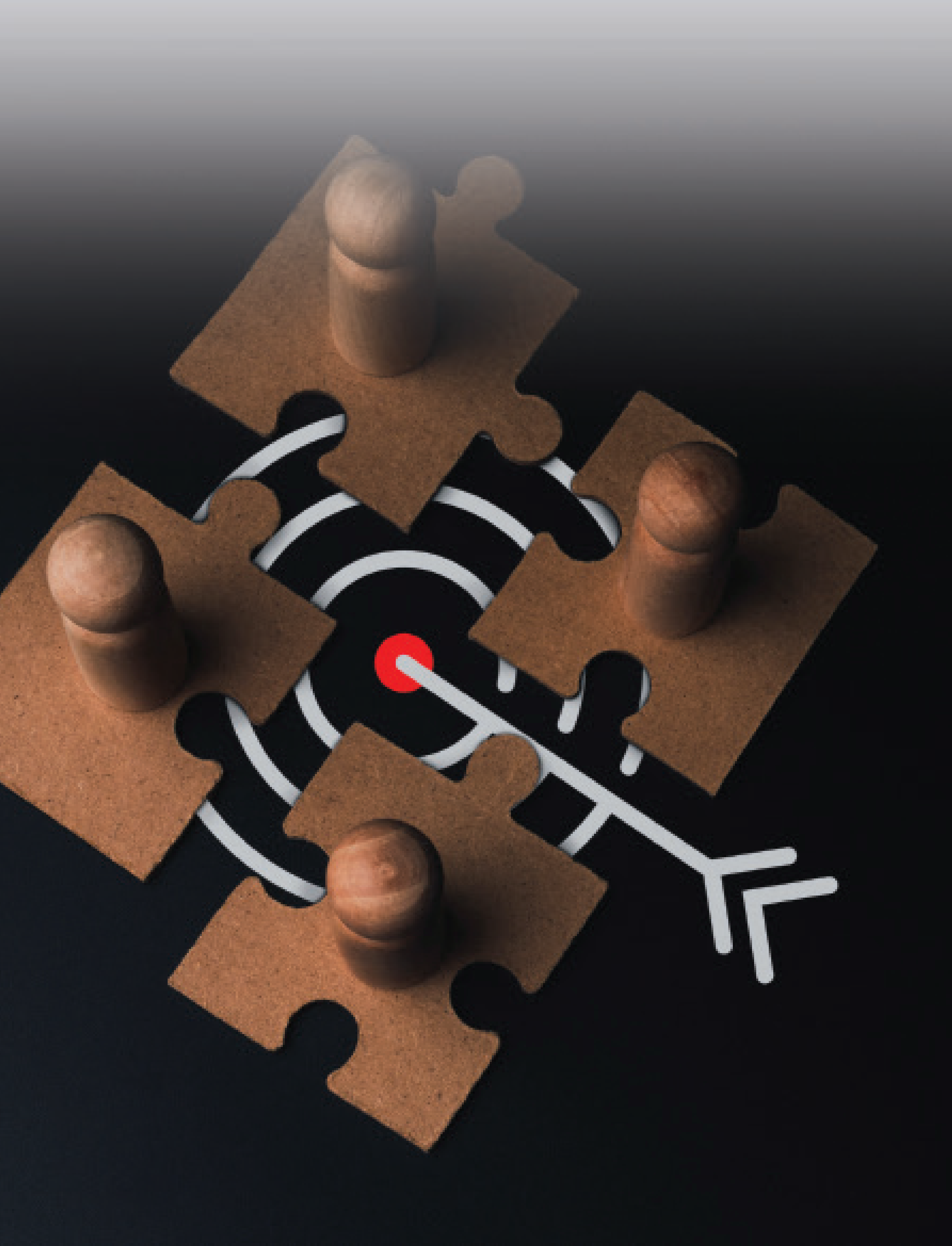
Both the Tier I and total capital ratios stood at 24.89% against the minimum requirements of 8% and 12.5% as of December 31, 2022, comfortably exceeding the minimum capital adequacy requirements set by the Central Bank of Sri Lanka. Despite the risk-weighted assets of the Company decreasing by LKR 326 Mn. during the period, both Tier I and total capital ratios decreased by 0.6% from the previous year's percentage of 25.49% as of December 2021 due to the decline in Tier I and total capital by LKR 150 Mn.

Further, the capital funds to total deposit liabilities ratio also declined by 1.88% to 59.99% during the year, compared to 61.87% as of December 2021; yet was well above the minimum requirement of 10% set by the Central Bank of Sri Lanka.

FUNDING AND LIQUIDITY MANAGEMENT

The Assets and Liabilities Committee (ALCO) of the Company meets every month, or more frequently if the circumstances require, to closely monitor the current and future funding and liquidity requirements and pricing of products and services. With unprecedented fluctuations, ALCO was more vigilant about the macroeconomic variables in the country during the year. As such, the conditions were continuously monitored closely under different stress levels throughout the year.

The Company maintained liquid assets well above the minimum requirement throughout the year which was 3.11 times at the end of the year (2021:1.81 times), compared to the minimum requirement of more than one time.



OUR MODEL

Stakeholder Relationships

The pandemic debacle, which commenced in early 2020, continued to move through the first quarter of 2022. This brought to the fore the importance of collaborative cooperation between the business entity and its many stakeholders. We recognise and appreciate the strong partnerships we have built with all our stakeholders that resonated through 2022/23, allowing us to deliver value to and derive value from those valuable partnerships, even during the distressed macroeconomic conditions that prevailed in 2022.

As such, we manage and maintain the relationships with our core stakeholders strategically and transparently, building long-term confidence and loyalty to the Company. At the same time, reciprocally, we deliver those values to them.

Stakeholder Group	Stakeholder Interest	Our Response
Customers	Utilise the products and services provided by the Company. Borrowers were keen to learn more about the concessions available due to the challenging operating environment caused by the pandemic. Keenly observe the Company's financial robustness and take an interest in its long-term growth plans.	We have provided "Doorstep Service" for customers interested in learning more about our products and services. We sometimes provided moratoria for our borrowers, exceeding the amount stipulated for the industry. Conducted research on how to diversify our product portfolio.
Employees	A corporate environment that promotes their well-being, career goals, and growth.	Implemented strategies for succession planning and promotions. Preference is given to candidates with industry experience when recruiting new members to the CBCF family.
Business Partners	A financially robust entity that meets all regulatory requirements and has a vision for the future of the Company. Transparency and non-discrimination with which the Company undertakes transactions with its partners.	Re-emphasising that CBCF is fully owned by its parent, the Commercial Bank of Ceylon PLC. Complementing the existing product portfolio with new products will contribute to exponential growth. Centralised procurement process under the purview of a Procurement Committee.
Shareholder	The financial soundness of the entity and long-term growth plans. Full compliance with the applicable rules and regulations minimises potential reputational risk to the Commercial Bank arising from the activities of CBCF.	Strengthened the Company's capital position, which will comfortably meet the regulatory capital requirements in the coming years. Strengthening the compliance function on an ongoing basis. Continued to strengthen the risk management and governance functions.
Society	An NBFI that can be relied upon to pay heed to the needs of all its stakeholders.	Building a Company that comfortably meets all regulatory requirements and has a strategy for sustainable growth while promoting socially responsible business practices with the best interest of all stakeholders at the centre of its operations.
Regulator	An NBFI that meets all stipulated regulatory requirements.	Commitment to adhere to all applicable rules and regulations in both letter and spirit.

The Company recognises and upholds the core values that give traction to sustainable and healthy stakeholder relationships and is committed to adhering to those values.

Operating Environment

Three years of adverse shocks emanating from the COVID-19 pandemic and the Russia-Ukraine war sent ripples of uncertainty on all fronts across nations. Vulnerable economies in developing and underdeveloped countries encountered economic tsunamis that up-ended well-laid strategies into chaos and disarray.

A GLOBAL DEBACLE

The devastation of the past three years has had lingering impacts on supply disruptions, commodity price hikes, energy generation, and distribution, leading to multi-decade high global inflation rates. As a result, the regulators of the banking and non-banking industry disciplined the markets through a lot of interventions, raising interest rates, tightening supervisory controls, and intrusively controlling the way the industry operated in a bid to rein in the runaway inflation.

Global giants, the United States (US) and the European Union (EU) experienced weakened economies that naturally sent waves of further uncertainties across already limping global economies. The collapse of a major bank in the US and the loss of confidence in Credit Suisse further exacerbated the economic woes of these two regions. At the same time, Europe also faced energy shortages due to the ongoing Russia-Ukraine war. In March of 2023, the bank stock prices of the US and Europe slid by 25% and 14%, respectively[1]. Central Banks re-assessed their monetary policy in a coordinated effort to contain further financial market stresses. China, casting heavy shadows over the Western nations on economic and defense fronts and being a party with geo-political interests in the Asian region, saw its economic expansion plummeting to 3.0% in 2022 compared to a growth of 8.4% in 2021.

The year 2022 also recorded the highest inflation that the US experienced since 1982, reaching 7.0% YoY in December 2022, and in Europe, 5.1%, the highest since 1997. Globally, the regulators took interest rate hikes to contain inflation's upward flight, though a marginal downward trend is currently visible both in developed and emerging economies.

BRICS – A NEW ALLIANCE AND A NEW CURRENCY?

A further development is the formation of the BRICS union, comprising Brazil, Russia, India, China, and South Africa, which is vehemently advocating the use of its own BRICS currency for trade among them, creating a clear demarcation of a Western bloc and an Eastern bloc for trade. In addition, China, promoting its international currency, the renminbi (RMB), for global business has gained a foothold as reported by the Society of Worldwide Interbank Financial Telecommunication (SWIFT) that it remains the fifth most active currency for global payments[2].

The Non-Bank Financial Institutions (NBFIs) sector had its own silver lining in this dark and cyclonic global economic cloud. Global financial assets held by the industry grew from 40% to 50% during this period, as the regulators took strong measures to build resilience in the banking sector, pushing the customer towards other financial intermediaries for urgent financial support[3]. NBFIs intermediation has also become a vital finance vehicle for the private and public sectors. They are crucial for capital flows into emerging markets and developing economies. Though at a higher price, NBFIs provide credit during banks' tightened lending periods, thus stepping into the role of shock absorbers in financial stress situations.

OUTLOOK

In their latest report, World Economic Outlook, April 2023[4], the International Monetary Fund (IMF) forecasts a slow growth trajectory for the global economy at a modest 2.8% in 2023 and 3.0% in 2024. It is noteworthy, however, that emerging markets and developing economies have become the front-runners in recovery, with a growth rate of 2.8% in 2022 to 4.5% in 2023. Slow down, according to the IMF report, is particularly acute in advanced economies, especially in the Eurozone and the UK, where growth is expected to fall to 0.7% and 0.4% in 2023 before recovery of 1.8% and 2.0% in 2024.

1 *https://www.imf.org/en/Publications/GFSR/Issues/2023/04/11/global-financial-stability-report-april-2023*
2 *https://en.imsilkroad.com/p/332857.html*
3 *https://www.imf.org/en/Publications/GFSR/Issues/2023/04/11/global-financial-stability-report-april-2023 - ch.2*
4 *https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023*

Operating Environment

A SRI LANKAN TALE

The optimistic face of Sri Lanka, which emerged powerfully in 2009, post the devastating civil war, was short-lived as it faced its nemesis in the April of 2019, the Easter bombings. Thriving tourism hit rock bottom, and a stunned Sri Lanka tottered on the edge of an ethnic-religious disaster.

A cohesively united religious front by all religious leaders that exerted much care and diligence in reining in their followers averted mayhem. The economy, however, thereafter took a mind-numbing blow. Sri Lanka could hardly recover from the Easter bombings when COVID-19 rolled in, swiftly throttling an ailing economy in its iron grip and shutting down the country. It lingered on till the early part of 2022. In between was the fertiliser mis-management that undermined the agricultural backbone of the country.

March of 2022 will record the country's history somberly, where political unrest and economic hardships tested the societal foundations to its core, effectively sending the economy into a tailspin. Sri Lanka struggled to honour its debt commitments amid an acute shortage of foreign exchange. As a result, fuel and food prices soared, job losses were rampant, and in April of 2022, the country declared its inability to service external debts. As a result, debt restructuring was discussed with the international creditors. Meanwhile, the daily activities of the citizenry almost halted as fuel shortages curtailed mobility.

CONTRACTION OF ECONOMY AND ELEVATION OF POVERTY

The Year 2022 was by far the most challenging year Sri Lanka faced post-independence, with a combination of political and economic issues that compounded agitation and anxiety in the general public. Headline inflation rose to 69.8% in September 2022 while real GDP growth had receded to -7.8%, with the Rupee to USD exchange rate spiking at 363.11 in December of the same year. The current Account Balance was -6.4% of the GDP. In the 4th quarter of 2022, the economy contracted by 12.4% compared to 1.4% growth in the same quarter in 2021.

The Agricultural sector contracted by 4.6%, while the industry sector recorded a significant contraction of 16.0%, primarily due to severe constraints on the construction and manufacturing sectors caused by raw materials and fuel shortages.

In US Dollar terms, underpinned by the significant depreciation of the Rupee, the overall size of the economy contracted to USD 77.1 Bn. in 2022 compared to USD 88.5 Bn. in 2021. As a result, per capita GDP declined to USD 3,474 in 2022 from USD 3,997 in 2021[5].

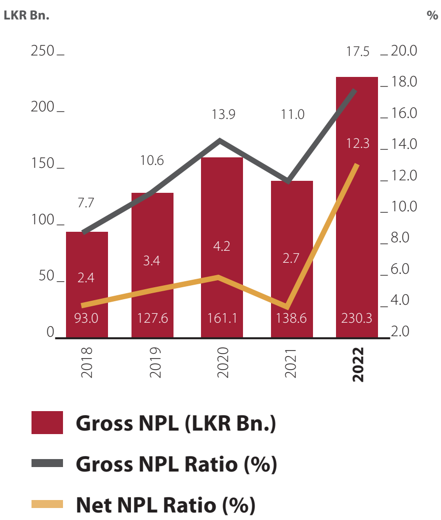
The economic contraction led to an elevation of the poverty rate. From 13.1% in 2021, it escalated to 25.0% in 2022, adding a further 2.5 Mn. people to the poverty line. Riding on the high-crested wave of COVID-19 that had already increased the levels from 11.3% in 2019 to 12.7% in 2020, this meant that many lower middle-income households moved towards the poverty line. The survey conducted by the Department of Census and Statistics – Household Income and Expenditure Survey, 2022 – with the National Consumer Price Index (NCPI) suggests that approximately 60% of households are below the poverty line.

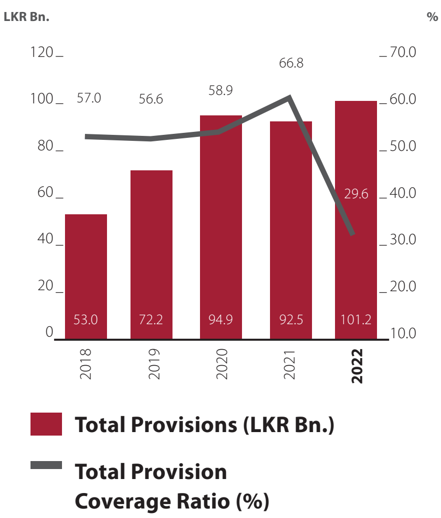
NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) expanded in terms of assets and deposits with adequate liquidity buffers, despite shrinking credit growth and declining profitability. The Consolidation Masterplan implemented by the regulator with the objective of steadying the NBFIs and safeguarding depositor assets worked well for NBFIs to stay the course and preserve financial stability. Total assets of the sector amounted to LKR 1,611.2 Bn. by end 2022, representing 5.2 per cent of the total assets of Sri Lanka's financial system (2021: LKR 1,487.7 Bn. and 5.6%). Loans and advances accounted for 74.4 per cent of the total assets of the sector (2021: 76.8%).

Debt moratoria was extended to safeguard the customers impacted by the macroeconomic depression and by the end of 2022, approximately 13.2 per cent of the loans and advances portfolio of the NBFI sector were under moratoria.

Non-performing loans and provision coverage of LFCs and SLCs Sector 2022





(Figure 8.10 on P.261 of Central Bank Annual Report 2022 – Non-performing loans and provision coverage of LFCs and SLCs sector)

5 *CBSL AR22 / ch.1 p6*

Status of Moratoria granted to COVID-19 affected borrowers

Phase of moratoria	No. of approved requests	Total capital outstanding at the time of granting the moratorium (LKR Bn.)	**Total capital outstanding as at December 31, 2022 (LKR Bn.)**
Phase 1 (Mar 2020 – Sep 2020)	814,336	312.61	44.58
Phase 2 (Oct 2020 – Mar 2021)	99,912	59.93	11.82
Phase 3 (Apr 2021 – Sep 2021)	492,734	168.14	68.41
Phase 4 (Oct 2021– Mar 2022)	54,387	37.63	17.16
Phase 5 (Jul 2022 – Jan 2023)	42,283	20.19	32.62
Total	1,503,652	n.a *	174.58

** Same borrower may have obtained moratoria under several schemes.*
Source: Central Bank of Sri Lanka
(Table 8.11 on p. 260 of Central Bank Report 2022 – Status of Moratoria granted to COVID-19 affected borrowers since March 2020)

The year under review witnessed an increase of total gross NPLs/Stage 3 loans by 66.1 per cent as at end 2022 on a year-on-year basis, compared to the decrease of 13.9 per cent recorded as at end 2021. The net impaired Stage 3 Loans Ratio increased to 12.3 per cent as at end 2022 from 2.7 per cent reported as at end 2021[6].

OUTLOOK

With the intervention of the IMF, the Paris Club, and other donor countries, Sri Lanka has seen a light at the end of a dark tunnel. It, however, should be borne in mind that the bailout package has its dictates that may distress the populace to some degree by way of tax impositions, at least into the foreseeable future. Nevertheless, headline inflation is expected to decelerate through 2023 and moderate by the end of the year. While the economy will continue to face significant challenges in 2023 and beyond, domestic and international debt restructuring is needed to restore sustainability. Political stability will be a crucial criterion in the recovery process, with solid fiscal policies for Sri Lanka to build a strong and resilient economy for the long term.

6 *CBSL AR22 p262*

How We Create Value

CBCF is well supported by its parent, Commercial Bank of Ceylon PLC, from which it draws significant amounts of expertise, benefits from IT innovation, migration of best practices, and capital infusion. This continued through 2022 and helped absorb the economic shocks effectively. In turn, CBCF functions as a financial intermediary, offering products and services that meet the needs of the customer.

Parent Company: **Commercial Bank of Ceylon PLC**

EXTERNAL ENVIRONMENT

Shared values, vision and purpose

Robust corporate

INPUT

FINANCIAL CAPITAL

- Shareholder's funds
- Customer deposits
- Borrowed funds

INTELLECTUAL CAPITAL

- Institutionalised knowledge
- Best practices
- Brand equity

HUMAN CAPITAL

- Skills
- Expertise
- Commitment

SOCIAL AND RELATIONSHIP CAPITAL

- Services and supplies
- Relationships
- Collaborations
- Partnerships

ACTIVITIES

Primary

- Lending
- Mobilising deposits

Ancillary

- Relationship management
- Risk management
- Financial management and reporting
- Human resources management
- Support services
- Information technology

How We Create Value

Governance and Accountability **Strategy of growth**

- Providing other fee-based services

- Product development
- Marketing and sales

OUTPUT	OUTCOME
FINANCIAL CAPITAL › Prudent growth › Profitability › Funding and liquidity	› LKR 39.58 Mn. Profit After Tax › LKR 537.41 Mn. Net Interest Income › LKR 643.09 Mn. growth in Total assets
INTELLECTUAL CAPITAL › Compliance › Innovation › Ethical conduct › Brand value	› Scaling-up digitalisation › Investing in institutional knowledge › Innovative marketing
HUMAN CAPITAL › Training and development › Operational excellence › Motivation › Strong employee engagement › Career progression	› 3,622 hours of training › 42 training programmes › 168 staff trained › LKR 165 Mn. in salaries and benefits
SOCIAL AND RELATIONSHIP CAPITAL › Increase in customer base › Customer satisfaction › Customer convenience › Strong supplier relationships › CSR activities	› 2,689 Customers as of end 2022 › LKR 239 Mn. in taxes › One new product in the pipeline

OUR IMPACT

Intellectual Capital

Intangible assets, accumulated over the years and proprietary to the Company, are termed Intellectual Capital. These include the expertise of our employees, HR practices including training and development, business processes, brand value and perception in the market, and other information that positions the Company a step ahead of its competition in an aggressively competitive market.

We are pleased to record our success in developing and safeguarding our intellectual capital to ensure a sustainable business for the benefit of our stakeholders.

CREATING A DIGITAL FOOTPRINT

The last three years of the COVID-19 pandemic and its aftermath defined the new standard way of conducting business, among other daily routines, that have seen a complete overhaul of the practice. Moreover, with digital and technological advancements rapidly invading the industry, such advances and new developments moved into center stage, transforming operations, customer interfaces and many other aspects of our business.

Since its inception in 1987, CBCF has been focused on expanding its digital footprint and technological development and invested heavily in its information technology infrastructure. Working within a well-laid-out plan, the Company's Information Security Policy (ISP) defines the structural demarcations, roles and responsibilities, and adherence to information security, in detail. This is further augmented by the support of the IT department of the Commercial Bank of Ceylon PLC (the Bank) and its Central System Support Department (CSSD) of the Bank, demonstrating the value addition derived from being a wholly owned subsidiary of the Bank.

CBC Tech Solutions Limited, another fully owned subsidiary of the Bank, is responsible for maintaining the Company's website, recovery modules, insurance module and MCAS System, adding significant value to our digital journey.

ACHIEVEMENTS

Customer Interface

Migration from E-Financial to International Comprehensive Banking System (ICBS) supported the asset and liability product range where deposits were canvassed. In addition, spin-off benefits included enhancing integration with the Bank's internally developed systems and procedures and establishing audit trails allowing for transparency in all our transactions.

Being a fully owned subsidiary, we garnered the Bank's support in implementing the Common Electronic Funds Transfer (CEFT) system from LankaClear (Pvt) Ltd and Recovery Modules in ICBS.

Lead generation was revamped through the upgraded website, while the Suredeal website facilitates yard vehicles and properties acquired to be sold. In addition, a new quotation module and the insurance module speed up the turnaround time for customer queries, and an SMS alert system saves customer transactions promptly.

Accuity system carries out the mandated regulatory requirement of screening the customers before onboarding, especially in line with Anti Money Laundering (AML) regulations in the country as well as US Sanction Screening. Such technological advancements have contributed to onboarding and maintaining a quality customer base in our portfolios, who are sustainable business partners for the future. In addition, a Customer Risk Profiling System will be implemented in 2023, where the process will further tighten the controls around quality onboardings.

The Customer Reverse Screening System is a crucial tool that aims to mitigate risks associated with customers potentially harming the Company in the long term. By implementing this system, businesses can proactively screen and filter out customers who may not fit the company's ethical business practices. This helps avoid future financial losses and safeguards the business's reputation and customer trust.

OPERATIONAL EXCELLENCE

Internally developed Asset Registry System automated the manual asset management in the Company, which helps in effectively managing and maintaining the assets owned by the businesses.

We implemented numerous IT platforms that fast-tracked the daily operation of our routine work processes. Among these, the Memo Management System, server upgrades and backup server systems, Credit Monitoring system, Write-off system, web filtering process, and the Board Pac Solution have transformed how we work and eased the regulatory disclosure processes with accuracy. Enhancing a single server VM environment to a cluster environment has offered several benefits to businesses. One of the most significant advantages is improved reliability and availability. With a cluster environment, multiple servers work together to provide a more robust and fault-tolerant overall system.

PEOPLE FOCUS

A new KPI management system creates efficiency in managing staff KPIs and performance appraisals. In addition, CBCF Intranet and the Fin Directory keep close contact among all areas of the Company, promoting camaraderie and belonging. The E-Leave Management system is due to be introduced in 2023.

CYBER SECURITY

In an era where FinTech firms are generating dynamic software as a daily routine, we are comfortable partnering with our parent, the Bank and its fully owned subsidiary, CBC Tech Solutions Ltd, in ensuring database safety. We recognise the colossal responsibility that rests on us to protect our customer data and organisational data from hackers and cybercriminals. As the challenge is ongoing, so is our effort at creating security measures.

To this end, we installed and configured hardware firewalls at each branch and data centers, segregated the primary firewall into different zones, which helps to improve the security of the Company's network, allocated unique virtual local area networks (VLANs) to each department to isolate further and secure different parts of the network, installed Multiprotocol Label Switching (MPLS) links as both the primary and secondary connections and created IPSec (Internet Protocol Security) VPNs over these MPLS links for additional security and privacy.

Further steps were taken to implement a process for performing daily anti-virus patch updates to all endpoints and servers. This can help to prevent the spread of malware, protect against phishing attacks, and prevent unauthorised access to sensitive data. We also introduced a process for monitoring and reviewing Cyber Risk incidents through Forti-Analyzer and Kaspersky Security Center.

FUTURE PLANS

We plan our digital strategy to align ourselves with the standards maintained by our parent Company. In this journey, the contribution of CBC Tech Solutions Limited has been of immense value, which no doubt, will be forthcoming in the years ahead.

Our digital strategy for 2023/2024 encompasses a variety of work processes and customer interface systems. Chief among these is the Sales and Marketing Mobile App which is on the drawing boards, allowing our teams to operate effectively with maximum functionality towards the customer. In addition, this provides for customer onboarding, online leasing, and fixed deposit products, which will be launched by the end of the year.

We are pleased with the expansion we have seen in our digital footprint and are committed to investing in information technology infrastructure, which is the future of any business organisation that is effective and sustainable.

INSTITUTIONAL KNOWLEDGE

A collaboration of banking and finance personnel, experienced and qualified in their respective disciplines and possessing the many soft skills currently needed in the marketplace, form the Company's Senior Management. To this is added the strength of many other professionals, carefully recruited and renumerated and performing the daily routines of CBCF that builds up the power of the Company for the future. Therefore, we are pleased to state that from the management to the staff in operation areas, CBCF possesses a cumulated pool of talents and resources that, in 2022, proved invaluable in facing the headwinds of the year to emerge resilient and more vital for the future.

CONTINUOUS UPGRADING

Taking a futuristic view while delivering value in the present is a crucial criterion at CBCF. To this end, we continued to introduce state-of-the-art IT systems, products, and services that are in demand by the customer, proving our market agility and staff-friendly internal processes. Detailed information on our products and services is found on page 42 under Business Overview.

A VALUABLE COLLABORATION

We are fully owned by the award-winning premier commercial bank in Sri Lanka, the Commercial Bank of Ceylon PLC. This is foundational to our strength and longevity as we draw on the synergies of the two entities to continue the growth trajectory that we are on. The Bank contributes towards the operation of CBCF in many ways, especially in IT infrastructure development. During the past several years, we have advanced in leaps and bounds due to the support we have received in this area that projects an agile entity that is in touch with customers' latent and emergent needs. We value the partnership immensely.

Human Capital

An intangible asset whose value cannot entirely be captured on the Company's balance sheet, human capital includes our employees, their commitment, experience, education and skills. This chapter focuses on how we have invested in this invaluable asset through training, mentoring and caring for their general wellbeing as an employer during the year under review.

HIGHLIGHTS 2022

Staff members	164
Seconded staff	12
New recruitments	58
Female workforce	69
Employees under 30 years	76
Staff turnover ratio	15%
Hours dedicated to training	3,622

A TEAM BUILT ON SYNERGISTIC COLLABORATION

An organization's sustainability and efficacy are only as good as its people from the top downwards. This was tested to the core as our team functioned under severe hardship in the year under review, as political and macroeconomic upheavals disrupted daily life. The relief that was expected by the end of 2021 post the lockdowns due to the COVID-19 pandemic, gave way to internal turmoil.

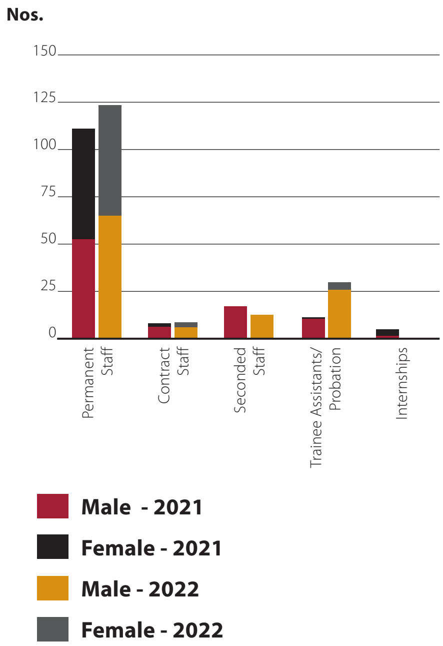
The cooperation and the ready collaboration we received from our parent, Commercial Bank of Ceylon PLC, in navigating through the hardships by way of transferring best HR practices and grooming the human capital of CBC, were invaluable. The Bank continues to second their staff to work alongside CBCF staff, upskilling them to achieve the Company's objectives. Training and development and determining compensations to be on par with the industry, are two specialist areas that were strengthened by this partnership in 2022.

With these inputs and the resilience inherent in the team of 176 members, the challenges were overcome to serve our customers while engaging in sales and marketing activities in a limited manner as fuel shortages curbed mobility. The excellent blend of the experience and knowledge that the senior staff possessed with the agility and the speed with which the younger staff reached out to the market, worked well to deliver a commendable for the Company in the circumstances. Our team's bench strength was further augmented by the 12 staff members who were seconded by our parent, who brought in a vast repertoire of time-tested managerial and operational skills to face-off the daily challenges.

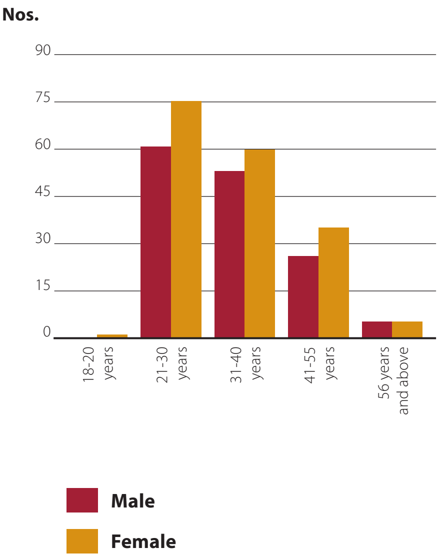
Gender and Status

An equal opportunity employer, the Company carries a good balance between its male and female staff and different age groups, in promoting diversity and inclusivity. The intertwining of different sets of skills, perspectives, backgrounds and viewpoints is of utmost importance to weave a robust corporate culture, that gives space for personal development and career growth.

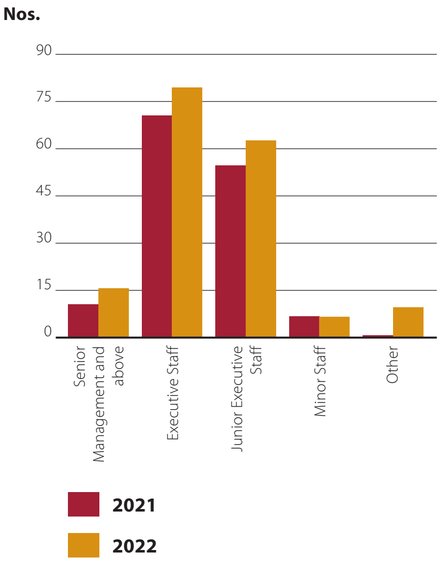
Gender and Status



Age



Grade

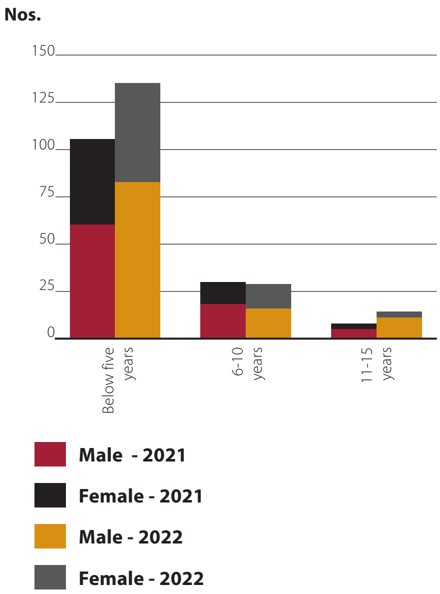


BUILDING INSTITUTIONAL CAPACITY

With the profitability and longevity of the Company as a priority, the Company reviews its succession pipeline and discloses its plans to CBSL every three years. As a result, we are confident that our second layer of 80 executive and 16 management staff are well experienced and capable and possess a high level of integrity that is necessary for a licensed NBFI's effective functioning. Those from the junior staff grades are selectively exposed to executive and managerial training, depending on their performance, business acumen and functional application.

The brain-drain that occurred in 2022, primarily due the social and economic conditions. However, it posed challenges to a smooth succession plan and on-the-job training for targeted employees.

Service Level



EMPLOYEE WELLBEING

Recognising the importance of employee wellbeing amid the personal and work related challenges they encountered, the need of the hour was to motivate and support them in the many hardships the staff faced from the pandemic and the economic crises.

CBCF implemented several initiatives within this period towards providing mentoring and nurturing experiences to retain a motivated workforce without allowing their talent levels to depreciate. Where necessary, the business environment was adapted to accommodate these challenges and work through them during the first half of the year, focusing on employee mental health as a high priority.

An efficient, engaged and inspired team being the catalyst for a well-functioning organisation, the HR department worked hard to ensure these attributes do not fall by the way side, during the difficult days of 2022. The HR department was a pivotal touch point for the employees to engage with, for any assistance they needed, in relation to their work and personal support.

ATTRACTING AND NURTURING TALENT

The country's situation resulted in an exodus of talent as many of our experienced as well as younger staff sought greener pastures overseas. The continuous head-hunting by industry peers offering higher benefit packages was added to this.

Notwithstanding the issues, the Company concentrated on its expansion and opened two new branches in the North and East, as well as recruiting 58 new staff from the regions its branches are located. The drive to enhance customer reach through social media platforms will be vastly supported by Gen Z and Millennials, who are the predominant staff category at the Company. In the future, however, we can expect some difficulty penetrating the Gen Z and Millennials for recruitment.

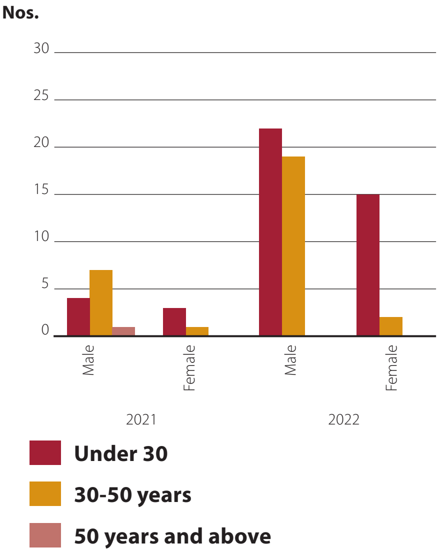
Human Capital

NEW RECRUITS **58**

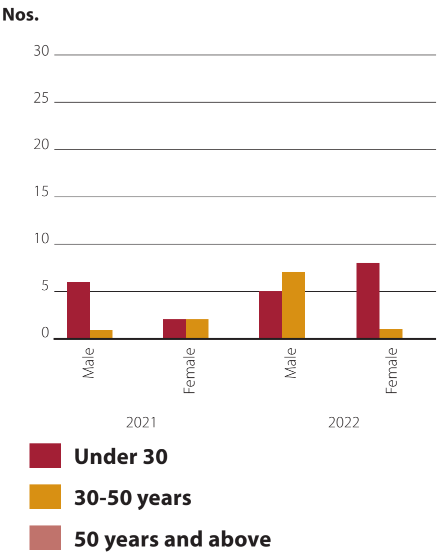
TURNOVER RATIO **15%**

Recruitment vs turnover by age and gender

Recruitment



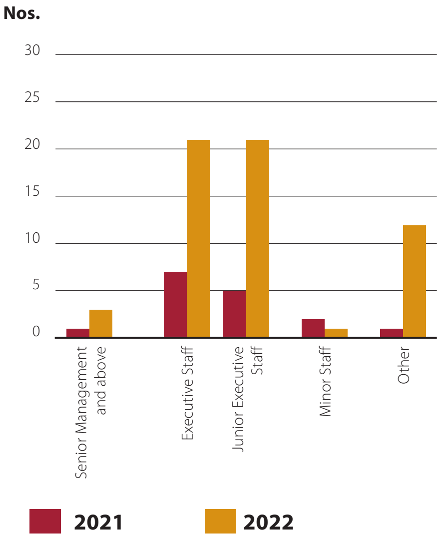
Turnover



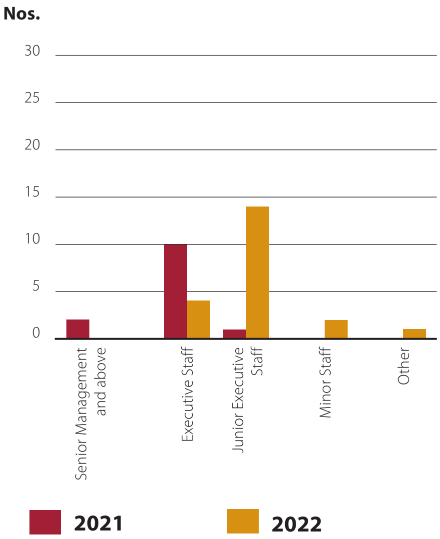
The relatively large numbers recruited during the year reflect the need to build the sales team and expand the branch.

Recruitment vs turnover by grade

Recruitment



Turnover



Recruitment vs turnover by region

Province	Recruitment		Turnover	
	2021	2022	2021	2022
Central	7	27	8	14
Eastern	–	11	–	1
North	–	4	–	–
North Central	5	4	3	1
North Western	–	–	–	–
Sabaragamuwa	–	–	–	–
Southern	3	4	1	2
Uva	–	–	–	–
Western	1	8	1	3

TRAINING AND DEVELOPMENT

Within a constrained macro environment, the HR department conducted several training programmes to motivate and retain staff engagement with the Company and their roles. Online training programmes were also conducted to alleviate the depreciation of skill levels and to engage the staff with the Company throughout lockdown and crisis periods.

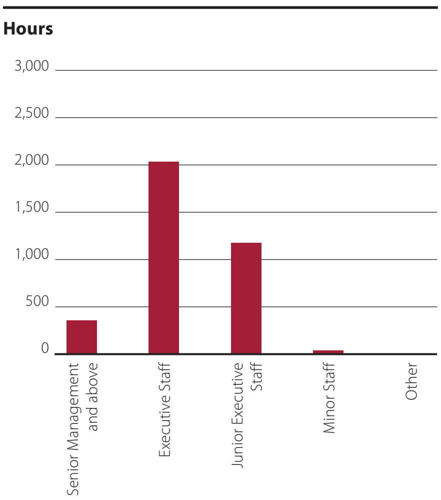
Several staff received carefully selected outbound training, based on their performance, experience and potential for career growth.

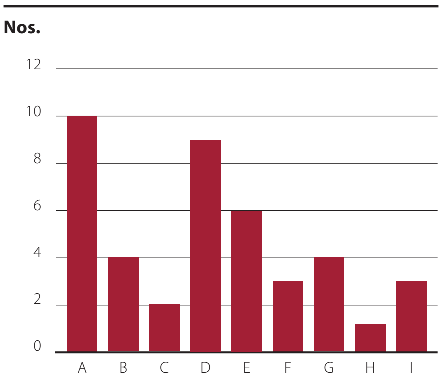
While IT innovation is encouraged, the department continuously seeks external training programmes to upskill the IT staff further. It is of value that our parent considerably contributes towards IT innovation and training, benefiting CBCF to implement futuristic IT solutions for a sustainable long term.

"Challenge Beyond Reach" an Outbound Training session held in Gannoruwa Ground, Kandy for the Head Office and Kandy Branch staff.

TRAINING HOURS

No. of Training Hours





A **Evaluation of Credit facility papers/Risk Management and Credit Operations**

B **Debt Moratorium/Recovery Operations**

C **AML/CFT and Compliance**

D **HR and Operations**

E **Finance Operations**

F **Fixed Deposits and Operations**

G **Information Technology**

H **Legal Operations**

I **Motivational and Personal Development**

TRAINING PROGRAMMES

Training programmes were comprehensively tailored to include product, IT and regulatory aspects covering front end and operational requirements. Functioning within an acutely constricted environment for face to face interactions, we are pleased that the HR department was able to conduct these programmes both on-site and online.

COMPENSATION AND BENEFITS

While employees in many industries experienced job losses and salary reductions, we revised the salaries to be on par with the industry standard and paid the usual bonuses. This was much appreciated by the staff, ensuring the retention of a skilled and experienced staff cadre and a high level of loyalty to the Company. The Company also went the extra mile to assist employees experiencing severe financial difficulties with ex-gratia payments.

Salaries and Statutory Benefits

CBCF's salaries and benefits are on par with the industry standards. Benchmarking is done with the inputs of our parent. We comply with all statutory requirements and labour laws applicable to all grades of staff that cover EPF, ETF, gratuity payments and paid leave and parental leave.

	2022
Salaries paid	91,776,647
Benefits paid	57,217,656
Gratuity paid	358,639
Employer EPF/ETF contributions (15%)	11,317,323

Benefits and Rewards

Benefits	Permanent Employees	Contract Employees
Fuel/Travelling Allowance	√	√
Leave Pay/Holiday Allowance	√	√
Performance Bonus	√	√
Sales Incentives	√	√
Overtime	√	√
Subscriptions (professional and club)	√	√
Medical Insurance Scheme (OPD, In-house, Life, Personal Accident Cover	√	√
Leave	√	√
Subsidized Loan Benefits	√	√
EPF/ETF/Gratuity	√	√

Human Capital

PARENTAL LEAVE

Number of employees who took maternity leave	3
Returned to work after maternity leave	3
Returned to work rate (%)	1.7

CORPORATE CULTURE

With its relatively small workforce, the HR Department strives to build an interactive and vibrantly cohesive corporate culture, with transparency in all its decision as the catalyst to creating confidence in and loyalty to the Company.

As work from home became the norm, and it became necessary to be on-target, filtering out any miscommunication due to non-attendance at the workstations, the Department allocated further responsibilities beyond their general duties to the available staff at the Department to monitor and take action where needed. We are pleased to report that these staff delivered well for the Company during this turmoil.

Disciplinary issues are dealt with promptly, adhering to established processes, and handling is done impartially, exercising utmost good faith for the benefit of the Company and the employee.

The circumstances did not allow for the usual CSR and outdoor activities generally planned for the year. We, however, were able to carry out a Cricket Carnival, grouping our employees in May, which was a success.

OUTLOOK

CBCF is safely anchored to a banking industry giant with high visibility in the marketplace, contributing in a significant manner to the balance sheet of its parent. The value of expertise, the culture, knowledge, and management methods we have gained from the parent is immeasurable.

We are cognizant of the challenges ahead, especially where skilled migration is concerned, and are well prepared to take timely action when the need arises to fill any skill gaps. As the Company plans on new branch expansions and the introduction of new product offerings, combined with the establishment of the Sales and Marketing department, we are confident that our staff are well equipped and geared to achieve the objectives of the Company through 2023 to the years ahead.

Social and Relationship Capital

We understand and define social and relationship capital as an exercise that combines collective efforts at managing the broader environmental, political, and social landscape in which we operate for the business to be a market leader. We enclose within this definition the roles played by our regulator, investors, customers, and human capital and how we nurture and maintain those relationships to be sustainable in business.

A STRONG CAPITAL FOUNDATION

A business needs a solid capital base to weather macroeconomic volatility and political or societal unrest to build strong social relationships and be sustainable. This is also a key criterion in complying with regulatory capital adequacy and liquidity ratio requirements.

The confidence placed in us by our sole shareholder was evident when it infused an LKR 1 Bn. to CBCF in October 2020. Capital strengthening, therefore, is a high priority at CBCF to be sustainable. By the end of 2022, the Company's core capital stood at LKR 3.103 Bn. well over the regulatory mandate of LKR 2 Bn.

BANKING ON SYNERGIES

As a fully owned subsidiary of Commercial Bank of Ceylon PLC, the Company is confident that adopting group synergies with the parent will yield good results in the future. The Bank's exemplary track record in the banking arena and its many accolades over the years have stamped the image of strength and stability in the minds of Sri Lanka's populace and migrant workers. Without hesitation, the Bank can be compared with any international bank with good standing and reputation.

Drawing on this established reputation, the expertise shared from the Bank includes low-cost funding, cost advantages over customer and supplier selections, knowledge sharing from the industry experts, a robust governance structure that enabled CBCF to diversify and venture into areas with confidence, as shared expertise helped in risk mitigated propositions.

The rebranding in December 2020 opened new vistas for the Company as customers could closely identify CBCF with the pioneer in commercial banking, our parent. This and a revamped marketing campaign made the Company firmly embedded in the customers' mindset, which undoubtedly helped boost its bottom line.

Access to the Bank's business partners leading to sustainable relationships and developing products targeting the Bank's customer base, such as Fin-FD and Business loans and forming new relationships are further value additions stemming from the synergistic platform.

SOCIALLY RESPONSIBLE LENDING

A Social and Environmental Management System (SEMS) was implemented to ensure the Company's lending is environmentally, socially acceptable, and economically viable. The system filters out the risks systematically aligned to these aspects, positioning the Company as a responsible and accountable corporate citizen.

S&E NEGATIVE ACTIVITIES LIST

CBC Finance shall endeavour to restrict its lending to the activities in this list at all times and ensure that in all events, the facilities are tagged as "S&E Negative."

1. Production, storing, and selling of alcoholic beverages excluding beer and wine
2. Cultivating, processing, storing, and trading tobacco
3. Gambling, casinos, horse racing, and equivalent enterprises.
4. Production or trade in un-bonded Asbestos fibers (purchase and use of bonded asbestos cement sheets where asbestos content is less than 20% is excluded)
5. Production, transport, storage, trade, and commercial scale usage of hazardous chemicals, including petrol, kerosene, and other petroleum products (only applicable to micro and small business enterprises).

Social and Relationship Capital

BANNED/ILLEGAL ACTIVITIES LIST

CBC Finance Ltd. will not knowingly finance any of the under-mentioned activities

1. Production or trade in any product or activity deemed illegal under National laws or subjected to International Conventions/Treaties/ Agreements ratified by Sri Lanka or the country of operation or subjected to international phase-outs or bans such as
   i. Production of or trade in pharmaceuticals subject to international phase-outs or bans
   ii. Production of or trade in hazardous chemicals, including pesticides and herbicides, subject to international phase-outs or bans
   iii. Production of or trade in ozone-depleting substances subject to international phase-out
   iv. Trans-boundary movements of hazardous waste prohibited under Basel Convention
   v. Trade in wildlife or production of or trade in wildlife products regulated under national laws and international conventions
2. Activities prohibited by National legislation or international conventions relating to the protection of the critical Cultural and Natural Heritage.
3. Production or trade in nuclear and radioactive materials (not applicable to medical, food irradiation, research, and quality control (measurement) equipment
4. Illicit fishing methods including fishing using explosives and drift net fishing activities in marine environment using nets in excess of 2.5 km in length
5. Production or activities involving forced labour (work is extracted under threat of force or penalty) or harmful child labour (employment of children)
6. Production or trade in any type of weapons primarily designated for military purposes and Chemical, Biological, Nuclear, and Radiological weapons
7. Destruction of Critical Habitat and protected areas covered under National laws or clearance of any forest covers for project/s under which no sustainable development and managing plan is carried out.
8. Production or trade in timber or timber products other than from sustainably managed forests.
9. Production or activities that have an impact on the lands owned, or claimed under formal judgment by indigenous people without their documented consent.
10. Pornography and/or prostitution
11. Coal related projects

BUILDING STRONG RELATIONSHIPS

Strong relationships that we built over the years with our customers, suppliers and the wider community, together with the visibility we have achieved as a subsidiary of our parent, helped us navigate through the many economic crises that took place in 2022 and emerge stronger.

SHAREHOLDER

Our key priority is adding value to our sole shareholder, the Bank. Similarly, the value we gain from being its subsidiary is incalculable. CBCF contributed positively to the Bank's bottom line for the past five years, culminating in being the country's highest profit-making banking group in 2020. CBCF's contribution to this achievement was significant. We continued to add value to the parent company in 2022, albeit slower, given the challenges we encountered in the financial year under consideration.

EMPLOYEES

As a customer-facing operation, we are fully aware of our employees' pivotal role in our business. Customer retention and maximising cross-marketing opportunities arise when customer relationships are managed to deliver customer satisfaction. A motivated employee, therefore, is critical to achieving this goal. We remunerate our employees keeping within the industry standards, and reward them for higher performance. Skill upgrading and personal development opportunities are offered across functions, and those with exemplary performance are moved up the career ladder. This is a high priority driven by a motivated team at our HR department.

Working from home was implemented during the pandemic, and relief packs were sent to infected staff. Staff salaries, bonuses and other benefits were paid in full without any reduction during the economic turmoil.

CUSTOMERS

Our customer-centricity was evident when CBCF offered its full range of products and services to the customer base during challenging times when some of our customers incurred disruption of their businesses and financial difficulties. CBCF offered the debt moratoria to forty customers after a careful review of their portfolios and creditworthiness, as well as extending flexible payment options and reduced service fees to others.

Further lending to existing customers was done at lower interest rates to tide them over the difficulties they faced in 2022. We were able to assist businesses, individuals, and families that were in great need as the uncertainties unfolded daily during the period under consideration.

GOVERNMENT INSTITUTIONS AND REGULATORS

Regulatory compliance is another high priority in the management agenda for operating a law-abiding and transparent business and is an essential pillar in the framework for sustainability. CBCF did not draw any liability or regulatory penalties for breach of a law, a rule, or a regulation. We uphold all required standards in operating our business as we have broader accountability to all our stakeholders. In the financial year under review, CBCF contributed LKR 239 Mn. in Government levies and taxes.

SUPPLIERS

Timely delivery of supplies, ethical sourcing thereof, and competitive pricing are the benefits we accrue from our suppliers that are supported by the good relationships we have built with them over some time. The Company's Procurement Policy lays down a transparent and above-board supplier onboarding and management process that is strictly complied with.

SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE

Social media has created informed consumers and customers who actively look to buy goods and services from socially responsible companies. Similarly, besides maximising profits for the shareholder, businesses must also operate in a way that benefits society and lessens the negative impact on the well-being of the community and the environment.

CBCF practices this in many ways, including engaging in activities that benefit society, promoting volunteerism, adhering to ethical labour practices, and charitable giving. In the year under review, we engaged in the following actions to fulfil our obligation to society:

- **Randiwala Maha Vidyalaya in Mawanella – ** we constructed the main gate, restored the school name board, renovated the drainage systems, painted the main buildings, and donated furniture.
- **Central Province – Denuwara Thismada Junior College in Menikdiwela –** we donated musical instruments to the school band, distributed exercise books to students, and provided a computer, a wireless microphone, and chairs.

Sustainability dictates that CBCF is here for good. We are here for the long-term interest of our parent and our stakeholder base, culminating in safeguarding the social license we have gained to be in business in the wider community we serve.

DIGITISATION FOR CONSERVATION

The Board papers to be tabled at Board meetings are submitted through the digital platform, as driven by BoardPac System. Continuous development is underway to introduce different digital platforms to reduce paper consumption. The e-Leave system is currently being developed and is targeted to be completed by the end of July 2023. Routine internal memos are managed through the digital system with the assistance of CBC Tech.

WATER THE LIFELINE

Although the Company's water consumption is limited to the daily needs of staff and sanitary requirements, its usage is well managed. Some of the measures we have taken are installing dual flushing water closets and installing water dispensers instead of water bottles for the drinking water requirements of staff members.

ACCOUNTABLE CONSTRUCTION

Social and Environmental requirements are given priority when designing branch buildings; LED lighting is mandatory, optimisation of air conditioning systems with inverters has been introduced to correct power fluctuations and environmentally friendly cement mixed fibre eltoro boards are used for partitioning. Ecological awareness is created among the staff through internal on-the-job training.

These efforts are a continuum that evolves with the changes needed to ensure CBCF remains an ethical corporate citizen while building value for a sustainable future.

Demonstrating our focus on developing IT infrastructure at Randiwela Maha Vidyalaya at Mawanella by donating a Desktop Computer servicing 05 computers at the school's IT Division.

Business Overview

The year under review stands apart from the past several years for spinning several unprecedented headwinds in rapid sequence. In addition, the light at the end of the pandemic tunnel was blighted by home-grown disruptions that are well documented under Operating Environment.

FORWARD AND UPWARD

It is pertinent, however, to briefly record the watershed event for the Company that took place in 2018. The Company was rebranded, giving it the impetus to change strategy and stride towards a new beginning. Calculated and well-crafted steps were taken through the past few years to grow and diversify the product portfolio, upgrade our systems, and offer a value-added service to our customers. We were on a path to expansion under our parent's strong and steady umbrella.
The Company saw a 100% growth in its advanced portfolio and asset base during the last five years.

THE ECONOMIC TSUNAMI AND EXTENDED MORATORIA

The journey, however, could have continued smoothly. Stepping back in history, we wish to recall that the Easter Attack of April 2019 triggered the first debt moratorium for the debtors in the tourism sector and thereafter, in 2020, CBSL mandated a further six-month debt moratorium to individuals and firms that were affected by the pandemic. Best laid plans of most companies, including ours, were up-ended by the events in 2022. Four more moratoria circulars were issued by CBSL, extending the flexibilities to December 2022. The Government's response to the acute forex crisis dictated a ban on luxury and some essential items, including vehicles. The Leasing business was significantly curtained, if not nose-dived. The sheer magnitude of the economic disruption caused havoc across the fragile economic fabric labouring under the Easter attack and a pandemic.

FACING THE GOLIATH WITH A NEW STRATEGY

As the year sprouted hitherto unforeseen events, our forward and upward growth trajectory changed gears to forward and uphill tasks. Agility in adapting to daily challenges was the order of the day. As new business opportunities dwindled, the Company focused on supporting the existing customers with business disruptions and personal financial emergencies. The eligible customers allowed the maximum advantage in debt moratoria, 67% of our total portfolio, gained a short-term resolution to their economic woes. Although it took much work for our recovery and marketing staff, we reduced the number to 9% of the total portfolio by the end of the year.

We rescheduled loans, fee waivers, and grace periods depending on their new cash flows to extend further support to the customers. This weighed heavily on Cluster Managers, Branch Managers and Marketing Officers, as they helped individual customers, assessing their needs and offering specific relief measures on a case-by-case basis.

Therefore, we anticipate an increase in the NLPs in impairment provisioning due to our customers' doubtful debt repayment capacities in the years to come.

MARKETING AND PROMOTIONS

CBCF, however moved ahead with its marketing and promotions, leaning heavily on direct marketing through personal contacts, resulting in a rapid growth in mortgage-based loans.

The Company partnered with Ideal Motors conducting promotions for the leasing business.

This prompted the Company to launch a branch-wise competition with digital advertising during the latter part of 2022 to grow the mortgage/leasing business. As a result, our efforts successfully garnered LKR 897 Mn. in leasing in the last quarter of 2022.

The Company partnered with several vehicle dealers across all clusters, conducting promotions for the leasing business. This was also seen as a brand-building and a customer networking effort when the dynamic industry had significantly reduced.

Revamping the whole approach towards sales and marketing, we created a Sales and Marketing Department headed by an industry specialist in both these areas. It is currently being resourced with competent salespersons who will receive comprehensive training in these disciplines to convert them to industry specialists who will remain for a lengthy journey with the Company.

Plans are already drawn to launch Gold Loans in 2023.

THE SOFT APPROACH TO RECOVERIES

The cumulative hardships adversely impacted our customers, as they did the general public in the country. In addition, recoveries and loan servicing took much work due to the errant behaviour of customer cash flows. CBCF, however, concentrated on retaining the customer and recognising their loyalty to the Company without breaching the trust and confidence they had placed in us. As a result, aggressive recovery efforts were shelved in the short term, as we adopted a supportive role towards them.

Willful defaulting, however, was swiftly acted upon through legal recoveries with the services of an experienced legal counsel.

ICT INNOVATION

The Company forged ahead with several new system implementations across businesses and functions, including credit administration. Investing in ICT is seen as an investment for the future, as we cannot deny the digital footprint that steadily increases, invading business and personal spaces. A detailed report on this can be found in the Intellectual Capital Chapter on page 32.

DEPOSIT PORTFOLIO

As at December 31, 2021		**As at December 31, 2022**	
Number of Customers	LKR'000	**Number of Customers**	**LKR'000**
7	40,257	**14**	**18,963**
16	35,825	**41**	**183,172**
20	45,763	**22**	**156,555**
324	4,167,271	**550**	**3,060,274**
79	406,888	**76**	**337,699**
10	39,485	**17**	**72,100**
2	2,888	**5**	**21,300**
6	66,238	**156**	**976,756**
464	4,804,614	**881**	**4,826,819**

BRANCHES GROWTH

As at December 31, 2021	**As at December 31, 2022**
Kandy	**Kandy**
Colombo	**Colombo**
Dambulla	**Dambulla**
Kaduruwela	**Polonnaruwa**
Anuradhapura	**Anuradhapura**
Embilipitiya	**Embilipitiya**
Kiribathgoda	**Kiribathgoda**
Kurunegala	**Kurunegala**
Matara	**Matara**
Negombo	**Negombo**
	Vavuniya
	Trincomalee
	Batticaloa
10	**13**

Opening of the Company's 12th branch in Vavuniya.

Business Overview

HEAD OFFICE

No. 187, Katugastota Road, Kandy.
Phone: +94 81 220 0272
+94 81 221 3495
+94 81 221 3496
+94 81 221 3498
Fax: +94 81 221 3497
Email: info@cbcfinance.lk

Anuradhapura branch

No. 488/8F, Maithreepala Senanayake Road, Anuradhapura.
Phone: +94 25 222 6070
Fax: +94 25 222 6073
Email: anuradhapura@cbcfinance.lk

Colombo branch

No. 200/01, Dr N M Perera Mawatha, Colombo 08.
Phone: +94 11 282 4426
Fax: +94 11 282 4229
Email: colombo@cbcfinance.lk

Dambulla branch

No. 679, Anuradhapura Road, Dambulla.
Phone: +94 66 228 4241
Fax: +94 66 228 3493
Email: dambulla@cbcfinance.lk

Embilipitiya branch

No. 83/A, New Town Road, Embilipitiya.
Phone: +94 47 226 1846
Fax: +94 47 226 1140
Email: embilipitiya@cbcfinance.lk

Kandy branch

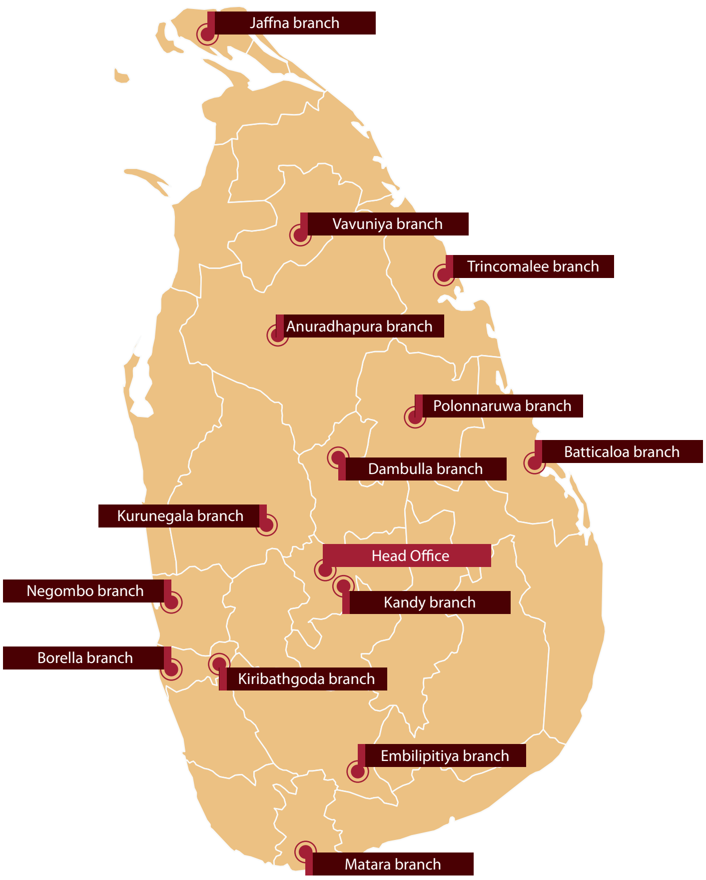
No. 182, Katugastota Road, Kandy.
Phone: +94 81 220 0273
Fax: +94 81 221 3966
Email: kandy@cbcfinance.lk

Kiribathgoda branch

No. 412/2/1, Kandy Road, Gala Junction, Kiribathgoda.
Phone: +94 11 292 6477
Fax: +94 11 292 6443
Email: kiribathgoda@cbcfinance.lk

Kurunegala branch

No. 233 A, Negombo Road, Kurunegala.
Phone: +94 37 205 6674
Fax: +94 37 205 6673
Email: kurunegala@cbcfinance.lk



Kiribathgoda branch

No. 412/2/1,
Kandy Road, Gala Junction,
Kiribathgoda.
Phone: +94 11 292 6477
Fax: +94 11 292 6443
Email: kiribathgoda@cbcfinance.lk

Kurunegala branch

No. 233 A, Negombo Road,
Kurunegala.
Phone: +94 37 205 6674
Fax: +94 37 205 6673
Email: kurunegala@cbcfinance.lk

Matara branch

No. 199, Anagarika Dharmapala Mawatha, Matara.
Phone: +94 41 222 2616
Fax: +94 41 222 2617
Email : matara@cbcfinance.lk

Negombo branch

No. 318/2/1, Colombo Road, Negombo.
Phone: +94 31 223 3931
Fax: +94 31 223 3932
Email: negombo@cbcfinance.lk

Batticaloa branch

No. 18, Bailey Road, Batticaloa.
Phone: +94 65 205 0213
Fax: +94 65 205 0208
Email: batticaloa@cbcfinance.lk

Trincomalee branch

No. 70, Main Street, Trincomalee.
Phone: +94 26 205 0721
Fax: +94 26 205 6741
Email: trincomalee@cbcfinance.lk

Vavuniya branch

No. 105, Kandy Road, Vavuniya.
Phone: +94 24 205 0033
Fax: +94 24 205 0034
Email: vavuniya@cbcfinance.lk

Jaffna branch*

No. 139, Stanley Road, Jaffna.
Phone: +94 21 205 0491
Fax: +94 21 205 0492
Email: jaffna@cbcfinance.lk

** Opened in March 2023*

OPERATIONAL MATRICES

Product	As at December 31, 2021				As at December 31, 2022			
	Performing Portfolio		Total Portfolio		Performing Portfolio		Total Portfolio	
	Number of Customers	LKR'000	Number of Customers	LKR'000	Number of Customers	LKR'000	Number of Customers	LKR'000
Hire Purchase	–	–	124	0	**–**	**–**	**122**	**–**
Lease	700	1,589,257	1,442	1,774,200	**671**	**1,906,397**	**1,392**	**2,131,079**
Mortgage Loan	236	4,474,742	354	5,190,402	**198**	**3,595,230**	**334**	**4,457,177**
Other Loans	306	2,550,263	851	2,952,279	**414**	**2,549,492**	**963**	**3,109,059**
Total	1,242	8,614,262	2,771	9,916,881	**1,283**	**8,051,119**	**2,811**	**9,697,315**

Tax paid (cash basis) for the period ended December 31

Tax Type	2022	9 M – 2021
Income tax	**67,665,463**	41,414,106
VAT on Financial Services	**44,118,985**	13,750,925
NITF Crop Levy	**671,005**	535,371
Stamp Duty	**14,755,180**	2,585,500
PAYE	**719,206**	813,593
Social Security Contribution Levy – SSCL	**736,096**	–
Surcharge Tax	**110,313,377**	–
	238,979,311	59,099,495

Adapting to customer needs in a severely challenged macro-economy was the priority in 2022. Adapting suitable strategies to fit the current circumstances, supported by visionary leadership and dedicated human capital, resulted in CBCF emerging stronger through the year under review. In a slower pace of business, we were able to upgrade our systems, strengthen our network, and upskill our employees significantly.

OUR STEWARDSHIP

Board of Directors' Profiles

Mr Dharma Dheerasinghe

Chairman

(Relinquished office in December 2022)

Mr Dheerasinghe was appointed as a Non-Independent, Non-Executive Director and also as the Chairman of the Board of Directors in September 2014. An eminent Economist with a distinguished career of over 46 years in the Banking and Finance Industry, he has published widely and presented papers on many aspects of Economics including Debt Capital Markets and Financial Globalisation in Sri Lanka and overseas. He holds a BCom and a BPhil (Econ) with First Class Honours from the University of Colombo and an MA (Econ) from the University of Leeds, UK. Mr Dheerasinghe is a Honorary Fellow of the Institute of Bankers of Sri Lanka and Honorary ACI Diploma holder. He is a member of The Sri Lanka Institute of Directors since December 2015.

Mr Dheerasinghe started off as an Assistant Director, Bank Supervision at the Central Bank of Sri Lanka and retired as a Senior Deputy Governor of the Central Bank of Sri Lanka. He was also the Chairman of the Monetary Policy Committee and of the Sovereign Ratings Committee. Mr Dheerasinghe's previous appointments include Secretary to the Monetary Board, Alternate Executive Director for Bangladesh, Bhutan, India, and Sri Lanka at the International Monetary Fund. Chairman, Bartleet Finance PLC, Director, Fitch Ratings Lanka Limited, Council Member, University of Sri Jayewardenepura, Chairman, Commex S. R. L. (Italy), Chairman, Skills Development Fund Limited and Commissioner, Local Loans and Development Fund.

Mr Dheerasinghe joined the Board of Directors of Commercial Bank of Ceylon PLC in 2011 and retired as the Chairman on December 19, 2020. Mr Dheerasinghe continues as Chairman of CBC Myanmar Micro Finance Company Ltd., a fully owned subsidiary of Commercial Bank of Ceylon PLC.

Mr Dheerasinghe has been re-designated as an Independent, Non-Executive Director of the Board of Directors of CBC Finance Ltd. with effect from March 08, 2022, after a one-year cooling off period since he retired from the parent company on December 19, 2020. The Central Bank of Sri Lanka granted approval on December 01, 2021, for our Chairman Mr K G D D Dheerasinghe to continue in office as the Chairman and an Independent, Non-Executive Director of the Board of Directors of CBC Finance Ltd for a one-year period after reaching the age of 70 years on January 01, 2022. Accordingly, the Chairman was officially assented to continue in office as the Chairman/Independent, Non-Executive Director of the Board of Directors of CBCF until December 31, 2022 and after another year of great service his tenure ended successfully on December 31, 2022.

Board of Directors' Profiles

Mr Sharhan Muhseen

Chairman

Appointed as a Non-Independent, Non-Executive Director in September 2022 and as the Chairman in March 2023. Appointed as the Chairman of the Board Information and Technology Committee in October 2022 and the Board Human Resources and Remuneration Committee in February 2023. Mr Muhseen holds a Master of Arts degree in Economics from the University of Colombo, a Bachelor of Business Administration (Hons) from Western Michigan University, and completed the Corporate Finance training programme with JP Morgan in New York.

He has been the Deputy Chairman of the Board of Directors of the Commercial Bank of Ceylon PLC since March 01, 2022, Chairman/ Director of Platinum Advisors Pte Ltd., Non-Independent Director, H2O One Pte Ltd., Director of Canary Wharf Holdings Pte Ltd., Independent, Non-Executive Director, Amana Takaful Life PLC, David Pieris Holdings (Pvt) Ltd, Director, Lankan Angel Network, Gestetner of Ceylon PLC and PCCW Limited.

Mr Muhseen is a Senior Investment Banker with extensive experience in Mergers and Acquisitions, Corporate Finance and Capital Markets who has served in a senior capacity working with company boards and senior leadership teams of financial institutions across Asia to help drive their Strategic Corporate Agenda and Roadmap.

He is credited with some leading research reports, including reports on Banking sector efficiency, currency depreciation and budget deficit in his role as Head of Sri Lanka Banking sector research coverage and lead Economist at Jardine Flemming. He has also worked at Standard Chartered Bank in the Corporate Banking Division, where he started as a Management Trainee and at Rodman and Renshaw stock and commodities broker based in Chicago.

In his Investment Banking career spanning over 20 years, he has completed landmark mergers and capital-raising transactions above USD 100 Bn.

The Asia FIG sectors team at Merrill Lynch and Credit Suisse has won the "FIG Asia House of the Year" awards from the Asset magazine for several years under his leadership. In addition, multiple transactions he led have been awarded as best country deals and best financial sector capital raise transactions.

He also has experience at the policy level working as a Team Leader at the National Council for Economic Development (NCED) under the Ministry of Finance as well as a Director at the Task Force to Rebuild the Nation (TAFREN), Presidential Task Force for rebuilding the economy after the 2004 Tsunami.

Board of Directors' Profiles

Dr (Ms) Janaki Kuruppu

Independent, Non-Executive Senior Director
(Resigned in January 2023)

Dr (Ms) Kuruppu holds a PhD from the University of Colombo, an M.A. in Statistics and a BSc in Mathematics from the University of Missouri, USA. She was appointed to the Board of Directors in September, 2014, Dr (Ms) Kuruppu brings with her almost 31 years of professional experience in a variety of industries including banking. Her specific experience in banking includes being the first Chairperson of the Regional Development Bank which she set up in 2010 by merging six provincial level banks with over 250 branches, and her experience as a member of the Steering Committee of AgriFin, a joint project of Bill and Melinda Gates Foundation and the World Bank for agriculture financing. She was also a former Director and the first female on the Board of Commercial Bank of Ceylon PLC and a Director of Sarvodaya Development Finance PLC for 07 years until March 31, 2022.

Starting her career of over 25 years as an entrepreneur when she started a market research company that later became Nielsen Lanka and an illustrious career in the private sector, she also served the public sector in an advisory capacity. Dr (Ms) Kuruppu was also an Adviser to the Government of Sri Lanka on Food Security and Cost of Living Management, a Director of the Presidential Secretariat, Director of the Co-operative Wholesale Establishment, Colombo Dockyard PLC and subsidiaries of the Cargills Group. Currently she is spearheading Mother Sri Lanka Trust, as its Chairperson, which is a non-profit organisation founded by her in 2008, while sitting on other corporate boards.

Dr (Ms) Kuruppu resigned from her service as the Senior Director of CBCF on January 31, 2023, after providing a respectable service to our Board for over 08 consecutive years.

Mr Raja Senanayake

Non-Independent, Non-Executive Director
(Resigned in June 2022)

Appointed to the Board in October 2014, Mr Senanayake is a Non-Independent, Non-Executive Director. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and also holds a B.Com. (Special) Degree from the University of Sri Jayewardenepura. Mr Senanayake counts over 31 years of financial experience which includes Ernst and Young as an Assistant Audit Manager, Singer Industries (Ceylon) PLC as the Financial Accountant, Commercial Bank of Ceylon PLC as the Assistant General Manager (Finance and Planning), Nations Trust Bank PLC as the Chief Financial Officer and Smart Media (Pvt.) Ltd. as the Head of Process Development.
Mr Senanayake also serves as an Independent, Non-Executive Director of Commercial Bank of Ceylon PLC and Senkadagala Finance PLC.

Mr Senanayake became a Non-Independent, Non-Executive Director of the Board of Directors of CBC Finance Ltd. with effect from April 09, 2021 after his appointment to the Board of Directors of Commercial Bank of Ceylon PLC.

To comply with the regulation concerning Common Directorships stipulated in section 3.10 of the Finance Business Act Direction No. 05 of 2021– Corporate Governance, Mr Raja Senanayake resigned from the Board of Directors of CBCF with effect from June 30, 2022 after nearly 08 years of valuable service.

Board of Directors' Profiles

Mr Sarath Jayasuriya

Independent, Non-Executive Director

Appointed to the Board in December 2017, Mr Jayasuriya is an Independent Non-Executive Director. An Associate Member of the Institute of Bankers of Sri Lanka (AIB), a Fellow Member of the Chartered Institute of Management Accountants (FCMA) (UK), a Member of the Chartered Global Management Accountants (CGMA) (UK) and also a Member of the Institute Chartered Shipbrokers (MICS) (UK). Mr Jayasuriya holds a Bachelor of Science Degree from the University of Sri Jayewardenepura and counts over 31 years of experience in Banking, specialised in Treasury, Investment Banking and International Banking. Prior to his retirement from the Bank of Ceylon, he held positions such as the Deputy General Manager (International, Treasury & Investment Banking) and Deputy General Manager (Finance and Planning). He has served as a Director & Audit Committee Chairman of the BOC Property Development Ltd. (PDL) and Director of Transnational Lanka Records Solutions (Private) Ltd., Ceybank Asset Management Ltd. and MBSL Insurance Co Ltd.

In addition, he was an Alternative Director for BOC Property Development and Management (Pvt) Ltd. and Credit Information Bureau of Sri Lanka (CRIB).

He was the Chairman of the Investment Committee of the Bank of Ceylon, Bank Pension Fund, Provident Fund and W&OP Fund. In addition, he has served as a member of the Standing Cabinet Appointed Procurement Committee (SCAPC) which is the body approving all tenders for procurement of petroleum and petroleum related products for Ministry of Petroleum Industry.

Mr Jayasuriya became the Chairman of the Board Audit Committee of CBCF on July 01, 2022 and currently precedes the Board Integrated Risk Management Committee after he was appointed as the Senior Director of the Board of Directors of CBCF on March 03, 2023.

Mr Dimuthu Senerath Bandara

Independent, Non-Executive Director

Appointed to the Board in December 2017, Mr Bandara is an Independent Non-Executive Director. He is a Senior Attorney at Law having enrolled in the profession in December 1996, and counts over 25 years as a Law Practitioner in the Private Bar. His practice spans over both original and appellate court work. He is a Counsel and a Resource Person in the fields of Criminal Law and Laws relating to Finance Leasing and Hire Purchase. He formerly served as the Chairman of the Criminal Law Committee of the Bar Association of Sri Lanka, and presently serves as its Deputy Chairman. He is also a visiting lecturer for the post graduate program at the Kothalawala Defense University. Mr. Bandara holds a Bachelor of Arts Degree from the University of Kelaniya and a Masters of Laws degree from the University of Staffordshire, UK.

Board of Directors' Profiles

Mr Hasrath Munasinghe

Non-Independent, Non-Executive Director

Appointed to the Board in September 2020, Mr Munasinghe is a Non-Independent, Non-Executive Director. He currently serves as the Deputy General Manager – Retail Banking and Marketing of Commercial Bank of Ceylon PLC. He also serves as a Trustee of the Commercial Bank CSR Trust. He oversees the Marketing function, Retail Deposit and Loan products, Cards business, Global Remittances and Sustainability, CSR and women's Banking at the Bank. He is also a Board Director of Sri Lanka Business and Biodiversity Platform of Ceylon Chamber of Commerce.

Mr Munasinghe possesses 29 years of experience including 12 years in Banking. He is a recipient of multiple awards, the most coveted being one of the "Ten Outstanding Young Persons in Sri Lanka" in 2013. He was listed amongst the "100 Most Talented Global Marketing Leaders" by Chief Marketing Officers, Asia Council in 2014 and listed in the "New Establishment 100", the top new generation business leaders in Sri Lanka by the Echelon Magazine in 2019.

Mr Munasinghe possesses fifteen academic and professional qualifications including an MSc in IT from the University of Moratuwa and an MBA from the University of Southern Queensland, Australia. He is a Fellow of the Chartered Institute of Marketing (CIM) UK, a Fellow of the Sri Lanka Institute of Marketing (SLIM), a Fellow of the Institute of Bankers (FIB) Sri Lanka, a Fellow of Charted Management Institute (CMI) UK and an Associate Chartered Management Accountant (ACMA) and Chartered Global Management Accountant (CGMA) from Chartered Institute of Management Accountants (CIMA) UK.

Mr M P Dharmasiri

Non-Independent, Non-Executive Director

Appointed to the Board in September 2022, Mr Dharmasiri is an Associate Member of the Institute of Bankers of Sri Lanka (AIB), an Associate Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Institute of Certified Management Accountants of Sri Lanka.

In addition, Mr Dharmasiri holds a Master of Science in Management and a Bachelor of Science in Business Administration from the University of Sri Jayewardenepura and a Master of Arts in Financial Economics from the University of Colombo and counts over 33 years of experience in Banking.

Mr Dharmasiri joined the Commercial Bank of Ceylon PLC in March 1990 and currently serves as the Assistant General Manager – Planning, actively participating in the Strategic Planning process of the Commercial Bank. Apart from these, Mr Dharmasiri holds the Company Secretary position of CBC Tech Solutions Ltd., one of our sister companies under the Commercial Bank Group.

Board of Directors' Profiles

Mr Upul Dissanayake

Managing Director/Chief Executive Officer

Mr Dissanayake has been the Managing Director of CBCF since August 2018 and currently serves as a Chief Manager in Commercial Bank of Ceylon PLC. He is a Senior Banker by profession and counts over 29 years of experience at Commercial Bank of Ceylon PLC, holding several positions as a Senior Manager and Regional Manager, before being seconded to the Company.

He holds a Masters' Degree in Applied Finance from the University of Sri Jayawardanapura and is a member of the Institute of Directors of Sri Lanka. Mr Dissanayake became a CCC Certified Coach in 2021.

Ms Oshadi Gunasekara

Company Secretary

Appointed as the Company Secretary in September 2020. Mrs Gunasekara earned her Law Degree from Sri Lanka Law College in 2013. She is well-versed on the subjects of Commercial and Intellectual Property Law being a Junior to Dr Harsha Cabraal, President's Counsel who tutored her on the nuances of the legal profession. During the initial three years of her career Mrs Gunasekara has engaged in private practice and later served as an Associate Lawyer of M/S Paul Ratnayeke Associates where she engaged in legal affairs focusing on complex Civil Law and White-collar crimes both locally and internationally since 2016 until she joined CBCF in 2019 as the Senior Manager – Legal.

Corporate Management

Mr Upul Dissanayake
Managing Director and Chief Executive Officer

MSc in Applied Finance (University of Sri Jayewardenepura, SL)/ Member of Sri Lanka Institute of Directors 29 years in Banking and Finance.

Mr Krishantha Perera
Chief Operating Officer

MBA (University of Suffolk, UK)/MAAT/ACPM/ LICA 20 years in NBFI Sector of which 13 years in Maldives NBFI Sector.

Mr Suhad Pannila
Head of HR and Operations
(Resigned in May 2023)

MBA in Finance (University of Colombo, SL) BSc (University of Peradeniya, SL) 25 years in Banking and Finance.

Mr Harsha Samarasekara
Head of Credit and Branch Administration

B.B. Mgt. (Accountancy) Special (University of Kelaniya, SL)/AIB (SL) 17 years in Banking and Finance.

Mr Mahasen Kamathewatte
Compliance Officer

MSc in Computer Science (University of Peradeniya, SL) Postgraduate Diploma in IT (University of Peradeniya, SL) BSc (Special) (Hons) in IT (SLIIT) 18 years of experience including 10 years in NBFI Sector.

Mr Rukmal Kaldera
Chief Risk Officer

MBA (London Metropolitan University – UK), B.B (University of Southern Queensland – Australia), Diploma in Banking and Finance (DBF) – (IBSL), Financial Risk Management-part 01 – (Global Association of Risk Management), an Associate Chartered Management Accountant (ACMA) and Chartered Global Management Accountant (CGMA) from Chartered Institute of Management Accountants (CIMA) UK, Member of the Chartered Institute for Securities and Investment (MCSI) UK, 16 years in Banking and Finance.

Senior Management

Mrs Yashikala Nawagamuwa
Head of Legal

Mr Namal Cooray
Head of Sales and Marketing

Mr Amila Bandara
Head of Finance

Mr. Nuwan Sardarathne
Senior Manager Finance

Mr Danushka Ariyarathne
Senior Manager Recoveries

Mr Chathuranga Suraweera
Senior Manager Information Technology

Mr Romesh Christy
Senior Manager Gold Loan

Mr Iroshana Anushyan
Cluster Manager
Central Cluster

Mr Pradeep Rangana
Cluster Manager
North-Central Cluster

Mr Selvanayagam Bahitharan
Cluster Sales Manager
North – East Cluster

Mr Hashan Priyadarshana
Cluster Sales Manager
Colombo Cluster

Mr Nirmal Jayalath
Cluster Sales Manager
Central Cluster

Mr Ravindu Peiris
Cluster Manager
Colombo Cluster
(Resigned in January 2023)

Mr Prasad Baduwatta
Cluster Manager
Colombo Cluster
(Resigned in September 2022)

Corporate Governance

CBC Finance Ltd (CBCF) continued to maintain high standards of governance and ethical business conduct across all aspects of its operations and decision-making processes for 12 months from January 01, 2022 to December 31, 2022 under review. The Board of Directors bears ultimate responsibility for the affairs of the Company and has established an appropriate governance structure to facilitate the discharge of its duties. The Board subcommittees assist the Board in its oversight functions in specialised areas or areas requiring significant attention. Accordingly, the Board Audit Committee and the Board Integrated Risk Management Committee have been appointed in line with the business requirements and compliance with the regulatory requirements. The other committees of the Board have been appointed in line with the Company's business needs. Executing good Corporate Governance practices is essential to ensure a sustainable business, create value for its shareholder, and maintain a healthy relationship between shareholder and the Management.

OUR COMMITMENT AND APPROACH

The Board of Directors of CBC Finance Ltd. (the Company) believes in good governance. Therefore, the policy and strategic framework that moves the Company towards stability and growth has ensured that environmental and social responsibilities in analysing risks, discovering opportunities and allocating capital in the best interests of its shareholder and the wider stakeholder community are effectively integrated.

On the other hand, the finance business sector is highly regulated. The tools used by the regulators are stringent and diverse. Therefore, the continued commitment towards best Corporate Governance practices by the Company with timely improvements is essential.

Accordingly, the Company mainly emphasised the following aspects in assuring good governance during 12 months from January 01, 2022 to December 31, 2022 under review.

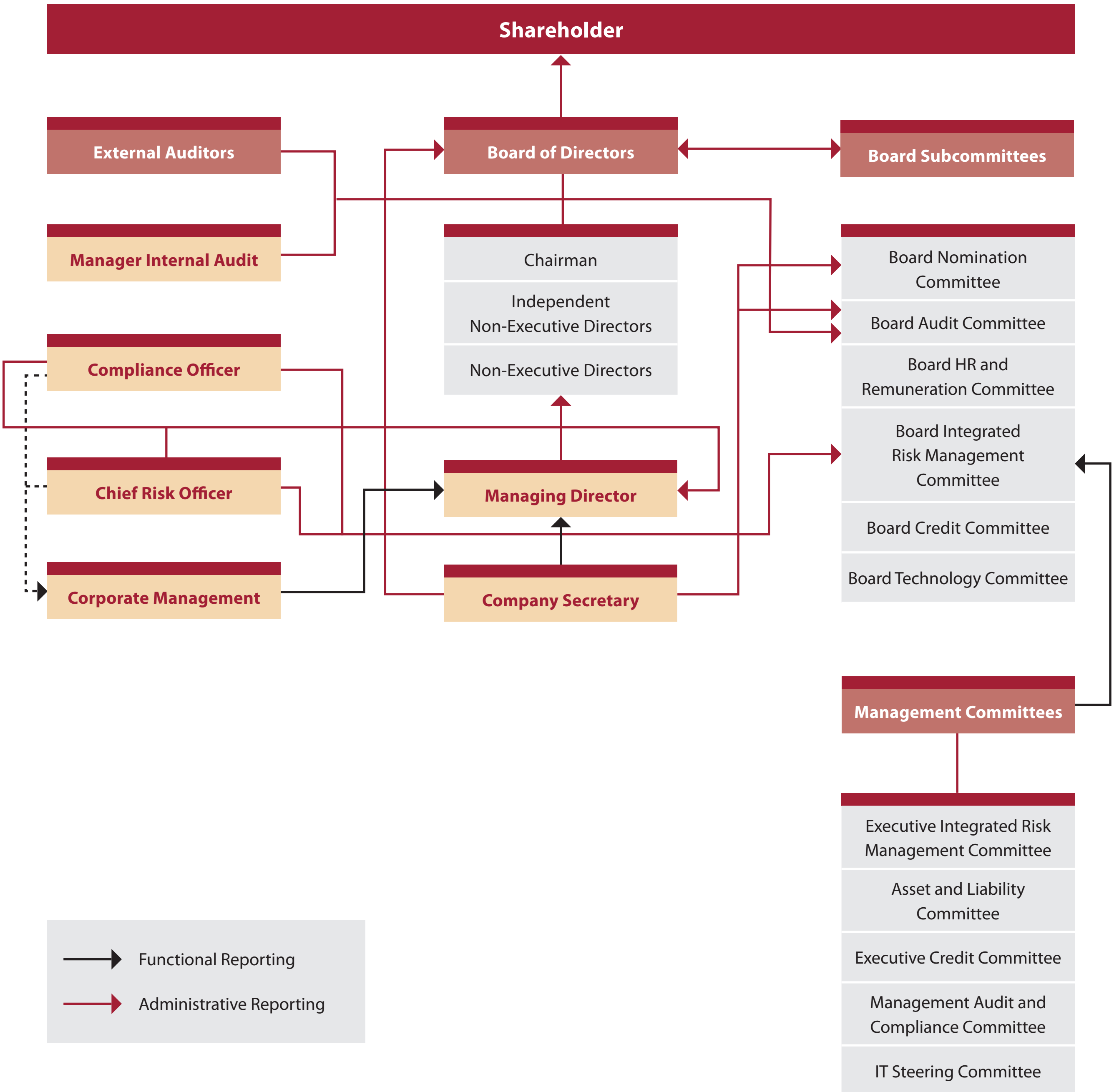
- In adherence to the highest standards of Corporate Governance, the Company applied the following directions issued by the Central Bank of Sri Lanka (CBSL) under the Finance Business Act No. 42 of 2011. Accordingly, the level of compliance with the said Direction is presented below in this report.
  - Finance Companies (Corporate Governance) Direction No. 05 of 2021.
  - Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions – Amendment) Direction No. 06 of 2021.
- The Company's Corporate Governance principles are set in accordance with the Code of best practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (SLCA). The Company has pursued most of these principles to ensure greater transparency, compliance, business integrity, and professionalism towards good Corporate Governance practices.
- The Company believes that good ethical behaviour reflects robust Corporate Governance practices. Accordingly, it has drafted its internal policies and procedures to ensure the same.
- Information Technology (IT) Governance is a subset of Corporate Governance focused on Information Technology Systems and their performance and risk management. This is facilitated by ensuring compliance with the Finance Companies (Information Systems Security Policy) Direction No. 04 of 2012. In addition, IT governance is subject to administration by Information Technology Steering Committee (ITSC) and Board Information Technology and Security Committee (BITSC).
- Effective Risk Management reflects solid Corporate Governance practices. Establishing a risk governance structure encourages effective risk management, accountability and proper internal controls. The risk governance structure and risk management are discussed in detail on page 89 of this Annual Report.
- Establishing the compliance function is a crucial initiative to ensure Key Management Personnel's compliance with the regulatory directions, statutes, and internal policies and procedures.
- Ensuring that Corporate Governance principles are effectively adhered to is part of the Company's overall business plan.

GOVERNANCE STRUCTURE

The governance structure of CBCF ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board subcommittees and management with well-defined roles and responsibilities, accountability and clear reporting lines.

In this regard, the Company has promulgated a comprehensive set of policies in the area of Corporate Governance which provides a framework to guide the activities of its Board of Directors, the Chief Executive Officer (CEO), the Corporate Management Team, and the Senior Management Team, other levels of the Management and rest of the employees. The Company's governance structure demonstrates the distinction of the functions between the Board and the Management while at the same time fostering accountability and effective coordination.

CBC FINANCE LIMITED GOVERNANCE STRUCTURE



Corporate Governance

INSTRUMENTS OF GOVERNANCE

The Corporate Governance framework of CBCF, encompassing external and internal governance instruments, enables the Board to assure investors that they have discharged their duties responsibly. The Board of Directors of CBCF and staff at all levels consider it their duty and responsibility to act in the Company's best interests. The underlying values have contributed to building unhesitating trust among the stakeholders in the Company and its products and services.

Major external regulations addressing Corporate Governance	Major internal regulations
• Companies Act No. 07 of 2007 (as amended) • Finance Business Act No. 42 of 2011 • Finance Companies (Corporate Governance) Direction No. 05 of 2021. • Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions – Amendment) Direction No. 06 of 2021	• Articles of Association of the Company • Internal procedure manuals • Integrated risk management procedure • Processes for internal controls • Company's Code of Ethics • Whistle-blowing Policy

BOARD OF DIRECTORS

The Board is responsible for the Company's stewardship and comprises nine (9) members as of the financial year under review. The Directors ensure good governance at the Board level and below based on sound principles that provide the framework for conducting the business.

The Board members consist of persons with multiple industrial/professional backgrounds in which they have achieved eminence, which contribute effectively to decisions made by the Board to guide CBCF towards achieving its objectives. Following best practices, the offices of the Chairman and the Chief Executive Officer are separate, and the Chairman is a Non-Executive Director. This ensures a balance of power and enhances accountability. In addition, to bring in a more significant element of independence, the Board appointed Dr (Ms) J P Kuruppu as the Senior Independent Director.

The appointment of Directors is subject to evaluation of the Board's skills, qualifications, and expertise with the recommendation of the Board Nomination Committee, approval of the shareholder and the Central Bank approval. Resolutions on new appointments/ reappointments are communicated to the shareholder through the "Notice of the Annual General Meeting."

SKILLS AND PERFORMANCE OF THE BOARD

The updating of the skills and knowledge of all Directors is achieved by updates on proposed/new regulations, industry best practices, market trends, and changes in the macro-environment. It is also facilitated by providing them access to External and Internal Auditors, access to other external professional advisory services and the Company Secretaries, keeping them fully briefed on essential developments in the Company's business activities and by periodic reports on performance and opportunities to meet the Senior Management.

As required by the Finance Companies Corporate Governance Direction, CBCF has established a well-defined self-evaluation mechanism undertaken by each Director annually to evaluate the performance of the Board. These evaluations are subsequently tabled at a Board meeting for review and to address areas that require improvement. In addition, the Company Secretaries maintain related records.

ENGAGEMENT WITH SHAREHOLDER

The shareholder of CBCF have multiple ways of engaging with the Board: the Annual General Meetings, which are the main forum at which the Board maintains effective communication with its shareholder on matters which are relevant and of concern to the general membership, such as the performance and their return on investment of CBCF; access to the Board and the Company Secretary; written correspondence from the Company Secretary to inform shareholder of relevant matters; the website of CBCF which is accessible by all stakeholders and the general public; and disclosures disseminated through interim reporting.

ENGAGEMENT WITH EMPLOYEES

CBCF recognises that employee involvement is a critical prerequisite towards ensuring the effectiveness of the Corporate Governance system and therefore attaches great importance to employee communications and awareness of critical events and significant developments. The necessity of sincere and regular communication in gaining employee commitment to organisational goals and values is stressed extensively and intensively through various communiques issued periodically by the Directors.

In terms of engaging with the employees, the key channels used by the Board include the Executive Director/CEO, who is an employee Director and the main link between the Board and the rest of the employees; and the Board members and Board subcommittees who conduct effective dialogue with the members of the Management on matters of strategic direction. In addition, the Board-approved Whistle-blower Policy has ensured that all employees are empowered to reach the higher authorities to maintain good governance across all levels of the operation.

AVOIDING CONFLICTS OF INTEREST

The governance structure at CBCF ensures that the Directors take all necessary steps to avoid conflicts of interest in their activities and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at Board meetings, where Independent Directors with no material interest in the transaction are present.

EXTERNAL AUDIT

Messrs KPMG, Chartered Accountants were reappointed as the Company's External Auditors by the shareholder at the Annual General Meeting held in June 2022.

Their services were also engaged in seeking:

a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 05 of 2021 issued by the Monetary Board; and

b) the Company's level of adherence to the internal controls on financial reporting.

The effectiveness of the internal control mechanism of the Company is certified by the Company's External Auditors.

INTERNAL AUDIT

CBCF's internal audit function, which focuses on providing independent risk-based oversight to the Board Audit Committee on the processes and controls within the Company and level of compliance with laws and regulations, plays a vital role in the Company's governance structure. The internal audit function is responsible for independent, objective assurance of internal control mechanisms to systematically evaluate and propose improvements for more effective internal control processes and governance. The internal audit also carries out independent reviews of compliance with risk policies and procedures to ensure the effectiveness of risk management procedures at CBCF. The internal audit reports to the Board through the Board Audit Committee.

INTERNAL CONTROL MECHANISMS

In compliance with the Finance Companies (Corporate Governance) Direction No. 05 of 2021 (as amended), the Board provided a report on the Company's internal control mechanism. This report confirms that the financial reporting system had been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements had been done following relevant accounting principles and regulatory requirements.

Further, the External Auditors' certification of the effectiveness of such internal control mechanisms on financial reporting has also been obtained.

BOARD MEETINGS

Meetings of the Board are held at monthly intervals enabling the Board to keep a closer tab on Company operations for effective Direction. Before meetings, the monthly management accounts with the management report containing key statistics are circulated to all members. In addition, the Company Secretary provides two days of prior notice to the Directors, enabling them to be prepared for the meetings.

Directors can incorporate essential matters and their proposals into the agenda. The Board discharges its obligations by mainly overseeing and directing the Company in both the short term and the longer horizon by looking into various matters that range from strategy setting to policy making and issuing out Board decisions to the Corporate Management for their implementation and compliance. The meetings also involve the approval of Board papers, circulars, and, the Board's recommendations concerning voting at General Meetings.

Board meetings held during the 12 months from January 01, 2022 to December 31, 2022, together with Directors' attendance at meetings, are illustrated below:

Name of member	Directorship status	Number of meetings	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Independent Non-Executive Director/ Chairman (Appointed w.e.f. September 02, 2014)	12	12
Dr (Ms) J P Kuruppu	Independent Non-Executive Director/ Designated as Senior Director (Appointed w.e.f. September 02, 2014)	12	12
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 21, 2014 and resigned on June 30, 2022)	06	06
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M U N Dissanayake	Managing Director/Executive Director (Appointed w.e.f. August 16, 2018)	12	12
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 16, 2020)	12	12
Mr S Muhseen	Non-Independent Non-Executive Director (Appointed w.e.f. September 01, 2022)	04	04
Mr M P Dharmasiri	Non-Independent Non-Executive Director (Appointed w.e.f. September 01, 2022)	04	04

THE RELATIONSHIPS AMONGST THE BOARD OF DIRECTORS

The Board consists of nine Directors. The relationships among the Board members are noted as follows.

1. The Company is a fully owned subsidiary of Commercial Bank of Ceylon PLC.
2. Mr K G D D Dheerasinghe, who is the Chairman of the Company.
3. Dr (Ms) J P Kuruppu is the Senior Directress of the Company.
4. Mr Raja Senanayake, a Non-Executive Director of the Company, is also an Independent, Non-Executive Director of Commercial Bank of Ceylon PLC since September 16, 2020.
5. Mr S M S C Jayasuriya, a Non-Executive Non-Independent Director of the Company.
6. Mr D M D S S Bandara, a Non-Executive Non-Independent Director of the Company.
7. Mr D M U N Dissanayake, the Managing Director/Chief Executive Officer (CEO), is also an employee of Commercial Bank of Ceylon PLC.
8. Mr L H Munasinghe, a Non-Executive Director of the Company, is also an employee of Commercial Bank of Ceylon PLC.
9. Mr S Muhseen, a Company's Non-Executive Director, is also an Independent, Non-Executive Director of Commercial Bank of Ceylon PLC and currently holds the position of Deputy Chairman
10. Mr M P Dharmasiri, a Non-Executive Director of the Company, is also an employee of Commercial Bank of Ceylon PLC.
11. Accordingly, all transactions bearing on these relationships are disclosed more fully in Note No. 41 to the Financial Statements.

The Chairman, the CEO or other members of the Board do not have any financial, family or other material relationships among themselves.

SUBCOMMITTEES OF THE BOARD

For effective governance, the Board has delegated authority to several subcommittees with a structure of having a minimum of three Directors in a committee, headed by a Director who fits the purpose of the Committee. The Board has considered each member's experience and expertise level when selecting them for these Committees.

The required delegated authority has been entrusted to the Management by the Board to effect policies and other strategic decisions to meet the objectives of the Company. The Management exercises its control within the framework stipulated by the Board. This is supported by Management's ethical, professional and statutory standards.

THE BOARD AUDIT COMMITTEE

The Audit Committee oversees various matters, as explained in section 10 (2) of the Finance Companies (Corporate Governance) Direction No. 05 of 2021. The Committee also invites Internal Auditors to elaborate and discuss matters raised in their periodic reviews. The Committee further meets with External Auditors to obtain their feedback on their annual review.

Audit Committee meetings held during the 12 months from January 01, 2022 to December 31, 2022, together with attendance of its members shown below:

Name of member	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr Raja Senanayake	Chairman of the Committee – Non-Independent Non-Executive Director (Appointed w.e.f. October 21, 2014 and resigned on June 30, 2022)	05	05
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	11	11
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	11	09
Mr M P Dharmasiri	Non-Independent Non-Executive Director (Appointed w.e.f. September 01, 2022)	03	03

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

An Independent Non-Executive Director chairs the Committee which comprises five other Board members. The Committee broadly focuses on avoiding or mitigating risks inherent to financial institutions. Accordingly, risks primarily related to interest rate, credit, operational, and liquidity feature predominantly in its deliberations.

The Committee's role entails assessing overall risk to the institution in the described core risk categories. To overcome such risk, Committee reviews the risk management policies and oversees the effectiveness of the Management's risk handling process.

Committee meetings held during the 12 months from January 01, 2022 to December 31, 2022 and its members attendance are given below:

Name of member	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Chairman of the Committee Independent Non-Executive Director (Appointed w.e.f. September 01, 2014)	12	12
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 21, 2014)	06	05
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M U N Dissanayake	Non-Independent Executive Director (Appointed w.e.f. August 16, 2018)	12	12
Mr M P Dharmasiri	Non-Independent Non-Executive Director (Appointed w.e.f. September 01, 2022)	03	03

BOARD CREDIT COMMITTEE

An Independent Non-Executive Director chairs the Committee and comprises two other Board members. The Committee broadly focuses on credit risk management and approval of high-value credit facilities.

Committee meetings held during the 12 months from January 01, 2022 to December 31, 2022 and its members attendance are given below:

Name of member	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Chairman of the Committee-Independent Non-Executive Director (Appointed w.e.f. September 01, 2014)	12	12
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. September 30, 2019)	12	12
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	12	12

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Committee is chaired by an Independent Non-Executive Director who is also the Senior Director and comprises two other Board members. The Committee broadly focuses on strategic issues about the Company's human resources and remuneration matters, along with approval and recommendation of remuneration payments and corporate and senior-level management personnel appointments.

Committee meetings held during the 12 months from January 01, 2022 to December 31, 2022 and its members attendance are given below:

Name of member	Designation and status	Number of meetings	
		Eligible to attend	Attended
Dr (Ms) J P Kuruppu	Chairperson of the Committee Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 02, 2014)	03	03
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	03	03
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	03	03

BOARD INFORMATION TECHNOLOGY COMMITTEE

The Committee is chaired by a Non-Independent, Non-Executive Director and comprises three other Board members, including the Executive Director. The Committee broadly focuses on integrating technology risk into risk management, facilitating the adoption of new technology whilst establishing a governance structure, responsibilities, and control measures for information technology.

Name of member	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr L H Munasinghe	Chairman of the Committee Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2021)	03	03
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2021 and resigned on June 30, 2022)	01	01
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. October 29, 2021)	03	03
Mr D M U N Dissanayake	Non-Independent Executive Director (Appointed w.e.f. October 29, 2021)	03	03
Mr S Muhseen	Non-Independent Non-Executive Director (Appointed w.e.f. September 01, 2022)	01	01

COMPLIANCE FUNCTION OF THE COMPANY:

The BIRMC has established a Compliance Function to assess the Company's Compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies in all areas of business operations. A dedicated Compliance Officer selected from crucial management personnel performs the compliance function and reports to the Committee periodically.

The Chief Financial Officer, Chief Risk Officer and Compliance Officer handles the risk management and executive-level matters related to compliance. The relevant parts to cover all business areas are delegated to the Key Management Personnel of each area to ensure compliance requirements are met.

The Internal Audit Manager assesses the Company's Compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies in all areas of business operations.

COMPLIANCE STRATEGY ON CORPORATE GOVERNANCE:

The Company is a subsidiary of a prestigious Group in the Financial Services Industry. Accordingly, it needs to co-exist with the reputation of the prestigious parent. Therefore, Corporate Governance and Compliance are essential core elements of the Company's operations to keep its reputation and are a concept going beyond matters of just regulatory importance.

The Company views the compliance strategy as a strategic value-addition tool. It enables enhanced risk management directed towards sustainable lending business, resulting in better opportunities for consolidation and growth, which has to be aligned with the overall business strategy.

The primary compliance criteria the Company has subscribed to so far is set as per the Finance Companies (Corporate Governance) Direction No. 05 of 2021 of the Central Bank of Sri Lanka.

REPORT ON THE EXTENT OF COMPLIANCE WITH THE FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 05 OF 2021

Relevant para in the Direction	Corporate Governance principle	Compliance level
1. Responsibilities of the Board of Directors		
1.1	The Board shall assume overall responsibility and accountability for the Finance Company (FC) operations by setting up the strategic direction, and governance framework, establishing the corporate culture and ensuring compliance with regulatory requirements. The Board shall carry out the functions listed in Direction 1.2 to 1.7 below, but not limited to, in effectively discharging its responsibilities	It is complied with. Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. Overall business strategy and policies of the Company are addressed at the meetings of the Board of Directors, Corporate Management, Senior Management, and other similar groups held every month. The Board-approved Strategic Business Plan for 2022-2024 is in place.
1.2	Business strategy and governance framework a) Approving and overseeing the implementation of the FC's overall business strategy with measurable goals for the next three years and updating it annually because of the developments in the business environment. b) Approving and implementing FC's governance framework commensurate with the FC's size, complexity, business strategy, and regulatory requirements. c) Assessing the effectiveness of its governance framework periodically. d) Appoint the Chairperson and the Chief Executive Officer (CEO) and define the roles and responsibilities.	It is complied with. The Board has established and approved the strategic objectives and corporate values and revised them for 2021 to 2022 on July 27, 2022. The Board approved the budget for the year 2021/22 in the March 31, 2022 Board meeting. The said business strategy includes risk management policies, procedures, and mechanisms with measurable goals. The Board approved the Risk Management Policy of the Company on August 29, 2022.
1.3	Corporate culture and values a) Ensuring that there is a sound corporate culture within the FC, which reinforces ethical, prudent and professional behaviour. b) Playing a lead role in establishing the FC's corporate culture and values, including developing a code of conduct and managing conflicts of interest. c) Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies d) Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers, and other creditors, in the view of projecting a balanced view of the FC's performance, position, and prospects in public and regulators.	It is complied with. Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. Overall business strategy and policies of the Company are addressed at the meetings of the Board of Directors, Corporate Management, Senior Management, and other similar groups held every month. The Board has established and approved the strategic objectives and corporate values and revised them for 2021 to 2022 on July 27, 2022. The business strategy includes risk management policies, procedures, and mechanisms with measurable goals. The Board approved Code of Ethics is available to all employees, including the Board of Directors. This Code focuses mainly on the following areas: Fair dealing, protection, and proper use of the Company's assets, record-keeping and reporting; accounting and financial reporting concerns; reporting illegal or unethical behaviour, discrimination, harassment, health, safety, discipline, etc.

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
1.4	Risk appetite, risk management, and internal controls a) Establishing and reviewing the Risk Appetite Statement (RAS) aligns with FC's business strategy and governance framework. b) Ensuring the implementation of appropriate systems and controls to identify, mitigate, and manage risks prudently. c) Adopting and reviewing the adequacy and effectiveness of the FC's internal control and management information systems periodically. Approving and overseeing Business Continuity and Disaster Recovery Plan for the FC to ensure stability and financial strength and preserve critical operations and services under unforeseen circumstances.	It is complied with. The Board approved the Risk Management Policy of the Company on August 29, 2022 and approved the Business Continuity and Disaster Recovery Plan (BCP) of the Company on June 24, 2022, and further, the Company's internal control systems were reviewed by the Board Audit Committee and approved by the Board of Directors on March 15, 2023. Risk indicators and monitoring of credit risk, market risk, operational risks, and other residual risks are discussed, and appropriate mitigating actions are recommended at the BIRMC meeting. The Board Audit Committee assists the Board in assessing the adequacy and integrity of the internal controls system, Management Information System (MIS), and financial reporting processes of the Company. The Internal Audit Department helps the process by conducting audits to assess the internal controls over financial reporting and MIS. Board-approved comprehensive Business Continuity and Disaster Recovery Plan (BCP) is in place. The BIRMC reviews BCP, and the current status is updated at meetings.
1.5	Board commitment and competency a) All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the FC. b) All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience. c) The Board shall regularly review and agree on all members' training and development needs. d) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually on the individual performance of its Board as a whole and that of its committees and maintain records of such assessments. e) The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the FC.	It is complied with. The Board adopted a scheme of self-assessment to evaluate the effectiveness of the overall function, responsibilities, and duties of the Board of Directors. The Chairperson evaluated the effectiveness of the performances and the contribution of each Director, filling out a questionnaire on the performance. All the individual Directors assessed the Chairperson's performance through a performance questioner. As per section 7.2 of the Finance Business Direction No. 06 of 2021, the Company submitted the annual information and documentation of the Company's Directors for obtaining the Central Bank approval for their fitness and propriety to be key responsible persons of the Company on March 30, 2023. The resolution concerning the summary of the Board assessment questioner was adopted by circulation on March 28, 2023.
1.6	Oversight of Senior Management a) Identifying and designating Senior Management, who can significantly influence policy, direct activities, and control business operations and risk management. b) Defining the areas of authority and critical responsibilities for the Senior Management. c) Ensuring the Senior Management possesses the qualifications, skills, experience and knowledge to achieve the FC's strategic objectives. d) Ensuring appropriate oversight of the affairs of the FC by Senior Management. e) Ensuring the FC has an appropriate succession plan for Senior Management. f) Meeting regularly with the Senior Management to review policies, establish lines of communication and monitor progress towards strategic objectives.	It is complied with. Board has exercised oversight of the affairs of the Company during the Board meetings. KMPs within the Management are present by invitation at all critical oversight meetings and Board meetings. Such meetings are held regularly, ranging from monthly to quarterly. In line with the Central Bank of Sri Lanka (CBSL) direction on Corporate Governance, the Board of Directors and MD/CEO, COO, Head of HR and Operation, Head of Branch Credit and Branch Administration, Compliance Officer, CRO, Company Secretary and Head of Legal have been identified as Key Responsible Persons (KRPs). The Board approves job descriptions of the Key Responsible Personnel and includes the functions and responsibilities of the KRPs. Areas and limits of authority of the KRPs are covered under the Delegation Authority (DA) limits assigned to them.

Relevant para in the Direction	Corporate Governance principle	Compliance level
1.7	Adherence to the existing legal framework a) Ensuring that the FC does not act detrimentally to the interests of and obligations to depositors, shareholders, and other stakeholders. b) Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions, and ethical standards. c) Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.	It is complied with. The Board evaluated the effectiveness of Corporate Governance practice and agreed that the Company fully complied with regulatory requirements, relevant laws, regulations, and directions. The resolution concerning the summary of the assessment of the effectiveness of Corporate Governance practices in 2022 was adopted by circulation on March 28, 2023.
2. Governance Framework		
2.1	The Board shall develop and implement a governance framework in line with these directions, including but not limited to the following. a) Role and responsibilities of the Board b) Matters assigned for the Board. c) Delegation of authority. d) Composition of the Board. e) The Board's independence. f) The nomination, election and appointment of Directors, and appointment of Senior Management. g) The management of conflicts of interests h) Access to information and obtaining independent advice. i) Capacity building of Board members. j) The Board's performance evaluation. k) Role and responsibilities of the Chairperson and the CEO. l) Role of the Company Secretary. m) Board subcommittees and their role; and limits on related party transactions.	It is complied with. The Board Charter, which included all the regulatory requirements required to develop and implement a proper governance framework, was reviewed in line with the latest Corporate Governance direction and approved by the Board on July 27, 2022.
3. Composition of the Board		
3.1	The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the FC's size, complexity, and risk profile.	It is complied with. The Board possesses the right skills, experience, diversity, and independence to manage current and future critical issues.
3.2	The number of Directors on the Board shall not be less than seven (07) and not more than thirteen (13).	It is complied with. There were 8 Directors on the Board as of December 31, 2022.
3.3	The total service period of a Director other than a Director who holds the CEO/Executive Director position shall not exceed nine years, subject to direction 3.4.	It is complied with. Based on the dates of appointment, the service of any Non-Executive Director does not exceed nine years.
3.4	Non-Executive Directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding nine years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in Directions 4.2 and 4.3. However, the number of Non-Executive Directors eligible to exceed nine years is limited to one-fourth (%) of the total number of Directors on the Board.	It is complied with. There is only one Executive Director on the Board since the appointment of the Managing Director on August 16, 2018.

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
3.5	a) Executive Directors a) Only an employee of an FC shall be nominated, elected, and appointed, as an Executive Director of the FC, provided that the number of Executive Directors shall not exceed one-third (1/3) of the total number of Directors of the Board. b) A shareholder who directly or indirectly holds more than 10% of the voting rights of the FC shall not be appointed as an Executive Director or Senior Management. However, existing Executive Directors with a contract of employment and functional reporting line and existing Senior Management are allowed to continue as executive directors/senior management until the retirement age of the FC. After that, they may reappoint as Non-Executive Directors subject to provisions in Directions 4.2 and 4.3. Existing Executive Directors without a contract of employment and functional reporting line need to step down from the Executive Director position from the effective date of this Direction. After that, they may reappoint as a Non-Executive Director subject to provisions in Directions 4.2 and 4.3. c) In the event of the presence of the Executive Directors, the CEO shall be one of the Executive Directors and may be designated as the Managing Director of the FC. d) All Executive Directors shall have a functional reporting line in the organisation structure of the FC. e) The executive Directors are required to report to the Board through CEO. f) Executive Directors shall refrain from holding Executive Directorships or Senior Management positions in any other entity.	It is complied with. There is only one Executive Director in the Board since the appointment of the Managing Director on August 16, 2018.
3.6	a) Non-Executive Directors shall possess credible track records and have the necessary skills, competency and experience to bring independent judgement on the issues of strategy, performance, resources, and standards of business conduct. b) A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the FC.	It is complied with. There is only one Executive Director in the Board since the appointment of the Managing Director on August 16, 2018. The Central Bank, based on the annual information submitted on September 12, 2022, assessed the fitness and property of the Board's Directors and approval granted them to continue their directorships on the Company's Board for 2022.
3.7	Independent Directors a) The number of Independent Directors of the Board shall be at least three (03) or one-third (1/3) of the total number of Directors, whichever is higher. b) Independent Directors appointed shall be of the highest calibre, with professional qualifications, proven track records and sufficient experience. c) A Non-Executive Director shall not be considered independent if such: i. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC. ii. Director or a relative has or had during one year immediately preceding the appointment as Director, a material business transaction with the FC, as described in Direction 12.1 (c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position. iii. The FC or its affiliates have employed Director or has been a Director of any of its affiliates during the one year immediately preceding the appointment as Director. iv. Director has been an advisor, consultant, or principal consultant/advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as Director.	It is complied with. a) As of December 31, 2022, the Board consisted of four Independent and four Non-Independent Directors. b) The four Independent Directors have complied with all these regulatory requirements to maintain their independency on the Board, which was indicated in the information included in the affidavit signed by the Directors to submit to the Central Bank as annual information of key responsible persons of the Company, on March 30, 2023. c) It is complied with. d) No such occasions raised. e) No such occasions raised.

Relevant para in the Direction	Corporate Governance principle	Compliance level
	v. Director has a relative who is a Director or Senior Management of the FC or has been a Director or Senior Management of the FC during the one year immediately preceding the appointment as Director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC. vi. The Director represents a shareholder, debtor, creditor or other similar stakeholder of the FC. vii. A Director is an employee or a Director or has a direct or indirect shareholding of 10% or more of the voting rights in a company in which any of the other Directors of the FC is employed or is a Director. viii. A Director is an employee or a Director or has a direct or indirect shareholding of 10% or more of the voting rights in a company which has a transaction with the FC as defined in direction 12.1 (c) or in which any of the other Directors of the FC has a transaction as defined in direction 12.1 (c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC. d) The Nomination Committee and Board should determine whether there is any circumstance or relationship, which is not listed in Direction 3.7, which might impact a Director's independence, or the perception of the independence. e) An Independent Director shall immediately disclose to the Board any change in circumstances that may affect the status as an Independent Director. In such a case, the Board shall review such Director's designation as an Independent Director and notify the Director, Department of Supervision of Non-Bank Financial Institutions, in writing of its decision to affirm or change the designation.	
3.8.	Alternate Directors a) Representation through an alternate Director is allowed only; I. With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and II. If the current Director cannot perform the duties as a Director due to prolonged illness or cannot attend more than three consecutive meetings due to being abroad. a) The existing Directors of the FC cannot be appointed as alternate Directors to another existing Director of the FC. b) A person appointed as an alternate Director to one of the Directors cannot extend the role as an alternate Director to another Director on the same Board. c) An alternate Director cannot be appointed to represent an executive Director. d) If an alternate Director is appointed to represent an Independent Director, the person appointed shall also meet the criteria that apply to an Independent Director.	Not Applicable.
3.9.	Cooling off periods a) There shall be a cooling off period of six months before an appointment of any person as a Director or CEO of the FC who was previously employed as a CEO or Director of another FC. Any variation to that in exceptional circumstances where the expertise of such persons requires to reconstitute a Board of an FC which needs restructuring shall be made with prior approval of the Monetary Board. b) A Director, who fulfils the criteria to become an Independent Director, shall only be considered for such appointment after cooling off of one year if a such Director has been previously considered Non-Independent under this Direction's provisions.	No such occasions raised.

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
3.10	Common Directorships The Director or Senior Management of an FC shall not be nominated, elected or appointed as a Director of another FC except where such FC is a parent company, subsidiary company, or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5 (f).	It is complied with. Mr Raja Senanayake resigned from the Board of Directors on June 30, 2022 to comply with Direction 3.10.
3.11.	The Board shall determine the appropriate limits for directorships that Directors can hold. However, a Director of an FC shall not hold office as a Director or any other equivalent position (shall include alternate Directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	It is complied with. None of the Directors held office as Directors or any other equivalent position in more than 20 companies.
4. Assessment of Fitness and Propriety Criteria		
4.1.	No person shall be nominated, elected, or appointed as a Director of the FC or continue as a Director of such FC unless that person is a fit and proper person to hold office as a Director of such FC following the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	It is complied with. The relevant regulators have assessed, evaluated and approved all the Directors' appointments.
4.2.	A person over 70 years shall not serve as a Director of an FC.	It is complied with.
4.3.	Notwithstanding provisions contained in 4.2 above, a Director who is already holding office at the effective date of this Direction and who attains the age of 70 years on or before March 31, 2025 is permitted to continue in office as a Director exceeding 70 years of age up to a maximum of 75 years of age subject to the following: a) Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction. b) Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3 (a). c) The maximum number of Directors exceeding 70 is limited to one-fifth (1/5) of the total number of Directors. d) The director concerned shall have completed a minimum period of three continuous years in office as of the first approval date.	It is complied with. The Company obtained the approval from the Central Bank on December 01, 2021 for Mr. K G D D Dheerasinghe, the former Chairman, to continue on our Board as the Chairman, Independent Non-Executive Director until January 01, 2023, and ones he attained the age of 70 years on January 01, 2022.
5. Appointment and resignation of Directors and Senior Management		
5.1.	The appointments, resignations or removals shall be made under the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	It is complied with. The resignation of Mr. Raja Senanayake, Director and Mr. Prabath Perera, CFO, was submitted to the Central Bank in line with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction and approvals obtained by.

Relevant para in the Direction	Corporate Governance principle	Compliance level
6. The Chairperson and the CEO		
6.1.	There shall be a clear division of responsibilities between the Chairperson and CEO, and the responsibilities of each person shall be set out in writing.	It is complied with. The requirement is included in the approved Board Charter.
6.2.	The Chairperson shall be an Independent Director, subject to 6.3 below.	It is complied with. The Chairperson is an Independent Director.
6.3.	If the Chairperson is not Independent, the Board shall appoint one of the Independent Directors as a Senior Director, with suitably documented Terms of Reference to ensure a more significant independent element. The Senior Director will serve as the intermediary for other Directors and shareholders. Non-Executive Directors, including Senior Directors, shall assess the Chairperson's performance at least annually.	It is complied with. Dr (Ms) J P Kuruppu was appointed as a Senior Director on September 02, 2014 Mr Dheerasinghe, former Chairman of our Board, was a Non-Independent Director due to his chairmanship on the parent company's board he held simultaneously.
6.4.	Responsibilities of the Chairperson The responsibilities of the Chairperson shall at least include the following: a) Provide leadership to the Board. b) Maintain and ensure a balance of power between Executive and Non-Executive Directors. c) Secure, effective participation of both Executive and Non-Executive Directors. d) Ensure the Board works effectively and discharges its responsibilities. e) Ensure the Board discusses all critical issues promptly. f) Implement decisions/directions of the regulator. g) Prepare the agenda for each Board meeting and may delegate the function of preparing the agenda and maintaining minutes in an orderly manner to the Company Secretary. h) Not engage in activities involving direct supervision of Senior Management or any other day-to-day operational activities. i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. j) Annual assessment of the Performance and contribution during the past 12 months of the Board and the CEO.	It is complied with. The requirement is included in the approved Board Charter.
6.5.	Responsibilities of the CEO The CEO shall function as the apex executive-in-charge of the day-to-day-management of the FC's operations and business. The responsibilities of the CEO shall at least include the following: a) Implementing business and risk strategies to achieve the FC's strategic objectives. b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves control functions' effectiveness and independence. c) Promoting a sound corporate culture within the FC, together with the Board, reinforcing ethical, prudent, and professional behaviour. d) Ensuring implementation of ethical compliance culture and being accountable for accurate submission of information to the regulator. e) Strengthening the regulatory and supervisory compliance framework. f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies promptly and appropriately. j) CEO must devote all of the professional time to the service of the FC and shall not carry on any other business except as a Non-Executive Director of another company, subject to Direction 3.10.	It is complied with. The requirement is included in the approved Board Charter.

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Relevant para in the Direction	Corporate Governance principle	Compliance level
7. Meetings of the Board		
7.1.	The Board shall meet at least twelve times a financial year monthly. Obtaining the Board's consent through the circulation of papers is to be avoided as much as possible.	It is complied with. The Company held 12 Board meetings during the period under review.
7.2.	The Board shall ensure that arrangements are in place to enable matters and proposals by all Directors of the Board to be represented in the agenda for scheduled Board meetings.	It is complied with. The agenda is circulated to the members of the Board. Suppose any further matters are to be discussed. The Company Secretary is informed via formal communication by the Directors, and those are included under "Any Other Businesses" in the agenda. Directors can include matters in the agenda before the circulation of the same.
7.3.	A notice of at least three days shall be given for a scheduled Board meeting. For all other Board meetings, a reasonable notice shall be given.	It is complied with.
7.4.	A Director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	It is complied with.
7.5.	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present unless at least one-fourth (1/4) of the number of Directors that constitute the quorum at such meeting are Independent Directors.	No such occasions raised.
7.6.	The Chairperson shall hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least twice a year.	To be implemented.
7.7.	A Director shall abstain from voting on any Board resolution concerning a matter in which such Director or relative or a concern in which he has a substantial interest is interested, and he shall not be counted in the quorum for the relevant agenda item in the Board meeting.	No such occasions raised.
7.8.	A Director who has not attended at least two-thirds (2/3) of the meetings in 12 months immediately preceding or has not attended three consecutive meetings shall cease to be a Director. Participation at the Directors' meetings through an Alternate Director shall be acceptable as attendance, subject to appropriate directions for Alternate Directors.	No such occasions were raised.
7.9.	Scheduled Board meetings and ad hoc Board meetings. For the scheduled meetings, participation in person is encouraged, and for ad hoc meetings where the Director cannot attend on short notice, participation through electronic means is acceptable.	It is complied with.
8. Company Secretary		
8.1	a) The Board shall appoint a Company Secretary, considered Senior Management, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and regulations. b) The Board shall appoint its Company Secretary, subject to the transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a company under Section 222 of the Companies Act No. 07 of 2007, on being appointed the Company Secretary, such person shall become an employee of FC and shall not become an employee of any other institution.	It is complied with. A Company's Senior Management member was appointed Company Secretary on September 13, 2020.
8.2	All Directors shall have access to the advice and services of the Company Secretary to ensure the Board procedures, laws, directions, rules, and regulations are followed.	It is complied with.

Relevant para in the Direction	Corporate Governance principle	Compliance level
8.3	The Company Secretary shall be responsible for preparing the agenda in the event Chairperson has delegated to carry out such function.	It is complied with. Further, the Chairman has delegated the function of preparing the agenda to the Company Secretary. Secretary prepares the agenda, and Chairman is responsible for reviewing and confirming the agenda before the Board meeting.
8.4	The Company Secretary shall maintain minutes of the Board meetings with all submissions to the Board and voice recordings/video recordings for at least six years.	It is complied with.
8.5	The Company Secretary is responsible for maintaining minutes in an orderly manner and following the proper procedure in the Articles of Association of the FC.	It is complied with.
8.6	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall include the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent, including the contribution of each Director; (d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions; (e) the Board's knowledge and understanding of the risks to which the FC is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	It is complied with. The requirement is included in the approved Board Charter.
8.7	The minutes shall be inspected at any reasonable time on reasonable notice by any Director.	It is complied with.
9. Delegation of the Functions by the Board		
9.1	The Board shall approve a Delegation of Authority (DA) and give clear directions to the Senior Management as to the matters that the Board shall approve before decisions are made by Senior Management on behalf of the FC.	It is complied with. The Board approved the revived Delegation of Authority (DA) on May 31, 2022.
9.2	In the absence of any of the subcommittees mentioned in Direction 10 below, the Board shall ensure the Board itself shall carry out the functions stipulated under such committees.	No such occasions were raised.
9.3	The Board may establish appropriate Senior Management level subcommittees with appropriate DA to assist in Board decisions.	It is complied with. The Company has formulated executive-level committees such as ECC, ALCO, MAC, EIRMC, and ITSC comprising Senior Management members.
9.4	The Board shall not delegate any matters to a Board subcommittee, Executive Directors or Senior Management to the extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	It is complied with.
9.5	The Board shall review the delegation processes in place periodically to ensure that they remain relevant to the needs of the FC.	It is complied with.
10. Board Sub Committees		
10.1 (a)	To specify the requirements for Board committees, FCs are divided into two categories based on the asset base as per the latest audited statement of financial position as FCs with an asset base of more than LKR 20 Bn. and FCs with an asset base of less than LKR 20 Bn. subject to transitional provisions stated in direction.	It is complied with. The Board has appointed six subcommittees: Audit Committee, Integrated Risk Management Committee, Nomination Committee, Credit Committee, Human Resources and Remuneration Committee, and Board Technology Committee.

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Relevant para in the Direction	Corporate Governance principle	Compliance level
10.1 (b)	Each Board subcommittee shall have Board-approved written Terms of Reference specifying its authority and duties.	It is complied with. BIRMC TOR – reviewed and Board approval obtained on December 30, 2022. BAC TOR – reviewed, and Board Audit Committee approval was obtained on 30 December 2022. The same will be submitted for Board approval in January 2023. BCC TOR – reviewed and Board approval obtained on April 25, 2022. BHR and RC TOR – reviewed, and Board approval obtained on October 31, 2022. BITC TOR – BITC was formulated, and the TOR was approved on October 29, 2021. BNC TOR – reviewed and Board approval obtained on February 28, 2022.
10.1 (c)	The Board shall present a report on the performance of duties and functions of each Board subcommittee at the Annual General Meeting of the FC.	It is complied with. Included in this Annual Report (Page number 83)
10.1 (d)	Each subcommittee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintain records, and carry out such other secretarial functions under the supervision of the Chairperson of the committee.	It is complied with.
10.1 (e)	Each Board subcommittee shall consist of at least three Board members and shall only consist of members of the Board who have the skills, knowledge, and experience relevant to the committee's responsibilities.	It is complied with. All the Board subcommittees consist of three Board members.
10.1 (f)	The Board may consider the occasional rotation of members and the Chairperson of Board subcommittees to avoid undue concentration of power and promote new perspectives.	It is complied with. Occasional rotations of the compositions of the subcommittees have taken place when needed and required.
10.2 Board Audit Committee		
10.2 (a)	The Chairperson of BAC shall be an Independent Director with qualifications and experience in accountancy and/or audit.	It is complied with. Appointed to the Board in December 2017, Mr Jayasuriya is an Independent Non-Executive Director. An Associate member of the Institute of Bankers of Sri Lanka (AIB), a Fellow member of the Chartered Institute of Management Accountants (FCMA) (UK), a Member of the Chartered Global Management Accountants (CGMA) (UK) and also the Member of the Institute of Chartered Shipbrokers (MICS) (UK). Mr Jayasuriya holds a Bachelor of Science Degree from the University of Sri Jayewardenepura and counts over 31 years of experience in Banking, specialised in Treasury, Investment Banking, and International Banking.
10.2 (b)	The Board members appointed to the BAC shall be Non-Executive Directors, and the majority shall be Independent Directors with necessary qualifications and experience relevant to the scope of the BAC.	It is complied with. All members of the Audit Committee are Non-Executive Directors. As per the Board resolution passed on July 01, 2022, the following members were appointed for the Committee. Mr S M S C Jayasuriya – Chairman Mr D M D S S Bandara Mr M P Dharmasiri
10.2 (c)	The secretary to the BAC shall preferably be the Chief Internal Auditor (CIA).	It is complied with. The Company Secretary has been secretary to the BAC.
10.2 (d) (I)	The BAC shall make recommendations on matters concerning the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the auditor.	It is complied with.

Relevant para in the Direction	Corporate Governance principle	Compliance level
10.2 (d) (II)	Engagement of an audit partner shall not exceed five years, and the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.	It is complied with. All engagements are confirmed based on the recommendations of the Board Audit Committee. Before the appointment of External Auditors for audit services, necessary action is taken by the Audit Committee to ensure compliance with applicable legal and statutory requirements. The Committee has discussed the engagement letter and fee proposal submitted by External Auditors for statutory audit for 12 months from January 01, 2022 to December 31, 2022, and recommendations were given at the meeting held on March 15, 2023. The Committee has discussed the engagement letter and fee proposal submitted by External Auditors for the Corporate Governance Report and Internal Control Report reviews after the statutory audit for 12 months, from January 01, 2022 to December 31, 2022. Recommendations were given at the meeting held on March 15, 2023.
10.2 (d) (III)	The audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.	It is complied with.
10.2 (d) (IV)	The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes following applicable standards and best practices.	It is complied with. All engagements are confirmed based on the recommendations of the Board Audit Committee. Before the appointment of External Auditors for audit services, necessary action is taken by the Audit Committee to ensure compliance with applicable legal and statutory requirements.
10.2 (d) (V)	The audit partner shall not be assigned to any non-audit services with the FC during the same financial year the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the External Auditor's independence or objectivity.	It is complied with. The following action is taken before assigning non-audit services to External Auditors. If the Management believes that the independence is likely impaired, such non-audit services are not awarded to External Auditors. Further, the relevant information is obtained from External Auditors to ensure that their independence is not impaired due to providing any non-audit services.
10.2 (d) (VI)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the relevant establishment compliance with Directions issued under the Act and the Management's internal controls over financial reporting; (ii) The preparation of financial statements following applicable accounting principles and reporting obligations; and The coordination between Auditors where more than one Auditor is involved.	It is complied with. The Auditors presented at the Board Audit Committee meeting with details of the proposed Audit Plan and the scope at the Audit Committee meeting held on June 24, 2022. Members of the Board Audit Committee obtain clarifications regarding the contents of the presentation if deemed necessary. Since there is only one Auditor, coordination between Auditors was not required.
10.2 (d) (VII)	The BAC shall review the financial information of the FC to monitor the integrity of the financial statements of the FC in its annual report, accounts, and periodical reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the Committee shall focus mainly on (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	It is complied with.
10.2 (d) (VIII)	The BAC shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss, including those that may need to be discussed in the absence of Senior Management, if necessary.	It is complied with. The meeting was held on June 24, 2022.

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Relevant para in the Direction	Corporate Governance principle	Compliance level
10.2 (d) (IX)	The BAC shall review the External Auditor's management letter and the Management's response within three months of submission of such and report to the Board.	It is complied with.
10.2 (e)	The BAC shall at least annually review the effectiveness of the system of internal controls.	It is complied with.
10.2 (f)	The BAC shall ensure that the Senior Management is taking necessary corrective actions promptly to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies concerning the internal audit function of the FC.	It is complied with.
10.2 (g) (I)	The Committee shall establish an independent internal audit function (either in-house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the Committee on the quality and effectiveness of the FC's internal control, risk management, governance systems, and processes.	It is complied with.
10.2 (g) (II)	The internal audit function shall have a clear mandate, be accountable to the BAC, be independent, and have sufficient expertise and authority within the FC to carry out its assignments effectively and objectively.	It is complied with.
10.2 (g) (III) (I)	Review the adequacy of the Internal Audit Department's scope, functions, skills, and resources and ensure the Internal Audit Department has the necessary authority to carry out its work.	It is complied with.
10.2 (g) (III) (II)	Review the internal audit programme and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the internal audit recommendations.	It is complied with.
10.2 (g) (III) (III)	Assess the performance of the Internal Audit Department's head and senior staff members.	It is complied with.
10.2 (g) (III) (IV)	Ensure the internal audit function is independent, and activities are performed with impartiality, proficiency, and due professional care.	It is complied with.
10.2 (g) (III) (V)	Ensure the internal audit function conducts periodic reviews of compliance functions and regulatory reporting to regulatory bodies.	It is complied with.
10.2 (g) (III) (VI)	Examine the significant findings of internal investigations and Management's responses to them.	It is complied with.
10.2 (h)	The BAC shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL), ensure corrective actions are taken promptly, and monitor the time-bound action plan's progress quarterly.	It is complied with.
10.2 (i) (I)	The BAC shall meet as specified in 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	It is complied with.
10.2 (i) (II)	Other Board members, Senior Management or any other employee may attend meetings upon the Committee's invitation when discussing matters under their purview.	It is complied with.
10.2 (i) (III)	BAC shall meet at least twice a year with the External Auditors without other Directors/Senior Management/employees being present.	It is complied with.

Relevant para in the Direction	Corporate Governance principle	Compliance level
10.3 Board Integrated Risk Management Committee (BIRMC)		
10.3. (a)	An Independent Director shall chair the BIRMC. The Board members appointed to BIRMC shall be Non-Executive Directors with knowledge and experience in banking, finance, and risk management issues and practices. In addition, the CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with Senior Management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	It is complied with. The Committee was initially appointed on September 30, 2014, comprising three Non-Executive Directors, including two Independent Non-Executive Directors and an Executive Director. 1. Mr S M S C Jayasuriya – Chairman 2. Mr D M D S S Bandara 3. Mr M P Dharmasiri 4. Mr D M U N Dissanayake 5. Chief Risk Officer The Company has obtained a confirmation from the CBSL dated December 29, 2015 under reference No. 24/03/005/0062/002 that the IRMC structure in place complies with the applicable CBSL Direction.
10.3. (b)	The secretary to the Committee may preferably be the CRO.	It is complied with. The CRO was appointed secretary to the Committee on March 01, 2022.
10.3. (c)	The Committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance, and technology, to the FC at least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.	It is complied with. The documentation process for the risk management process has been streamlined since April 2015. Therefore, with effect from May 2015, these risks are analysed and presented in a report to the BIRMC.
10.3. (d)	Developing FC's risk appetite through a Risk Appetite Statement (RAS) articulates the individual and aggregate level and types of risk a FC will accept, or avoid to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations following which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns throughout the FC.	It is complied with. It is included in the Risk Management Policy.
10.3. (e)	The BIRMC shall review the FC's risk policies, including RAS, at least annually.	It is complied with.
10.3. (f)	The BIRMC shall review the adequacy and effectiveness of Senior Management level committees (such as credit, market, liquidity investment, technology, and operational) to address specific risks and manage those risks within the Committee's quantitative and qualitative risk limits.	It is complied with.
10.3. (g)	The Committee shall assess all aspects of risk management, including updated business continuity and disaster recovery plans.	It is complied with.
10.3. (h)	BIRMC shall annually assess the performance of the Compliance Officer and the CRO.	It is complied with.
10.3. (i) (l)	Compliance Function BIRMC shall establish an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines, and approved policies on the business operations.	It is complied with.

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Relevant para in the Direction	Corporate Governance principle	Compliance level
10.3. (i) (II)	For FCs with an asset base of more than LKR 20 Bn. a dedicated Compliance Officer considered Senior Management with sufficient seniority, independent from day-to-day management, shall carry out the compliance function and report to the BIRMC directly. The Compliance Officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be "dual hating" i.e. the Chief Operating Officer, Chief Financial Officer, Chief Internal Auditor, Chief Risk Officer, or any other Senior Management shall not serve as the Compliance Officer.	It is complied with.
10.3. (i) (III)	For FCs with an asset base of less than LKR 20 Bn. an officer with adequate seniority considered Senior Management shall be appointed Compliance Officer, avoiding any conflict of interest.	It is complied with.
10.3. (i) (IV)	The BIRMC shall ensure responsibilities of a Compliance Officer would broadly encompass the following: (i) develop and implement policies and procedures designed to eliminate or minimise the risk of breach of regulatory requirements; (ii) ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture; (iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards; (iv) understand and apply new legal and regulatory developments relevant to the business of FC; (v) secure early involvement in the design and structuring of new products and systems, to ensure conformity with the regulatory requirements, internal compliance and ethical standards; (vi) highlight severe or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and (vii) maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity.	It is complied with.
10.3. (j) (I)	Risk Management Function BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.	It is complied with.
10.3. (j) (II)	For FCs with an asset base of more than LKR 20 Bn. it is expected to have a separate Risk Management Department and a dedicated CRO considered to be Senior Management shall carry out the risk management function and report to the BIRMC periodically.	Not applicable
10.3. (j) (III)	The CRO is primarily responsible for implementing the Board approved risk management policies and processes, including RAS, to ensure the FC's risk management function is robust and effective to support its strategic objectives and fulfil broader responsibilities to various stakeholders.	It is complied with. Prepared and obtained Board approval for the Risk Management Policy on May 31, 2022.
10.3. (j) (IV)	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: (i) various potential risks and frauds; (ii) possible sources of such risks and frauds; (iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing; (iv) effective measures to control and mitigate risks at prudent levels; and (v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.	It is complied with. Prepared and obtained Board approval for the Risk Policy on May 31, 2022.
10.3. (j) (V)	The CRO shall also participate in crucial decision-making processes such as capital and liquidity planning, new product or service development, etc., and make recommendations on risk management.	It is complied with. The CRO attend the meeting of ALCO, EIRMC, and MAC, assisting the decision-making process at the executive level.
10.3. (j) (VI)	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC quarterly.	To be implemented
10.3. (j) (VII)	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence, and/or specific directions.	It is complied with.

Relevant para in the Direction	Corporate Governance principle	Compliance level
10.4 Nomination Committee		
10.4. (a)	The Committee shall comprise Non-Executive Directors; preferably, the majority may be independent. An Independent Director shall chair the Committee. The CEO may be present at meetings by invitation of the Committee.	It is complied with. The Committee was initially appointed on September 30, 2014, comprising three Non-Executive Directors, including two Independent Non-Executive Directors. 1. Mr K G D D Dheerasinghe – Chairman 2. Dr (Ms) J P Kuruppu 3. Mr S Muhseen
10.4. (b)	Secretary to the Nomination Committee may preferably be the Company Secretary.	It is complied with.
10.4. (c)	The Committee shall implement a formal and transparent procedure to select/ appoint new Directors and Senior Management. Senior Management is to be appointed with the recommendation of the CEO, excluding the CIA, CRO, and Compliance Officer.	It is complied with. The Company's Internal Audit is currently headed up by the Manager Internal Audit by obtaining necessary guidance advocacy support and affirmation from the Bank Internal Audit Department.
10.4. (d)	The Committee shall ensure that Directors and Senior Management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	It is complied with. Every Director appointment has been deliberated, evaluated and recommended by the Board Nomination Committee, and based on such recommendation, the Board decides upon the appointment.
10.4. (e)	The selection process shall include reviewing whether the proposed Directors (i) possess the knowledge, skills, experience, independence, and objectivity to fulfil their responsibilities on the Board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to carry out their responsibilities fully.	It is complied with. The Board Nomination Committee considers all the relevant criteria and assesses the capability, competence and Director's suitability for the job role.
10.4. (f)	The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.	It is complied with. The Board has never been influenced, infected, or dominated by any individual or a group of individuals detrimentally to the shareholder's interest.
10.4. (g)	The committee shall set the criteria, such as qualifications, experience, and critical attributes required for eligibility, to be considered for appointment to the CEO and senior management post.	It is complied with. The qualification and experience of MD and senior management have been documented in job descriptions (JDs) which were recommended by the BHRRC and approved by the Main Board.
10.4. (h)	Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent.	It is complied with. The Company Secretary tabled a comprehensive Board paper that includes the required information of the director at the Board meeting that the Shareholder representatives attend.
10.4. (i)	The committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	It is complied with.
10.4. (j)	The committee shall consider and recommend, from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Senior Management.	It is complied with. With the recommendation of BHRRC, the Succession of the Senior Management has been approved by the Board.
10.4. (k)	A member of the Nomination Committee shall not participate in decision-making relating to their appointment/reappointment, and the Chairperson of the Board should not chair the Committee when it is dealing with the appointment of the successor.	The Company conforms to the stated section.

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
10.5 Human Resource and Remuneration Committee		
10.5. (a)	A Non-Executive Director shall chair the Committee, and most members shall consist of Non-Executive Directors.	It is complied with. The Committee was initially appointed on September 30, 2014, comprising three Non-Executive Directors, including two Independent Non-Executive Directors. 1. Dr (Ms) J P Kuruppu – Chairperson 2. Mr D M D S S Bandara 3. Mr L H Munasinghe
10.5. (b)	The Human Resource and Remuneration Committee secretary may preferably be the Company Secretary.	It is complied with. The Company Secretary was appointed as secretary to the Committee on February 22, 2022.
10.5. (c)	The Committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and Senior Management of the FC and the fees and allowances structure for Non-Executive Directors.	It is complied with. The remuneration and benefits of the Company, the salaries, allowances, and other financial benefits related to the Executive Directors and Senior Management are decided by the BHRRC.
10.5. (d)	There shall be a formal and transparent procedure in developing the remuneration policy.	It is complied with.
10.5. (e)	The Committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances, and other financial incentives for all employees of the FC. The policy shall be subject to periodic review by the Board, including when material changes are made.	It is complied with. The HR policy is reviewed annually. The reviewed policy is recommended by the BHRRC and approved by the Main Board.
10.5. (f)	The remuneration structure shall align with the FC's business strategy, objectives, values, long-term interests, and cost structure. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivise employees to take excessive risks or to act in self-interest.	It is complied with. The remuneration structure is in line with the Company's business strategy, objectives, values, long-term interests, and cost structure.
10.5. (g)	The Committee shall review the performance of the Senior Management (excluding the Chief Internal Auditor, Compliance Officer, and Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	It is complied with. The performance of the Senior Management, excluding the Manager Audit, CRO and Compliance Officer, has been reviewed by the BHRRC.
10.5. (h)	The Committee shall ensure that the Senior Management shall abstain from attending Committee meetings when matters relating to them are being discussed.	It is complied with.
11. Internal Controls		
11.1.	FCs shall adopt well-established internal control systems, including the organisational structure, segregation of duties, clear management reporting lines, and adequate operating procedures to mitigate operational risks.	The Board Audit Committee assists the Board in assessing the adequacy and integrity of the Internal Controls System and the Management Information System, and the Company's financial reporting processes. In addition, the Internal Audit Department helps the process by conducting audits to assess the internal controls over financial reporting and management information systems. Further, the External Auditors were engaged in assuring the "Directors" Responsibility Statement on Internal Controls over Financial Reporting included in the Annual Report', and their opinion was submitted to the Board.
11.2.	A proper internal control system shall: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operational risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions, and internal policies.	
11.3.	All employees shall be responsible for internal controls as part of their accountability for achieving objectives.	

Relevant para in the Direction	Corporate Governance principle	Compliance level
13. Group Governance		
13.1	The FC is responsible for exercising adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory, and governance responsibilities that apply to them.	The Company is a fully owned subsidiary of Commercial Bank of Ceylon PLC. Further, the Company does not have subsidiaries or associates.
13.2	Responsibilities as a subsidiary If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its legal and governance responsibilities.	The Company is a fully owned subsidiary of Commercial Bank of Ceylon PLC. Accordingly, the Company fulfils its own legal and governing obligations.
14. Corporate Culture		
14.1.	An FC shall adopt a Code of Conduct, which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, the integrity of reporting, protection, and proper use of company assets and fair treatment of customers.	It is complied with. Board-approved Code of Ethics provides required guidelines for confidentiality, conflicts of interest, reporting integrity, protection, and proper use of company assets and fair treatment of customers.
14.2.	The FC shall maintain records of Code of Conduct breaches and address such breaches in a manner that upholds high standards of integrity.	No such occasion was raised. The Company maintains records of breaches of the Code of Conduct. If any breach of the Code of Conduct is reported, the disciplinary procedure is implemented, and subsequent actions are taken as per the gravity of such incidents.
14.3.	An FC shall establish a Whistleblowing Policy that identifies avenues for objectively investigating and addressing legitimate concerns. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confidential manner and without the risk of reprisal. The BAC shall review the policy periodically.	It is complied with. The Whistleblowing Policy was approved and implemented on April 25, 2022.
15. Conflicts of Interest		
15.1.(a)	Relationships between the Directors shall not exercise undue influence or coercion. A Director shall abstain from voting on any Board resolution concerning a matter in which such Director or any of the relatives or a concern in which such Director has a substantial interest, is interested, and such Director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	No such occasion was raised.
15.1. (b)	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall, i. Identify circumstances which constitute or may give rise to conflicts of interest. ii. Express the responsibility of Directors and Senior Management to avoid, to the extent possible, activities that could create conflicts of interest. iii. Define the process for Directors and Senior Management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest. iv. Implement a rigorous review and approval process for the Director and Senior Management to follow before they engage in certain activities that could create conflicts of interest. v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and vi. Articulate how any non-compliance with the policy is to be addressed.	To be implemented

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
16. Disclosure		
16.1	The Board shall ensure that: (a) annual audited financial statements and periodic financial statements are prepared and published under the formats prescribed by the regulatory and supervisory authorities, and applicable accounting standards and that (b) such statements are published in the newspapers in Sinhala, Tamil, and English. The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.	It is complied with. Annual audited financial statements and periodic financial statements are prepared and published following the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards. Further, such statements are published in Sinhala, Tamil, and English newspapers.
	i. Financial Statements – In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include, ● A statement that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, including specific disclosures. ● A statement of the Board's responsibility in preparing and presenting financial statements.	This is disclosed in the "Annual Report of the Board of Directors on the State of the Company" on pages 96 to 100.
	ii. Chairperson, CEO and Board-Related Disclosures ● Name, qualification, and a brief profile. ● Whether executive, Non-Executive and/or independent Director. ● Details of the Director serving as the Senior Director, if any. ● The nature of expertise in relevant functional areas. ● Relatives and/or any business transaction relationships with other Company Directors. ● Names of other companies in which the Director/CEO is a Director, whether in an executive or Non-Executive capacity. ● Number/percentage of Board Meetings of the FC attended during the year; and ● Names of Board Committees in which the Director serves as the Chairperson or a member.	Details of the Directors, including names and transactions with the Finance Company, are given on pages 159 to 160 of the Annual Report. The declaration was obtained from the Company's Board of Directors, and there is no business relationship with other Directors of the Company.
	iii. Appraisal of Board performance ● An overview of how the performance evaluations of the Board and its committees have been conducted	A process is in place for the annual self-assessments of Directors to be undertaken by each Director, and the Company Secretary maintains the records of such assessments. The summary of the self-assessment is submitted to the Board, enabling Directors to discuss relevant matters if any
	iv. Remuneration ● A statement on the Remuneration Policy, which includes Board fee structure and breakdown of remuneration of Senior Management level and mix of remuneration (financial and non-financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation) ● The aggregate values of remuneration paid by the FC to its Directors and Senior Management.	Performance-driven remuneration and increments to the remuneration package shall depend on the achievement of agreed performance standards or financial benchmarks set as per the Annual Strategic Plan and the Budget. All employee's annual promotions, increments, and bonuses directly relate to the employee's performance, contribution, commitment, professional conduct, and behaviour. The remuneration structure of the staff, Senior Management and Executive Directors shall align with the Company's business strategy, objectives, values, long-term interest, and cost structure. Senior Management Remuneration – LKR 11,229,000.00 Directors' fees are given in Note 40.2.1 of the Financial Statement

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
	v. Related Party Transactions • The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. • Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in each category of related parties as a percentage of the FC's core capital. • The aggregate values of the transactions of the FC with its Senior Management during the financial year, set out by broad categories such as accommodation granted and deposits or investments made in the FC.	Details of the Directors, including names and transactions with the Finance Company, are given on pages 159 to 160 of the Annual Report. The declaration was obtained from the Company's Board of Directors, and there is no business relationship with other Directors of the Company. The nature of the relationship, if any, between the Chairperson and the CEO and the relationship among members of the Board. Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FCs core capital. Net accommodation for Directors – Nil Net accommodation for Senior Management – Nil The aggregate values of the transactions of the FC with Senior Management is follows; Deposits – LKR 2,052,435.00
	vi. Board Appointed Committees • The details of the Chairperson and members of the Board committees and attendance at such meetings.	Please refer "Directors' attendance and Committee Memberships" tables given on page 59 of the Annual report.
	vii. Group Structure • The Group structure of the FC within which it operates. • The Group governance framework	The Company is a fully owned subsidiary of Commercial Bank of Ceylon PLC. Accordingly, the Company fulfils its own legal and governing obligations.
	viii. Director's Report – A report which shall contain the following declarations by the Board • The FC has not engaged in any activity contravening laws and regulations. • The Directors have declared all related party transactions with the FC and abstained from voting on matters they were materially interested in. • The FC has endeavored to ensure fair treatment for all stakeholders, particularly the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the FC and has obtained reasonable assurance of their effectiveness interested in. • The FC has endeavored to ensure fair treatment for all stakeholders, particularly the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the FC and has obtained reasonable assurance of their effectiveness	Given on pages 96 to 100 of the Annual Report.

Corporate Governance

Relevant para in the Direction	Corporate Governance principle	Compliance level
	ix. Statement of Internal Control • A report by the Board on the FC's internal control mechanism confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done following relevant accounting principles and regulatory requirements. • The External Auditor's assurance statement on the effectiveness of the internal control mechanism referred to above, in respect of any statement prepared or published. • A report detailing the compliance with prudential requirements, regulations, laws, and internal controls and measures taken to rectify any non-compliances. • A statement of the regulatory and supervisory concerns on lapses in the FC's risk management or non-compliance with the Act and rules and directions.	Given on pages 102 to 103 of the Annual Report.
	x. Corporate Governance Report • Shall disclose the manner and extent to which the company has complied with the Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.	The Corporate Governance Report is set out on pages 56 to 82 of the Company's Annual Report. In addition, the Company has obtained an independent assurance report from the External Auditors regarding compliance with Finance Business Act Direction No. 05 of 2021 on Corporate Governance.
	xi. Code of Conduct • FC's business conduct and ethics code for Directors, Senior Management and employees. • The Chairperson shall certify that the company has no violations of this Code's provisions.	A Board-approved Code of Ethics for Directors and all employees are in place. Please refer to the Chairman's message on pages 12 to 14 that the Company has no violations of any of the provisions of this code.
	xii. Management Report • Industry structure and developments. • Opportunities and threats. • Risks and concerns. • Sustainable finance activities carried out by the company. • Prospects for the future.	Please refer Managing Director's Review on pages 15 to 17.
	xiii. Communication with Shareholders • The policy and methodology for communication with shareholders. • The contact person for such communication.	The Board-approved Communication Policy is in place, which covers all stakeholders, including Depositors, Creditors, Shareholder, and Borrowers. The Board of Directors, Corporate Management, and employees comply with the policy to ensure effective communication for the best interests of all stakeholders.

Board Audit Committee Report

COMPOSITION OF THE COMMITTEE

The Board Audit Committee (BAC) is appointed by the Board of Directors and comprised of the following members.

Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed as Chairman of BAC w.e.f. July 01, 2022)
Mr Raja Senanayake	Non-Independent Non-Executive Director (Former Chairman of BAC, Resigned from the Board w.e.f. June 30, 2022)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)
Mr M P Dharmasiri	Non Independent Non-Executive Director (Appointed w.e.f. October 01, 2022)

Brief profiles of the members are given on page 48 of the Annual Report.

The Chairman of the Committee, Mr S M S C Jayasuriya, an Independent, Non-Executive Director, is a qualified Senior Banker by profession and a Fellow member of the Chartered Institute of Management Accountants (FCMA – UK) and a member of Chartered Global Management Accountants (CGMA – UK). Mr Jayasuriya has over 30 years of service in Banking, specialising in Treasury, Investment Banking and International Banking. He has served on our Board as an Independent, Non-Executive Director since December 2017.

The Company Secretary functions as the Secretary of the Committee.

CONDUCT OF MEETINGS

The Committee held ten meetings during the year ended December 31, 2022. The proceedings of these meetings, with adequate details of matters discussed, were minuted and regularly reported to the Board of Directors. The Managing Director/Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, Chief Risk Officer and Compliance Officer attended the Committee meetings by invitation. Representatives of the Company's External Auditors, M/s KPMG, also participated in a meeting during the period by invitation. In addition, the Committee invited other members of the Company's Senior Management to attend the sessions from time to time on a need basis.

CHARTER OF THE COMMITTEE

The Board approved Charter of the BAC clearly defines the Terms of Reference of the Committee. It is annually reviewed with the concurrence of the Board Audit Committee to ensure that new developments relating to the functions of the Committee are addressed. The Audit Charter of the Committee was last reviewed in line with the latest CBSL Direction No. 05 of 2021 on Corporate Governance and approved by the Board in February 2023.

The Committee assists the Board in discharging its responsibilities and exercising oversight function of the following:

- The integrity of the Company's Financial Statements
- The Company's compliance with legal and regulatory requirements
- The External Auditor's engagement, qualifications and independence
- The establishment of a sound system of internal control
- The performance of the Company's internal audit function and the Company's external audit.

REPORTING OF FINANCIAL POSITION AND PERFORMANCE

The Board Audit Committee assisted the Board of Directors in its oversight of the preparation of Financial Statements to evidence an accurate and fair view of financial position and performance. This process is based on the Company's accounting records and the stipulated requirements of the Sri Lanka Accounting Standards. Accordingly, the Committee reviewed the following:

- Adequacy and effectiveness of the internal controls, systems and procedures to provide reasonable assurance that all transactions are accurately and entirely recorded in the books of accounts.
- Effectiveness of the financial reporting systems to ensure the reliability of the information provided to the stakeholders.
- Selection of the most appropriate accounting policies after considering the alternatives available.
- Processes by which compliance with Sri Lanka Accounting Standards (SLFRSs/LKASs) and other regulatory provisions relating to financial reporting and disclosures.
- Financial Statements in the Annual Report and Interim Financial Statements prepared for publication before submission to the Board.

EXTERNAL AUDIT

The Committee assisted the Board in engaging External Auditors for audit services in compliance with the Direction.

Before the commencement of the annual audit, Committee reviewed the audit plan scope and the methodology proposed to be adopted in conducting the audit by External Auditors.

During the period, the Committee met the Partner of KPMG, who is in charge of the audit of the Company and reviewed the Company's impairment provision model and its outcomes and impact for the year ended December 31, 2021.

Board Audit Committee Report

Further, the Committee engaged M/S KPMG to attend to the Company's Corporate Governance and Internal Control reporting as required by section 03 of the Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013 of the Central Bank of Sri Lanka.

The Committee reviewed the Management Letter of the External Auditors for December 31, 2021, and instructed the management to initiate necessary action to rectify the highlighted issues.

The Auditors were allowed to meet Non-Executive Directors separately, without any Executive Directors being present, to ensure that the Auditors had the opportunity to discuss and express their opinions openly on any matter.

INTERNAL AUDIT FUNCTION

Internal audit is an independent, objective assurance, oversight and consultative activity managed within the Company as an integral part of its control procedures concerning governance, risk management, compliance, information systems, and financial reporting. It assists the management in accomplishing its corporate objectives by bringing a systematic, disciplined approach to assess and improve internal controls. In that regard, Internal audit:

- Ensures that the internal controls are in place and functioning effectively;
- Evaluates the adequacy of measures and controls to ensure compliance with policies, plans, procedures and business objectives and that they are sufficiently robust and in place to minimise the risk of fraud, errors and other irregularities;
- Provides reliable, valued and timely assurance to the Board and the Corporate Management over the effectiveness of controls mitigating current and evolving high risks and, in so doing, enhance the control culture within the Company;
- Reviews/identifies and recommends changes where necessary to the business processes and procedures and internal control mechanism in place that add value;
- Provides an independent and objective assurance that risk management measures recommended by the risk management function are in place and are reviewed from time to time;
- In a consultative capacity, advises on the efficiency of controls and effectiveness of structure on new initiatives and during change management processes and carries out the best post-implementation audits.

The Committee ensured that the internal audit function is independent and activities are performed with impartiality, proficiency, and due professional care;

Commencing from January 2020, the internal audit function was instituted jointly by the Company's Internal Audit Unit and the Inspection Department of Commercial Bank of Ceylon PLC, consequent to migrating the Core Operating System to ICBS. This enabled online monitoring of Company operations by the Bank's Inspection Department, thereby enhancing the scope to mostly the time and real-time auditing on a set frequency and providing an opportunity for the Company to address audit observations proactively on a near-time basis.

During this period, the Committee initiated the following actions regarding the internal audit function:

- The Committee approved the programme of Internal Audits for 2022 formulated jointly by the Internal Audit Unit and Commercial Bank's Inspection Department and reviewed its implementation progress regularly.
- Onsite and online inspection reports of the Company operations conducted by the Internal Audit Unit and Inspection Department of the Commercial Bank, which highlighted the operational deficiencies, risks and recommendations, received the attention of the Committee.
- Reviewed significant findings and recommendations related to IT Governance, Network Security, Physical, Logical Access Management, and IT System Administration made in the reports on Information Systems carried out by the Information Systems Audit Unit of Commercial Bank.
- Reviewed the job description for the Internal Auditor.

In addition, the Committee initiated the following actions to enhance the effectiveness of internal control systems of the Company:

- Reviewed the Impairment Policy of the Company.
- Monitored the progress on implementing the recommendations made in the Statutory Examination report of the Central Bank of Sri Lanka through regular follow-up.

OVERSIGHT ON REGULATORY COMPLIANCE

The Committee continuously monitored the extent of compliance with statutory and other compliance requirements and ensured that the systems and procedures were in place to ensure compliance with such requirements. In addition, the Internal Audit function conducts independent test checks to verify the extent of compliance by the Company and reports any exceptions to the Committee.

EVALUATION OF THE COMMITTEE

The other members of the Board carried out an independent evaluation of the effectiveness of the Committee during the year. As a result, considering the overall conduct of the Committee and its contribution to the overall performance of the Company, the Board has strongly agreed that the committee has been effective in discharging its responsibilities.

S M S C Jayasuriya
Chairman – Board Audit Committee
June 05, 2023

Board Integrated Risk Management Committee Report

In line with section 8 (3) of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008, issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, the Board established a Board Integrated Risk Management Committee (BIRMC). The scope and functions of the Committee conform with the provisions of section 8 (3) (a) to (h) of the direction above. In addition, the Terms of Reference of the BIRMC were reviewed and updated in line with section 10.3 of the Finance Business Act Director No. 05 of 2021 issued on December 31, 2021 by the Central Bank of Sri Lanka.

COMPOSITION OF THE COMMITTEE

The Board Integrated Risk Management Committee is appointed by the Board of Directors and comprised the following members.

Mr K G D D Dheerasinghe (Chairman)	Relinquished office on December 31, 2022
Mr Raja Senanayake (Director)	Resigned from the Board on June 30, 2022
Mr S M S C Jayasuriya* (Director)	
Mr D M D S S Bandara* (Director)	
Mr M P Dharmasiri (Director)	Appointed to the Committee on October 01, 2022

**Independent Non-Executive Director*

Brief profiles of the members are given on page 48 of the Annual Report.

The BIRMC coordinates, controls, and manages the risk management function of the Company by integrating the Board's key risk categories by overseeing and assessing the risk management functions of the Executive Credit Committee (ECC), Asset and Liability Committee (ALCO), the Information Technology Steering Committee (ITSC), Executive Integrated Risk Management Committee (EIRMC) and Key Management Personnel.

The BIRMC assists the Board in deciding the Company's risk appetite and ensures the significant risks are appropriately managed by assessing the impacts of hazards, including credit, market, liquidity, operational, strategies, compliance, and technology to the Company through appropriate risk indicators and management information and making recommendations on the risk strategies and the risk appetite to the Board.

The Committee held twelve (12) meetings during the financial year under review.
The attendance of each member at meetings is given on page 61 of the Annual Report.

The Committee has delegated the executive-level risk management function to the Executive Integrated Risk Management Committee (EIRMC) by engaging the right blend of members. They all represent core Divisions of the Company including Risk, Compliance, Credit, Recoveries, Legal, Operational, and Finance. The Chief Executive Officer chairs the EIRMC.

All Key Management Personnel of the Company report to the EIRMC about the risk management issues related to their areas of operation. This reporting is facilitated by the ECC, ALCO and ITSC, which meet regularly to address all risk management issues and decision-making. The Company's Chief Financial Officer was assigned the responsibilities of the Chief Risk Officer to oversee these functions. The CRO position was independently established on the March 01, 2022, designating a dedicated Senior Officer who has been well-trained with guidance from the Integrated Risk Management Department of the Commercial Bank to take up the responsibilities.

Critical functions performed during the year under review:

- Continued with the integrated risk management function and reporting framework within the Company with clearly identified responsibility for each broader category of risk
- Deliberated on enhancing the corporate governance framework and compliance with the applicable statutory requirements of the Company
- Assessed liquidity, credit, market, operations, and environmental risks by making references to reports and other risk indicators tabled at meetings

Credit Risk

- Reviewed and approved policies and operating guidelines related to the Credit Risk Policy Manual, Lending Guidelines, Valuation Policy, and Product Guideline Manual.
- Reviewed the portfolio quality of the Company.
- Industries and sectors were reviewed based on the current country situation, economic conditions, and sector performance, and industries and sectors with elevated risk were identified.
- Reviewed detailed analysis of the impact of regulatory relief measures such as loan moratorium schemes and actions taken by the Company to mitigate the risk of future defaults.
- Reviewed the update on Collections and Recoveries.
- Reviewed the update on the Loan Review Mechanism.
- Reviewed the work carried out by the Credit Committees, and the Risk Management Committee by reviewing the decisions taken by each committee.

Operational Risk

- Introduction of the Operational Risk Policy of the Company.
- Introduced and carried out the biannual Risk Control Self-Assessment (RCSA) process.
- Reviewed operational risk reports, including but not limited to:
- Significant operational risks, incidents, and losses.
- Key risk indicator breaches related to human resources, information technology, finance, compliance and business lines.

Board Integrated Risk Management Committee Report

- Reviewed the proceedings of the Company's Business Continuity Management (BCM) Policy and ensured that time plans were in place encompassing a minimum of a Business Continuity Plan (BCP) and an IT Disaster Recovery Plan (IT DRP).
- Introduction of the Company fire and safety policy.

Market and Liquidity Risk

- Reviewed and approved the Company's market risk policy framework, procedure guidelines, and terms of reference (TORs) for managing market and liquidity risk, to ensure the same is designed to facilitate the identification and assessment of the above risks and the adequacy of controls.
- Reviewed exposures and information and monitored the effectiveness of the market and asset liability risk management, including;
  - Strategies and other relevant financial market activities and business environment issues.
  - Financial position, forecasts, and business performance.
  - Analysis of Asset Liability Committee (ALCO) reports and decisions taken by each committee and assessment of the effectiveness of the committees in line with TOR.

Social and Environment Risk Management (SEMs)

- Introduction of the Company Social and Environment Risk Management Policy.
- Ensured that the risks assumed by the Company were within the risk appetite and prudent levels acceptable to the Committee, and when necessary, the Committee deliberated corrective courses of action to manage risk at prudent levels.
- Concentrated on the high NPA ratio and measures that need to be taken to improve the ratio to an acceptable level.
- Communicated with the Senior Management representing the ECC, ALCO, ITSC and EIRMC on the needed course of action to improve the overall effectiveness of risk management.
- Continued reviewing the Policies and Procedure Manuals of the Company to ensure that they fall in line with the parent company's standards.
- Promoted risk management culture amongst the company management along with continued training on risk management related subjects.
- Oversaw the IT governance function and IT development projects through the Information Technology Steering Committee.
- Reviewed the loans under COVID-19 moratorium and potential impact on the Company's cash flows.
- Reviewed the Company's Risk Management Policy and recommended timely changes to be incorporated into the Board.

In addition to the above, the Committee performed other functions necessary to discharge its duties, and the Committee plans to gradually expand the review process further to strengthen its prudent and effective risk management parameters.

S M S C Jayasuriya
Chairman
Board Integrated Risk Management Committee
June 05, 2023

Board Credit Committee Report

The Board Credit Committee is appointed by and is responsible to the Board of Directors (The Board). The Committee assists the Board of Directors in effectively fulfilling its responsibilities relating to credit strategies and oversight of credit risk, credit policy, and lending guidelines of the Company to inculcate healthy lending standards and practices and ensure relevant regulations are complied with. This Committee's composition may be determined by the Board occasionally.

Meetings of the Committee are held monthly with a quorum of two members at a minimum, at a time and a place as determined by the Committee. The Committee met twelve times during the year 2022. The attendance of the members at these meetings is given on page 61.

The Committee has delegated the executive-level credit management function to the Executive Credit Committee (ECC), chaired by the Managing Director.

The Committee comprised the following members during the twelve months ended 31 December 2022:

Mr K G D D Dheerasinghe	Independent Non-Executive Director (Appointed w.e.f. September 02, 2014)
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 01, 2022)

SCOPE AND RESPONSIBILITIES OF THE COMMITTEE

The Board Credit Committee shall assist the Board of Directors in effectively fulfilling its responsibilities relating to credit direction, credit policy and lending guidelines of the Company to inculcate healthy lending standards and practices and ensure relevant regulations are complied with.

The responsibilities of the Committee shall be:

- Oversight of the credit and lending strategies and objectives of the Company.
- Oversight of the Company's credit risk management, including reviewing internal credit policies and establishing portfolio limits within the credit risk appetite of the Company.

FUNCTIONS OF THE COMMITTEE

- Review and consider changes proposed from time to time to the credit policy and the lending guidelines of the Company.
- Analyse and review the credit risk control measures in the lending areas and the pricing of lending proposals and also ensure that credit proposals are within the relevant regulatory framework.
- Evaluate, assess, and make recommendations on credit proposals submitted to the Board of Directors.
- Evaluate and recommend sector exposures.
- Monitor and evaluate reports called for by the Board of Directors.
- Set lending directions based on the prevailing economic climate.

DELEGATED AUTHORITY LEVELS

The Delegated Authority (DA) levels of the Board Credit Committee have been decided by the Board of Directors, and any change of such limits is subject to the approval/ ratification of the Board members.

REPORTING TO THE BOARD

The Committee reports to the Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities. In addition, it makes whatever recommendations to the Board of Directors it deems appropriate in any area within its limits where action or improvement is needed.

Key functions performed during the 12 months from January 01, 2022 to December 31, 2022:

The Committee approved the credit proposals within its DA levels in line with the Board-approved credit policies and guidelines and within the Company's risk appetite. Proposals beyond its DA levels were recommended for approval of the Board after review at the Committee level. Approving interest and fee waivers for customers, monitoring performing and non-performing portfolios, and the impact of debt moratoriums extended to customers were some of the additional functions undertaken by the Committee during the said period.

In addition to the above, the Committee plans to improve further the system of internal controls relating to the credit management function and proactive credit risk management practices of the Company, especially given the volatile economic situation.

Mr L H Munasinghe
Chairman
Board Credit Committee
June 05, 2023

Board Human Resources and Remuneration Committee Report

COMPOSITION OF THE COMMITTEE

The Human Resources and Remuneration Committee is appointed by the Board of Directors of the Company to evaluate, assess, decide, and recommend to the Board of Directors on any matter that affects the Human Resource Management of the Company and provide guidance and policy directions for relevant issues connected to general areas of Human Resource Management of the Company. A Non-Executive Director chaired the Committee.

The Committee met twice during the year under review. The attendance of the members at these meetings is given on page 61.

- Assess and recommend to the Board of Directors the promotions of KMP, address succession planning and issues connected to organisational structure.
- Make recommendations to the Board occasionally regarding the additions/new expertise required by the Company.
- Determine the terms of any compensation package in the event of early termination of the contract of any Executive Director or any KMP of the Company.
- Make recommendations to the Board regarding the content included in the Annual Report on the Directors' remuneration.
- Consider whether the Executive Directors and KMP should be eligible for annual bonuses or other benefits.

The Committee comprised of the following members during the year:

Dr (Ms) J P Kuruppu, Chairperson of the Committee	Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 02, 2014)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)

FUNCTIONS OF THE COMMITTEE

- Determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and Senior Management of the FC and the fees and allowances structure for Non-Executive Directors.
- Review the performance of the Senior Management (excluding the Chief Internal Auditor, Compliance Officer, and Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- Review information relating to staff salaries from time to time to ensure that the same is on par with market/industry rates, and aim to motivate and retain experienced staff.
- Determine the compensation and benefits of the KMP and establish their individual performance goals and targets.
- Evaluate the performance of the KMP against the pre-agreed targets and goals.
- Make recommendations to the Board on performance reviews of staff members for payment of annual bonuses, increments, promotions, and position changes.
- Approving annual increments, bonuses, changes in perquisites and incentives, ensuring it is linked to performance.
- Setting guidelines and policies to ensure that the Company adheres to laws of the Land, all Central Bank directions and guidelines issued and in force, IFRS, Code of Best Practice on Corporate Governance issued by CA Sri Lanka, and all other applicable criteria of best practice on governance and regulations of the Company.
- Make recommendations/decisions directions about the statutory payments made by the Company on behalf of the employees (EPF, ETF, terminal benefits etc.).
- Recommend/decide/give directions on disciplinary matters relating to incidents of significant losses to the Company caused by or due to actions of KMP.
- Conduct final interviews for shortlisted candidates for Heads of Departments and KMP positions.

The Committee recognises the importance of attractive reward schemes to retain and motivate the Company employees. Therefore, the performance of the executive staff is directly linked with the variable bonus scheme, and the Committee assesses the performance of KMP on an annual basis.

The Committee continuously assesses the adequacy of the expertise available at the Senior Management level. In addition, it ensures that the Company maintains a succession plan for the Key Management Positions of the Company.

ACTIVITIES DURING THE PERIOD

- The Committee determined the bonus payable for 2021, considering the Company's satisfactory annual performance.
- The Committee reviewed the HR Policy and advised the Management improvements to be made in other staff benefits.
- The Committee provided the direction and guided succession planning by reviewing and addressing the Company's succession plan in line with the HR strategies, objectives and business goals to promote workforce diversity.
- The Committee reviewed the precautionary measures taken by the Company to prevent the spread of COVID-19 within the Company premises and ensure a safe work environment for the staff.
- The Committee screened selected applicants and conducted structured interviews with the top candidates for the positions of Chief Operating Officer, Chief Financial Officer and Head of Pawning.
- The Committee made arrangements to renovate an existing building in Randiwela Maha Vidyalaya Mawanella, situated in the Kegalle District, and Thismada Junior School Kadugannawa, under the CSR projects conducted on December 19, 2022.

Mr Sharhan Muhseen
Chairman
Board Human Resources and Remuneration Committee
June 05, 2023

Managing Risk

APPROACH TO RISK MANAGEMENT

The Company recognises that effective risk management is critical to achieving its strategic objectives and maintaining long-term financial stability. Accordingly, the Company has adopted an enterprise-wide approach to risk management. In addition, it has implemented an Integrated Risk Management (IRM) Framework to manage risks that balance profitability and financial stability.

The IRM Framework comprises a comprehensive set of governance structures, policies, processes, and procedures designed to identify, assess, monitor, and manage risks across the Company. This Framework has been developed over time and has continued to serve the Company well amidst the unprecedented challenges of recent years, supporting strategic foresight and agility.

The Board of Directors of the Company holds apex responsibility for risk management. It is supported by the Board Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC) in discharging its risk-related duties. The BIRMC oversees the implementation of the IRM Framework and is responsible for ensuring that risks are managed effectively across the Company. The BAC provides independent oversight of the Company's risk management activities and ensures that the Company's internal control framework is robust.

Risk management is underpinned by the Three Lines of Defence Governance model, which ensures an appropriate level of independence and segregation of duties while driving accountability and ownership. The model defines three lines of defence: the business units (First Line), risk management and compliance functions (Second Line), and internal audit (Third Line).

The First Line manages risks within their respective business units and ensures appropriate controls are in place. The Second Line provides oversight and support to the First Line and ensures that the IRM Framework is implemented effectively. Finally, the Third Line provides independent assurance of the effectiveness of the IRM Framework and the overall risk management activities of the Company.

RISK MANAGEMENT OVERVIEW

The operating landscape presented extraordinary and unprecedented challenges in 2022, resulting in a highly volatile and uncertain risk landscape for the Financial Sector in Sri Lanka. In addition, the global COVID-19 pandemic and its aftermath, including geopolitical tensions such as the invasion of Ukraine by Russia, rising global inflation, and climate change-induced catastrophes, contributed to a fragile external environment marked by cyber insecurity and disruptions to food, energy, and supply chains, as well as a waning US dollar dominance.

On the domestic front, the lingering effects of the Easter Sunday attacks and the pandemic were compounded by social unrest and a change of government, which disrupted the slowly recovering local economy. In addition, arbitrary changes to agricultural policy frameworks, a drop-in worker remittance, acute foreign currency shortages, a sovereign debt downgrade, unsustainable levels of public debt, liquidity shortages, sharp rupee depreciation, import restrictions, a severe shortage of petroleum products, and an unprecedented rise in inflation worsened the turbulence in the local economy.

The NBFI sector in Sri Lanka also faced significant challenges in 2022 due to the risk landscape. Loan defaults increased, reducing the profitability of the NBFI sector and increasing risks. Skyrocketing inflation and an unprecedented increase in interest rates further exacerbated the challenges faced by NBFI in Sri Lanka. The Company met a range of specific risks in 2022, including liquidity risk and credit risk. The risk landscape for the NBFI sector in Sri Lanka remains uncertain, and the Company remains committed to managing its risks effectively to ensure long-term financial stability amidst ongoing challenges.

OVERCOMING UNPRECEDENTED CHALLENGES

In 2022, our country faced significant challenges due to the Easter Sunday attacks of 2019, the COVID-19 pandemic, prolonged lockdowns, macroeconomic issues, social unrest, and a political crisis. These challenges unprecedentedly impacted businesses and individuals, resulting in hardships and difficulties. As a result, our Committee recognised the need to focus on risk management. Accordingly, it worked tirelessly to identify and mitigate the risks associated with the impact on portfolios and the factors within the Company's control to reduce risks.

In addition to our normal scope of work, we dedicated special attention to reviewing risks and identifying mitigants to arrest credit quality deterioration.

Our key areas of focus included:

1. **Portfolio Risks:** We reviewed the risks associated with our portfolios and identified mitigants to reduce the impact of macroeconomic issues, social unrest, and political crisis on our clients.
2. **Credit Quality:** We focused on mitigating risks to prevent credit quality deterioration in our portfolios. We closely monitored our clients' creditworthiness and implemented measures to avoid any significant impact on our credit quality.
3. **Operational Risks:** In light of the unprecedented challenges faced in 2022, we recognised the importance of managing operational risks effectively. We assessed our internal processes, systems, and controls to ensure their resilience and effectiveness in the face of disruptions caused by the Easter Sunday attacks, the COVID-19 pandemic, and the resulting lockdowns. Our focus was on maintaining business continuity and minimising any potential operational disruptions.

Managing Risk

4. **Liquidity Risks:** Given the macroeconomic issues and uncertainties surrounding the social and political environment, we emphasised managing liquidity risks significantly. We closely monitored our funding sources and ensured adequate liquidity buffers to withstand potential shocks. Additionally, we actively managed our cash flows and maintained strong relationships with our funding partners to provide access to liquidity when needed.
5. **Regulatory Compliance:** The challenging environment in 2022 necessitated heightened attention to regulatory compliance. We diligently reviewed and updated our policies and procedures to ensure alignment with evolving regulatory requirements. In addition, our compliance team closely monitored regulatory developments and implemented necessary changes to mitigate compliance risks effectively.
6. **Cybersecurity Risks:** With the increased reliance on digital technologies and remote working arrangements due to the pandemic, we recognised the heightened importance of cybersecurity. We enhanced our cybersecurity measures to protect sensitive customer data and prevent unauthorised access to our systems. In addition, regular vulnerability assessments and employee training programmes were conducted to mitigate the risks associated with cyber threats.
7. **Reputation Risks:** The series of unprecedented events in 2022 had the potential to impact our reputation. Therefore, we proactively managed reputation risks by strengthening our communication strategies, ensuring transparent and timely disclosure of information, and actively engaging with stakeholders to address any concerns or misconceptions. Our commitment to maintaining a solid reputation helped us preserve trust and confidence in our brand.

However, 2022 presented numerous challenges that required a comprehensive and proactive approach to risk management. Our Committee's dedication and efforts focused on mitigating risks in various key areas, including portfolio, credit quality, operational, liquidity, regulatory compliance, cybersecurity, and reputation risks. By closely monitoring and addressing these risks, we successfully navigated the turbulent environment and remained resilient in supporting our clients and stakeholders.

RISK-RELATED KEY MANAGEMENT BODIES

Committee	Key objectives
Board Integrated Risk Management Committee (BIRMC)	The Committee ensures that risks are managed within the Risk Strategy and Appetite as approved by the Board of Directors.
Board Credit Committee (BCC)	To approve high-value credit in line with the Company's risk appetite and line with regulatory requirements.
Board Audit Committee (BAC)	To assist the Board in maintaining an effective system for internal control, compliance with legal and regulatory requirements of CBSL, external financial reporting and internal audit functions.
Executive Credit Committee (ECC)	Review and approve credit proposals under ECC's delegated authority as directed by BCC.
Executive Integrated Risk Management Committee (EIRMC)	Review, monitor, and evaluate the policies and procedures in credit, operational, and market risks in accordance with the BIRMC guidelines.
Asset Liability Committee (ALCO)	Optimise financial resources and manage the connected risks in Asset and Liability Management.
IT Steering Committee	To monitor and review the IT infrastructure to support the optimisation of overall business strategy and mitigate technological risks.

RISK MANAGEMENT STRATEGY OF CBC FINANCE

The risk management strategy of CBC Finance is designed to ensure that the Organisation's risk exposures align with our risk appetite while enhancing value creation. Our comprehensive risk management capability encompasses the internal control system, securing its adequacy, implementation, and effectiveness monitoring. The risk management activities of CBC Finance are carried out at three distinct levels, each contributing to our overall risk management framework:

Strategic Level

At the strategic level, the Board of Directors and the Board Integrated Risk Management Committee (BIRMC) play critical roles in risk management. Their responsibilities include defining risks, establishing the risk appetite, formulating strategies and policies for risk management, and implementing robust systems and controls to maintain risk within acceptable levels.

Management Level

At the management level, risk management is embedded within individual business areas and across business lines. This level ensures that the strategies, policies, and directives set at the strategic level are effectively implemented. The development and implementation of procedures, processes, and controls are carefully executed to support risk management objectives. Compliance with established policies, procedures, and rules is closely monitored, and the outcomes of operations are thoroughly reviewed. Additionally, risk-related information is systematically measured, analysed, and used to enhance risk management practices.

Operational Level

The operational level involves individuals who actively take risks on behalf of CBC Finance, including front, middle, and back-office personnel. These individuals adhere to approved policies, procedures, and controls in their day-to-day activities. Their valuable insights and experiences are essential for continuously improving risk management practices and activities.

Meanwhile, day-to-day risk management is effectively cascaded down to the operational level by implementing a robust Three Lines of Defence mechanism. This approach aligns with CBC Finance's core belief that "managing risk is everyone's responsibility." In addition, the Three Lines of Defence model ensures clear accountability and enhances organisational risk management practices.

RISK MANAGEMENT MODEL OF CBC FINANCE

First Line of Defence	Second Line of Defence	Third Line of Defence
Business Lines	**Risk Management and Controls**	**Assurance**
Ownership for the day-to-day management of risk. Ensure that risks accepted are within the Company's risk appetite and risk management policies.	Direction for Risk Management and Compliance, facilitating high level of risk awareness throughout the Organisation. Independent monitoring of the effective implementation of risk Management Framework.	Providing independent and objective assurance on the Risk Management processes and practices in place.
Department Heads/Branch Managers	**Risk Management Department/ Compliance Department**	**Internal Audit/External Audit**

FIRST LINE OF DEFENCE

The First Line of Defence at CBC Finance consists of the business units supported by centralised support functions. These units undertake various activities that expose them to different risks, managed through well-documented procedures, internal controls, and limits approved by the Board.

Front-office and back-office staff members diligently carry out their tasks in compliance with regulatory requirements and approved internal policies, procedures, and controls. Their valuable contributions help identify potential risk factors, fostering a culture of risk awareness and enhancing risk management practices across the Organisation.

SECOND LINE OF DEFENCE

The Second Line of Defence comprises the Executive Integrated Risk Management Committee (EIRMC) and the Compliance Division. This line of defence is responsible for effective risk management and ensuring that risk-taking remains within the defined risk appetite. The EIRMC identifies and assesses principal and emerging risks, events, and outcomes that could significantly impact profitability and reputation. They implement appropriate controls and regularly update the Board on these matters.

The Compliance Division plays a crucial role in coordinating risk management processes. They ensure that risk management and internal control systems are deeply embedded in the Organisation's culture. The Compliance Division also assures the EIRMC and the Audit Committee regarding regulatory compliance and risk tolerance. In addition, it establishes robust policies, processes, and procedures to ensure compliance with regulations issued by the Central Bank of Sri Lanka (CBSL) and other relevant regulatory bodies.

THIRD LINE OF DEFENCE

The Third Line of Defence consists of internal and external audits, which serve as the final layer of control to assure the practical implementation of processes and controls. Internal auditors regularly communicate their findings and assurance through monthly review reports to the Board Audit Committee. The Committee thoroughly reviews financial reporting, and the Audit process assesses the effectiveness of internal controls and monitors the Company's compliance with statutory and regulatory requirements, including the code of conduct in place.

The collaboration between the Three Lines of Defence at CBC Finance ensures a comprehensive risk management framework where risks are identified, assessed, and addressed effectively throughout the Organisation. This multi-layered approach enhances risk mitigation, regulatory compliance, and control environment, instilling stakeholder confidence and promoting sustainable growth.

Managing Risk

RISK MANAGEMENT PROCESS

The risk management process at CBC Finance encompasses several vital steps that enable risk identification, assessment, evaluation, and control. This comprehensive approach ensures proactive risk mitigation and informed decision-making throughout the Organisation.

RISK IDENTIFICATION

The risk identification process involves systematically identifying potential risks that may arise during the company's business transactions. CBC Finance fosters a culture of continuous risk awareness, where risk owners and monitoring units engage in ongoing discussions to identify and assess risks associated with new activities, products, or processes. This proactive approach ensures that potential risks are identified prior to their commencement.

RISK ASSESSMENT

The risk assessment phase involves analysing the Company's exposure to the identified risks and assessing their potential impact on CBC Finance. It includes gathering and analysing external and internal fraud information, reviewing operational processes for gaps, evaluating IT system vulnerabilities and failures, and monitoring market conditions. Through this comprehensive assessment, CBC Finance estimates the value of possible losses and damages if these identified risks materialise.

The risk assessment process at CBC Finance encompasses a thorough analysis of various factors to understand potential risks and their impact on the company comprehensively. The following essential elements are considered during the risk assessment:

- **Gathering and Analysing External and Internal Frauds:**

  CBC Finance diligently collects and analyses data related to external and internal fraud incidents. This includes investigating the underlying reasons behind such frauds and assessing the integrity levels of the staff involved. By understanding the root causes of fraud, the Organisation can implement appropriate measures to mitigate the risk of future occurrences.

- **Regular Review of Operational Processes:**

  CBC Finance reviews its operational processes to identify any potential gaps or weaknesses. This allows for the timely detection and rectification of operational risks, ensuring that processes are efficient, effective, and aligned with industry best practices.

- **Analysis and Review of IT System Failures and Vulnerabilities:**

  CBC Finance pays close attention to IT system failures, such as system outages, power disruptions, and malfunctions in CCTV and alarm systems. These evaluations help identify vulnerabilities and weaknesses in the IT infrastructure. Additionally, physical controls, access controls, and network vulnerabilities are evaluated to ensure the reliability and security of the IT systems.

- **Review of Ever-changing Market Conditions:**

  CBC Finance recognises the impact of ever-changing market conditions on its operations. Accordingly, regular reviews of market conditions and trends are conducted to assess potential risks arising from market fluctuations. This analysis enables proactive decision-making and the implementation of appropriate risk management strategies to mitigate possible adverse effects.

RISK EVALUATION

Risk Evaluation compares the estimated risks against the risk criteria that the Company has already established. The Company uses both qualitative and quantitative parameters to measure its risk appetite of the Company. These parameters are periodically evaluated and adjusted to reflect the vulnerabilities in the market and the macroeconomic sentiments the Company is confronted with.

RISK CONTROL

This process refers to implementing policies and procedures that help avoid or minimise risks, which could be further extended towards risk transfer and risk financing. Risk acceptance processes enable consideration of the risk-rewards tradeoffs and the cost of other risk management options, such as avoidance or limitation, before assuming certain types of risk, such as credit risk. Credit approval procedures and pre-disbursement processes are examples of the risk acceptance processes in place, while approvals for borrowings are another example of a risk acceptance process.

IDENTIFYING AND CATEGORISING TYPES OF RISK

To facilitate the process of risk identification and assessment, CBC Finance employs risk categories that assist in classifying the organisation's various risks. These categories enable a structured approach to understanding and addressing the risks that may affect the achievement of the Company's objectives.

The following risk categories have been established at CBC Finance:

CREDIT RISK

Credit risk is a significant area of focus for CBC Finance, representing the potential for loss arising from borrower or counterparty default on contractual obligations. Accordingly, the Company is committed to maintaining a high-quality loan portfolio by adhering to its risk appetite and proactively managing non-performing loans below industry norms.

The foundation for effective credit risk management at CBC Finance lies in its Credit Policy, approved by the Board of Directors. This policy provides a framework for lending, while detailed guidelines and circular instructions offer specific instructions for performing lending responsibilities. Regular reviews of the Credit Policy and Lending Guidelines ensure alignment with the dynamic financial landscape of the country, enabling the Company to achieve its business objectives.

CBC Finance operates under a centralised credit processing mechanism supported by its dedicated Credit Administration Department. All retail facilities, including loans against property, leases, motor drafts, and business loans, are processed through this mechanism. The challenging macroeconomic conditions, such as political uncertainty, fuel shortages, inflation, and the depreciation of the local currency, have impacted the sector's normalcy. As the country aims to revive economic activities, the NBFI sector faces ongoing asset quality pressure, slower growth, impairments, and lower-than-projected earnings. These challenges have become the new normal for the entire NBFI sector.

In response to the prevailing economic challenges, the Central Bank of Sri Lanka (CBSL) issued directives to the industry regarding the deferment and restructuring existing credit facilities. CBC Finance has implemented these directives, deferring the recovery of capital, interest, or both for eligible borrowers facing financial difficulties. These measures are assessed case-by-case to provide appropriate relief aligned with the CBSL directives.

To ensure effective credit risk management, CBC Finance has a well-defined credit approval process with delegated authority linked to the borrower's risk profile and specific product guidelines. In addition, the Company closely monitors its loan portfolio and portfolio monitoring has been enhanced in response to the COVID-19 impact and macroeconomic challenges. This includes expanding the scope to identify watch-listed customers for regular monitoring, even if they have previously serviced their facilities without arrears, especially in stressed industries.

CBC Finance maintains disciplined credit risk management practices by adhering to the Credit Policy, Lending Guidelines, and comprehensive credit approval process. These measures contribute to identifying potential risks, early warning reporting, appropriate levels of concentration risk, and ongoing portfolio monitoring aligned with the Company's risk appetite.

OPERATIONAL RISK

Operational risk is a critical aspect of CBC Finance's business activities, encompassing the risk of loss arising from internal process deficiencies, system failures, human errors, and external events. It also includes legal risks but excludes strategic and reputational risks. Consequently, managing operational risk is a fundamental part of CBC Finance's ongoing operations, and implementing robust practices is essential to mitigate potential risks.

The governance of operational risks within the Organisation follows the Three Lines of Defence approach, which aims to protect CBC Finance, its customers, and shareholder from potential losses and reputational damages. This approach ensures transparency, accountability, and a clear segregation of duties in risk management.

CBC Finance manages operational risks by employing the tools and processes outlined in the Board-approved Operational Risk Management Policy. This policy ensures that the Company's risk parameters remain within the approved risk appetite. By systematically identifying operational risks and their concentrations, CBC Finance can define appropriate risk mitigation measures and prioritise their implementation. The operational risk management framework encompasses various techniques applicable to all types of operational risks.

In addition to internal risk management practices, CBC Finance employs risk transfer strategies to mitigate operational risks. For example, the Company has obtained insurance coverage for fire, natural disasters, theft/ robbery, and fraud. The Risk Department and Insurance Department review and ensure the adequacy of insurance policies and adequate controls in outsourced activities before engaging in such arrangements.

The effectiveness of CBC Finance's operational risk management practices can be demonstrated through various methods, including:

1. Robust incident reporting and investigation procedures to promptly identify and address operational incidents.
2. Regular risk assessments and scenario analysis to anticipate potential operational risks and their potential impacts.
3. Comprehensive business continuity plans to ensure uninterrupted operations during disruptions.
4. Ongoing training and awareness programmes for employees to enhance risk awareness and promote a strong risk culture.
5. Continuous monitoring and review of operational processes, systems, and controls to identify gaps and implement necessary improvements.
6. Regular review and update operational risk policies and frameworks to align with evolving industry practices and regulatory requirements.

MARKET RISK

Market risk refers to the potential for losses in on/off-balance sheet positions due to fluctuations in market prices. It encompasses various types of risks, including Interest Rate Risk (IRR), Foreign Exchange Risk (FX), Equity Price Risk, and Commodity Price Risk. CBC Finance recognises the importance of effectively managing market risk to safeguard its financial positions.

The Asset and Liability Management Committee (ALCO) plays a pivotal role in overseeing market risk management within CBC Finance. ALCO primarily manages Interest Rate, Liquidity, and Equity Price Risk. CBC Finance has established integrated risk management policies, including the Market Risk Management Policy and the Asset and Liability Risk Management Policy, to guide its market risk management efforts. These policies provide a comprehensive framework for identifying, assessing, and mitigating market risks.

The Integrated Risk Department and the Finance Department lead in establishing suitable policies and procedures to manage market risk effectively. This involves setting guidelines for risk measurement methodologies, risk limits, and risk management techniques. In addition, the departments work closely with other relevant units to ensure consistent and coordinated market risk management practices.

CBC Finance recognises that market conditions can rapidly change, impacting the valuations of its assets and liabilities. Therefore, the Company regularly monitors market trends and conducts stress testing and scenario analysis to evaluate the potential impact of adverse market movements. These measures enable the Organisation to assess its risk exposures and take appropriate actions to mitigate potential losses.

LIQUIDITY RISK

Liquidity risk represents a potential challenge for CBC Finance in meeting its financial obligations related to cash settlements or other financial assets. At CBC Finance, we approach liquidity management with a focus on maximising value, ensuring we always maintain sufficient liquidity to fulfil our liabilities promptly, even in adverse or stressful conditions. Our goal is to avoid any unacceptable losses and protect the integrity of our Organisation.

We recognise that effective liquidity management is crucial for the seamless operation of our business. Therefore, we diligently monitor various liquidity risk indicators to assess the effectiveness of our liquid asset portfolio. Key focus areas include the liquid asset ratio, maturity gap analysis, and funding concentration. In addition, we proactively address liquidity risk as a standing agenda item in our monthly Asset and Liability Management Committee (ALCO) meetings. As the overseeing body, ALCO ensures the implementation of robust liquidity management policies by attracting deposits at competitive rates and accessing low-cost funding from the market. This approach allows us to balance lending and borrowing portfolios and effectively control maturity mismatches.

Maintaining optimal liquidity remains our top priority amid the turbulent economic environment. Therefore, we continually forecast cash flows across different stress scenarios during our monthly ALCO meetings to monitor our cash position closely. By proactively managing liquidity and regularly evaluating potential stress levels, we safeguard the financial health of CBC Finance and enhance our overall value proposition.

CYBER RISK

Cyber risk is the risk of financial loss, disruption, or damage to an organisation caused by issues with the information technology systems they use. While cyber risks can have significant consequences for an organisation, they most commonly arise due to operational mistakes. For example, an unauthorised breach of information systems is a cyber risk, and it could manifest itself in the increase of dependency on automated systems and processes.

CBC Finance has accorded top priority to addressing IT risk and has focused on cybersecurity strategies to protect the company and its customers from cyberthreats. CBC Finance's cybersecurity strategy is focused on securely enabling new technology and business initiatives while maintaining a persistent focus on protecting the Company from cyberthreats.

Key Initiatives taken during the year

- Introduction of Operational Risk Management Policy, Market Risk Management Policy, Social and Environmental Policy, and Fire and Life Safety Policy.
- Carrying out a risk assessment for new products/modification of existing products and contributing towards appropriate value additions.
- Risk identification, assessment, and measurement covering credit, operational, strategic, financial, and liquidity risks, including the risks related to IT operations.
- Ensure the Business Continuity Management (BCM) Framework is effectively executed across the Company.
- Introduction of a Credit Risk Rating Model for Motor Draft and validation of existing models to compile in the present market conditions.

Key Risk Indicators of the Company

Ratio	December 2021	**December 2022**
Core capital adequacy ratio; core capital as a percentage of risk-weighted assets	25.49%	**24.89%**
Total capital adequacy ratio; total capital as a percentage of risk-weighted assets	25.49%	**24.89%**
Capital funds to total deposit liabilities ratio	62.49%	**59.99%**
Gross non-performing accommodation ratio (%)	13.14%	**16.98%**
Net non-performing accommodation ratio (%)	1.30%	**8.10%**
Return on assets (before tax)	0.88%	**0.09%**
Return on equity (after tax)	1.03%	**1.25%**
Earnings per share (LKR)	0.15	**0.18**
Net Assets per Share (LKR)	14.68	**14.33**
Fitch Rating	A(lka)/Stable	**A(lka)/RWN**

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

for the twelve months ended December 31, 2022

The details set out herein provide the information required by section 168 (1) of the Companies Act No. 07 of 2007 and recommended best accounting practices.

1. GENERAL

The Directors have pleasure in presenting to the member their Report together with the audited Financial Statements and the Audit Report thereon of CBC Finance Limited (CBCF) (formerly Serendib Finance Limited and Indra Finance Limited), a limited liability company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 and operating as a Licensed Finance Company under the Finance Business Act No. 42 of 2011.

The Financial Statements were authorised for issue by the Directors on March 15, 2023.

2. REVIEW OF BUSINESS

2.1 Principal Activities

The Company has obtained the license to conduct financial business as per the Finance Business Act No. 42 of 2011. The Company's principal activities comprise finance leasing, hire purchase financing, other credit financing, leased asset trading, and accepting public deposits.

Other than the above, the nature of the Company's principal activities remained the same during the twelve months under review.

2.2 Financial Statements

The Company's Financial Statements were duly certified by the Senior Manager Finance and approved by two Directors in compliance with the requirements of sections 151, 152 and 168 (1) (b) of the Companies Act No. 07 of 2007.

Directors' Responsibility for Financial Reporting

The Directors are responsible for preparing the Company's Financial Statements to reflect an accurate and fair view of its affairs. Accordingly, the Directors are of the opinion that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes to it have been prepared following the requirements of the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs) and Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka, and the provisions in the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

2.3 Auditors' Report

The Company's Auditors, Messrs KPMG, performed the audit on the Financial Statements for the twelve months ended 31 December 2022 and the Auditors' Report on the Financial Statements is attached hereto, which forms an integral part of this Report as required by section 168 (1) (c) of the Companies Act No. 07 of 2007.

2.4 Significant Accounting Policies and Changes during the Period

The Significant Accounting Policies adopted in preparing Financial Statements are presented in the Notes to the Financial Statements as required by section 168 (1) (d) of the Companies Act No. 07 of 2007. The changes in these accounting policies during the period under review are also disclosed therein. All other policies are consistent with those adopted in the previous financial year as Sri Lanka Accounting Standards required.

2.5 Interests Register

The Company maintains An Interests Register, per the requirements of the Companies Act No. 07 of 2007. All Directors have made declarations as provided for in section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interests Register during the period under review. For example, entries were made in the Interests Register on share disposal, Directors' interest in contracts and remuneration paid to the Directors etc. The Interests Register is available for inspection as section 119 (1) (d) of the Companies Act No. 07 of 2007 requires.

2.6 Directors' Remuneration and Other Benefits

Directors' remuneration and other benefits, in respect of the Company for twelve months period ended 31 December 2022 is, given in Notes to the Financial Statements as required by section 168 (1) (f) of the Companies Act No. 07 of 2007.

2.7 Information on Directorate

List of Directors

The Board of Directors of the Company as of December 31, 2022 was as follows:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Dr (Ms) Janaki Padma Kuruppu
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
- Mr Lasantha Hasrath Munasinghe
- Mr Muhseen Mohamed Sharhan Mohamed
- Mr Megelhewage Pushpakumara Dharmasiri

Names of the Directors, who were the Directors at any time during the twelve months ended December 31, 2022 of the Company as required by section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Dr (Ms) Janaki Padma Kuruppu
- Mr Senanayakege Raja Pushpakumara
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
- Mr Lasantha Hasrath Munasinghe
- Mr Muhseen Mohamed Sharhan Mohamed
- Mr Megelhewage Pushpakumara Dharmasiri

New Appointments and Resignations

New Appointments

- Mr Muhseen Mohamed Sharhan Mohamed, with effect from September 01, 2022.
- Mr Megelhewage Pushpakumara Dharmasiri with effect from September 01, 2022.

Resignations

- Mr Senanayakege Raja Pushpakumara with effect from June 30, 2022

2.8 Gross Income

The income of the Company for the twelve months ended December 31, 2022 was LKR 1,636 Mn. An income analysis is given in Notes to the Financial Statements attached hereto.

3. DIVIDENDS AND RESERVES

3.1 Profit and Appropriations

The details of the profit of the Company are given below.

For the period ended December 31,	**12 Months period ended December 31, 2022 LKR '000**	09 Months period ended December 31, 2021 LKR '000	12 Months period ended March 31, 2021 LKR '000
Profit/(Loss) before tax	**9,726**	88,113	129,443
Taxation	**29,857**	(54,870)	(64,952)
Net other comprehensive income	**5,846**	(1,347)	(699)
Total comprehensive income after tax	**45,429**	31,896	63,792
Unappropriated profit brought forward.	**(138,979)**	(169,213)	(229,780)
Surcharge levied under Surcharge Act	**(110,313)**	–	–
Adjustment on initial application of SLFRS 9	**–**	–	
Profit/(loss) available for appropriation	**–**	(137,317)	(165,988)
(Transfers to)/reversals from reserves	**(1,979)**	(1,662)	(3,225)
Final dividend paid	**–**	–	–
Unappropriated profit/(loss) carried forward	**(205,842)**	(138,979)	(169,213)

4. DIVIDENDS ON ORDINARY SHARES

The Board has not declared any dividends for the twelve months ended December 31, 2022 and financial years 2021 (nine months period) and 2020/21.

4.1 Provision for taxation

Income tax for the twelve months ended December 31, 2022 has been provided at 28% (for the first nine months) and 24% (for the last three months) for taxable income arising from the operations of the Company. Accordingly, it has been disclosed by Sri Lanka Accounting Standards.

Information on income tax expenses and deferred taxes is given in respective Notes to the Financial Statements attached hereto.

4.2 Reserves

The Company's total reserves as of December 31, 2022 amounted to LKR 77.53 Mn. (December 31, 2021– LKR 0.01 Mn.). The movement of the reserves is given in the Statement of Changes in Equity and Notes to the Financial Statements attached hereto.

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

5. PROPERTY, PLANT, AND EQUIPMENT, LEASEHOLD PROPERTY AND INTANGIBLE ASSETS

Cumulative capital expenditure on property, plant, and equipment net of accumulated depreciation is as follows;

Period	2022 LKR Mn.	Nine months period ended December 31, 2021 LKR Mn.	2020/21 LKR Mn.	2019/20 LKR Mn.
Property, Plant, and Equipment	**316.8**	276	249	235

Details are given in relevant notes to the Financial Statements.

6. MARKET VALUE OF FREEHOLD PROPERTIES

The value of the Company's freehold properties as of December 31, 2022 is included in the Financial Statements at LKR 192.2 Mn. (December 31, 2021 – LKR 191.4 Mn.). The latest Revaluation of the Company's freehold properties was carried out as of March 31, 2020, and the Directors think that the carrying value of properties is more fully in line with the current market values.

Details of these are given in relevant Notes to the Financial Statements attached.

7. STATED CAPITAL

The Company's stated capital as of December 31, 2022 was LKR 3,255 Mn. comprising 221.8 Mn. ordinary shares (December 31, 2022 – LKR 3,255 Mn.). The details of the stated capital are given in relevant Notes to the Financial Statements attached hereto.

8. SHARE INFORMATION

Details of share-related information are given in relevant notes, and information relating to earnings and dividends per share is provided in respective messages to the Financial Statements attached hereto.

8.1 Issue of Shares

The Company issued no new shares during the nine months ended December 31, 2022.

9. SUBSTANTIAL SHAREHOLDING

Commercial Bank of Ceylon PLC owns all the shares of the Company.

9.1 Equitable Treatment to All Stakeholders

We value the patronage of all our stakeholders, and the Company has endeavoured to ensure equitable treatment to all of them.

10. DIRECTORS

10.1 Information on Directors

The names of the persons who were Company Directors at any time during the twelve months ended December 31, 2022 are given in section 2.7 of this Report.

10.2 Board subcommittees

Information about Board subcommittees is as follows.

Board Audit Committee:

- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya (Chairman) appointed with effect from June 01, 2022
- Mr Senanayakege Raja Pushpakumara (Chairman) resigned on June 30 , 2022
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Megelhewage Pushpakumara Dharmasiri

Board Integrated Risk Management Committee:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Mr Senanayakege Raja Pushpakumara (Resigned on June 30 , 2022)
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
- Mr Megelhewage Pushpakumara Dharmasiri
- Prabath Rukmal Kumara Kaldera – Chief Risk Officer (Secretary to the Committee)

Board Credit Committee:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Lasantha Hasrath Munasinghe

Board Nominations Committee:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Mr Senanayakege Raja Pushpakumara (Resigned on June 30 , 2022)
- Dr (Ms) Janaki Padma Kuruppu
- Mr Muhseen Mohamed Sharhan Mohamed

Board Remuneration Committee:

- Dr (Ms) Janaki Padma Kuruppu (Chairperson)
- Mr Dimuthu Senarath Bandara
- Mr Lasantha Hasrath Munasinghe

11. DISCLOSURES OF DIRECTORS' DEALINGS IN SHARES

11.1 Directors' Interest in Ordinary Shares

Directors did not hold any company shares as of December 31, 2022.

12. DIRECTORS' INTEREST IN CONTRACTS OR PROPOSED CONTRACTS

Directors have no direct or indirect interest in any contract or proposed contract with the Company for the twelve months ended December 31, 2022 other than those disclosed in relevant Notes to the attached Financial Statements.

13. ENVIRONMENTAL PROTECTION

To the best of their knowledge and belief, the Directors are satisfied that the Company has not engaged in any activities that have caused adverse environmental effects and have complied with the relevant environmental regulations.

14. STATUTORY PAYMENTS

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments about the Government and employees have been made/provided for up to date.

15. EVENTS AFTER THE REPORTING DATE

No material events after the reporting date would require adjustments to or disclosure in the Financial Statements other than those disclosed, if any, in relevant Notes to the Financial Statements attached hereto.

16. GOING CONCERN

The Board of Directors reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Company's Financial Statements have been prepared based on the going concern concept.

17. APPOINTMENT OF EXTERNAL AUDITORS

The Financial Statements for the period have been audited by Messrs KPMG, Chartered Accountants, who offer themselves for reappointment. Accordingly, the Annual General Meeting will propose a resolution to reappoint them as Auditors and authorise the Directors to fix their remuneration.

18. AUDITORS' REMUNERATION AND INTEREST IN CONTRACTS WITH THE COMPANY

The Auditors, Messrs KPMG, were paid LKR 1.93 Mn. (2021 – LKR 1.79 Mn.) as audit and related fees by the Company during the period. In addition, the Company has also engaged External Auditors for several other permitted non-audit services.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company.

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

19. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

19.1 Risk Management

Specific steps that have been taken by the Company in managing both business risk and financial risk are detailed in relevant disclosure Notes to the Financial Statements attached to this report.

19.2 System of Internal Controls

The Board of Directors has established a practical and comprehensive system of internal controls to ensure proper rules are in place to safeguard the Company's assets, detect and prevent frauds and irregularities, and ensure that appropriate records are maintained and that Financial Statements presented are reliable. In addition, monthly management accounts are prepared, providing management with relevant, reliable, up-to-date Financial Statements and key performance indicators.

The Audit Committee reviews, regularly the reports, policies and procedures to ensure that a comprehensive internal control framework is in place.

19.3 Audit Committee

The composition of the Audit Committee is given above in section 10.2 of this report.

20. CORPORATE GOVERNANCE

The Company is committed to high standards of Corporate Governance. Accordingly, the leading Corporate Governance practices of the Company comply with the Finance Companies (Corporate Governance) Direction No. 05 of 2021 and subsequent amendments to it issued by the Central Bank of Sri Lanka.

21. HUMAN RESOURCES

The Company continues to regard communication with its employees as a critical aspect of its policies. As a result, information is given to employees about employment matters and the financial and economic factors affecting the Company's performance. In addition, employees are encouraged to discuss operational and strategic issues with their line management and make suggestions to improve performance.

22. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

To the best of our knowledge, there has been no violation or possible violation of laws or regulations in any jurisdiction whose effect should be disclosed. In addition, there have been no irregularities involving management or employees that could have a material financial impact.

23. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company's Lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company.

24. NOTICE OF MEETING

The details of the Annual General Meeting are given in the Notice of Meeting.

25. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors acknowledges the report's contents.

For and on behalf of the Board

Sharhan Muhseen
Chairman

D M U N Dissanayake
Managing Director/
Chief Executive Officer

H D U O Gunasekara
Company Secretary

May 30, 2023

Directors' Responsibility for Financial Reporting

This report has been presented in accordance with Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013.

As per the Sections 148 (1) and 151 (1) of the Companies Act No. 07 of 2007, the Company has to ensure that it keeps proper books of account of all the transactions and prepare Financial Statements that give an accurate and fair view of the state of affairs and the profits/losses for the period.

Accordingly, the Directors have caused the Company to maintain proper books of account and review the financial reporting system at regular meetings and through the Board Audit Committee. The Board Audit Committee Report is given on page 83 of this Report. The Financial Statements for the period ended December 31, 2022 prepared and presented in this Report are consistent with the underlying books of account. They conform with the requirements of the Companies Act, Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Finance Leasing Act No. 56 of 2000 and the Finance Business Act No. 42 of 2011. In preparing the Financial Statements exhibited on page 110 onwards, the Directors believe that they have adopted accounting policies consistently and supported by reasonable and prudent judgements and estimates.

The Directors are also responsible for ensuring that the Company maintains adequate general supervision, control and administration of the affairs and business of the Company.

The Directors believe that the Internal Control System in place is capable of safeguarding the assets, preventing and detecting frauds and errors, ensuring accuracy and completeness of the accounting records and timely preparation of reliable financial information.

To the best of their knowledge, the Directors confirm that all taxes, dues to or on behalf of employees, statutory dues and levies payable by the Company as of the balance sheet date have been paid or, where relevant, provided for.

The Company's External Auditors, Messrs KPMG, conduct audit verification on a sample basis on the internal controls over the financial reporting system. They consider expressing their opinion on the Financial Statements is appropriate and necessary. The Directors have the discretion to engage the Auditors on further agreed-upon procedures when additional assurance as to the accuracy of the financial information is required.

Messrs KPMG, the Company's External Auditors, have examined the Financial Statements made available by the Board of Directors with all the financial records, related data, and the Shareholder and Directors' meeting minutes. They have expressed their opinion, which they reported on page 108 of this report.

Accordingly, the Directors view that they have discharged their responsibilities as set out in this statement.

By order of the Board.

H D U O Gunasekara
Company Secretary
June 15, 2023

Directors' Statement on Internal Control Over Financial Reporting

Board's Responsibility

This Report on Internal Control has been presented under Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013 of the Central Bank of Sri Lanka.

The Board of Directors is responsible for the adequacy and effectiveness of the CBC Finance Limited's internal control system on financial reporting. However, the internal control system has been designed to manage the Company's key risk areas within an acceptable risk profile rather than to eliminate the risk of failure to achieve the Company's policies and objectives. Hence, the Company's internal control system can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or financial losses.

The Board has established an ongoing process for identifying, evaluating and managing material risks. This process includes enhancing the system of internal control when needed in line with changes in the business environment or regulations. The Management of the Company assists the Board in implementing the policies and procedures on risk and control by identifying and assessing the risks faced and in the design, operation and monitoring of appropriate internal controls to control risks.

The process adopted by the Board in applying and reviewing the design and effectiveness of the internal control mechanism on financial reporting

The key processes that have been established for reviewing the adequacy and integrity of the system of internal controls of financial reporting are as follows:

- The Board established various appointed committees, including those mandatory committees as required by the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013. This is to assist the Board in ensuring the effectiveness of the Company's daily operations and that the Company's operations are conducted in line with the corporate objectives, strategies and annual budget, as well as the policies and business directions that have been approved.
- Policies are developed covering all functional areas of the Company, which are recommended by the Board appointed Committees and approved by the Board. Such policies are reviewed and approved at least annually.
- Relevant Heads of Departments have been delegated the task of applying controls to capture their related transactions onto a defined and structured information recording system supporting financial reporting. At the same time, the Finance Department headed by the Head of Finance has been delegated to prepare the accounts and Annual Financial Statements in line with applicable Sri Lanka Accounting Standards, other applicable regulations and industry best practices.
- The Company has reorganised and strengthened the Internal Audit Department, which is entrusted with the task of carrying out the Company's internal audit function periodically to verify compliance with policies and procedures and the effectiveness of the internal control systems and providing feedback on such reviews to the Audit Committee on any non-compliance and recommendations for improvements.
- The Internal Audit Department has sought confirmations from the Management on internal controls adopted in the respective processes they handled and confirmed to the Board upon testing such controls.
- Being a 100% owned subsidiary of Commercial Bank of Ceylon PLC, the Company is subjected to audit and review by the Inspection Department of the Bank. It is entrusted with conducting inspections of the Company's operations periodically to verify compliance with policies and procedures and the effectiveness of the internal control systems. It also provides feedback on such reviews to the Board Audit Committee on any non-compliance and recommendations for improvements. Besides onsite inspections, the Inspection Department commenced an online monitoring system on CBCF's day-to-day operations after implementing the ICBS. Similarly, oversight functions are carried out by the Information Systems Audit Department and the Integrated Risk Management Department of the Bank, engaged on the basis mentioned herein.
- The Board Audit Committee of the Company, which is set up on Terms of Reference approved by the Board of Directors, meets regularly to review internal control issues identified by Internal Auditors in their periodic reviews, queries raised by the External Auditors consequent to their statutory reviews and other matters brought up by the Management. In addition, the Committee evaluates the adequacy and effectiveness of the Company's internal control systems.
- The Board Audit Committee further reviews the work of Internal Auditors on their scope and quality of audits. The Committee follows up on matters with the Management and, in turn, provides feedback to the Board on matters of concern for their deliberation and resolution.
- Other subcommittees appointed by the Board assist the Board in reviewing the effectiveness of areas relevant to such committees. This includes ensuring that related operations follow corporate objectives, policies and established procedures and would help provide feedback to the Board on any shortcomings.
- The matters highlighted by the External Auditors relating to the internal controls in the nine months ended December 31, 2021 were attended, and corrective measures were initiated to rectify such concerns.
- The recommendations made by the External Auditor in the financial year ended December 31, 2022 in connection with the internal control system will be addressed in future.

Directors' Statement on Internal Control Over Financial Reporting

Since adopting the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" on April 01, 2018, processes required to comply with the latest requirements of recognition, measurement, presentation and disclosures were introduced and implemented as necessary. Continuous monitoring is in progress, and steps are being taken to improve the processes and enhance effectiveness and efficiency.

The existing models to calculate Expected Credit Losses (ECL) are inherently complex, and judgement is applied to determine the correct construction of the models. Several critical assumptions are also used in the models, including the selection and input of forward-looking information. External consultants reviewed these models independently, and their opinions were considered for model improvements. The Company has documented the relevant processes relating to SLFRS 9 in the procedure manual whilst necessary changes are being made with the BAC and the Board's approval.

In addition, the Company is closely monitoring the impact of the extraordinary macroeconomic circumstances on its customers, incorporating separate management overlays to the ECL model and stressing the qualitative factors used to assess forward-looking macroeconomic indicators. Further, the Board of Directors have decided to incorporate special staging adjustment for moratorium-granted facilities with the opinions of external consultants.

Confirmation by the Board

The Board believes that the system of internal controls is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting. Accordingly, based on the established internal control mechanism explained above, the Board confirms that the financial reporting system of the Company has been designed and continuously upgraded to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is done in line with Sri Lanka Accounting Standards and as per the requirements of the industry regulator.

During that period, Company tested the adequacy of internal controls with the help of the Internal Auditor, who accordingly tested the essential internal controls and confirmed the same to the Board of Directors.

The Company is continuously reviewing policies/procedures manuals for the key processes and the recommendations made by the Auditors on the internal controls of the Company, which are continually dealt with.

External Auditors' review of the statement

The External Auditors have reviewed the above Directors' Statement on internal control for December 31, 2022. They reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the design and effectiveness of the internal control system of the Company over financial reporting.

By order of the Board.

Sharhan Muhseen
Chairman

D M U N Dissanayake
Managing Director

S M S C Jayasuriya
Chairman
Audit Committee
May 25, 2023

Auditors' Assurance Report on the Directors' Statement on Internal Control

KPMG
(Chartered Accountants)
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The Board of Directors of CBC Finance Limited

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

We were engaged by the Board of Directors of CBC Finance Limited ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the Annual Report for the year ended December 31, 2022.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Licensed Finance Company/Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008/ Section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009, by the Central Bank of Sri Lanka.

Our Independence and Quality Control

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

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

Auditors' Responsibilities

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

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

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

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

Summary of Work Performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control over financial reporting for the Company.

Auditors' Assurance Report on the Directors' Statement on Internal Control

KPMG

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

a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

b) Reviewed the documentation prepared by the Management to support their Statement made.

c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.

d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

e) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

f) Obtained written representations from Directors on matters material to the Statement of Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

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

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

Auditors' Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control of the Company.

Chartered Accountants

June 05, 2023

Colombo

FINANCIAL REPORTS

Independent Auditors' Report

KPMG
(Chartered Accountants)
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To the Shareholder 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 December 31, 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 December 31, 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.

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
March 17, 2023

Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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 amortisation		**(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.

Statement of Financial Position

As at December 31,	Note	2022 LKR	2021 LKR
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 amortised 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

March 16, 2023
Kandy

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		
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at April 01, 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 recognised directly in Equity								
Transfers during the period	–	–	–	1,662,153	–	–	(1,662,153)	–
	–	–	–	1,662,153	–	–	(1,662,153)	–
Balance as at December 31 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 January 01, 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 January 01, 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 recognised directly in Equity								
Transfers during the year	**–**	**–**	**–**	**1,979,146**	**–**	**–**	**(1,979,146)**	**–**
	–	**–**	**–**	**1,979,146**	**–**	**–**	**(1,979,146)**	**–**
Balance as at December 31, 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.

Statement of Cash Flows

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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
Amortisation		**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 amortised 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.

Notes to the 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 07 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 December 31, 2022 is 176 (December 31, 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 December 31, 2022 were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on March 17, 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 recognised 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 recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the 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 December 31, 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 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 recognised 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 utilised 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

Notes to the Financial Statements

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

Notes to the Financial Statements

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 and 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

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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 (years)
Buildings	30 - 35
Furniture and Fittings	8
Office Equipment	8
Motor Vehicles	5
Computers and Accessories	5
Telephone System	4
Electrical Equipment	8
Sign Boards	8
Fixtures and Fittings	8

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 (years)
Computer software	10

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 recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholder. 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 shareholder 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 December 31, 2022 or December 31, 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

Notes to the Financial Statements

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 recognised 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 realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax 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 December 15, 2022 issued by the Inland Revenue Department on "Changes to the Inland Revenue Act No. 24 of

2017", effective from October 01, 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 recognised 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 October 01, 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 recognised 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 August 06, 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 February 07, 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 (LKR 2 Bn.), 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 March 31, and June 30, 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.

Notes to the Financial Statements

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 January 01, 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 January 01, 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 January 01, 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).

9. GROSS INCOME

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Cash and cash equivalents	**6,424,821**	9,310,188
Financial investments measured at FVOCI	**271,538,724**	12,314,142
Financial investments at amortised 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

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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.

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

Notes to the Financial Statements

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.

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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 LKR 51.1 Mn. (December 31, 2021: LKR 47.1 Mn.) and expense of LKR 9.9 Mn. (December 31, 2021: LKR 2.7 Mn.) 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.

11.2 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.

12. OTHER OPERATING INCOME

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

Notes to the Financial Statements

15. OTHER OPERATING EXPENSES

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Directors' emoluments	**4,040,000**	3,000,000
Auditors' remuneration – Audit and 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 recognised in profit or loss

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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

16.2 Amount recognized in OCI

	Note	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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**	–
Total	32	**(6,121,435)**	467,123

16.3 Reconciliation of effective tax rate

	Effective Tax Rate (%) 2022	Year ended December 31, 2022 LKR	Effective Tax Rate (%) 2021	09 months ended December 31, 2021 LKR
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	1,005	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 recognised directly in equity during the year ended December 31, 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 April 08, 2022, the Company is liable for the surcharge tax of LKR 110 Mn. out of the taxable income of LKR 441 Mn. 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 April 01, 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:

	LKR
Profit after tax for March 31, 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. October 01, 2022), in accordance with the Inland Revenue Act No. 24 of 2017 and amendments thereto.

Notes to the Financial Statements

17. BASIC EARNINGS PER SHARE

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

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Profit attributable to ordinary shareholder for basic earnings per share (LKR)	**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 (LKR)	**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 December 31, 2022	Note	At amortised cost LKR	Fair value through OCI LKR	Other financial liabilities at amortised cost LKR	Total LKR
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	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	34	**–**	**–**	**14,655,117**	**14,655,117**
Total financial liabilities		**–**	**–**	**7,664,960,365**	**7,664,960,365**

As at December 31, 2021	Note	At amortised cost LKR	Fair value through OCI LKR	Other financial liabilities at amortised cost LKR	Total LKR
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	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	34	–	–	25,951,290	25,951,290
Total financial liabilities		–	–	6,922,308,265	6,922,308,265

19. CASH AND CASH EQUIVALENTS

As at December 31,	2022 LKR	2021 LKR
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

As at December 31,	Note	2022 LKR	2021 LKR
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

Notes to the Financial Statements

20.1 Unquoted equities

	2022			2021		
	Number of shares	Cost LKR	Carrying value/fair value LKR	Number of shares	Cost LKR	Carrying value/fair value LKR
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.

21. FINANCIAL INVESTMENTS AT AMORTISED COST

As at December 31,	2022 LKR	2021 LKR
Securities purchased under resale agreements	–	406,243,569
	–	406,243,569

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

22. LOANS AND ADVANCES

As at December 31,	Note	2022 LKR	2021 LKR
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 December 31,	2022 LKR	2021 LKR
As at January/April 01,	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 LKR 269,622,860 has written down during the 2022 are still subject to enforcement activity.

22.1.1 Analysis of allowance for impairment losses by product

As at December 31,	Note	2022 LKR	2021 LKR
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 December 31, 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 LKR 355,901,641/- under individual impairment model was reversed during the year and record the impairment charge of LKR 625,734,432/- over the total portfolio considered for impairment under collective approach.

22.2 Analysis by product

As at December 31,	Note	2022 LKR	2021 LKR
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

As at December 31,	Note	2022 LKR	2021 LKR
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

Notes to the Financial Statements

22.2.1 a. Gross lease receivable within one year

As at December 31,	2022 LKR	2021 LKR
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

As at December 31,	2022 LKR	2021 LKR
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

As at December 31,	2022 LKR	2021 LKR
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

As at December 31,	Notes	2022 LKR	2021 LKR
Gross hire purchase receivable	22.2.2 (a)	**123**	125
Within one year		**123**	125
Less: Allowance for impairment losses		**123**	125
Net hire purchase receivable		**–**	–

22.2.2 (a) Gross hire purchase receivable within one year

As at December 31,	2022 LKR	2021 LKR
Total hire purchase rentals receivable	**123**	125
Less: Unearned income	**–**	–
	123	125

22.2.3 Mortgage loans

As at December 31,	Note	December 31, 2022 LKR	March 31, 2021 LKR
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

	December 31, 2022 LKR	March 31, 2021 LKR
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

	December 31, 2022 LKR	March 31, 2021 LKR
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

	December 31, 2022 LKR	March 31, 2021 LKR
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

Notes to the Financial Statements

22.2.4 Other loans

As at December 31,	Note	2022 LKR	2021 LKR
Gross lease 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

	2022 LKR	2021 LKR
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

	2022 LKR	2021 LKR
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

	2022 LKR	2021 LKR
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.

23. INVESTMENT PROPERTIES

As at December 31,	2022 LKR	2021 LKR
Cost/valuation		
As at January/April 01,	25,150,000	25,150,000
Fair value gain	1,200,000	–
As at December 31	**26,350,000**	25,150,000

23.1 Details of investment properties

Location	Date of valuation	Extent (Perches)	Price per perch LKR	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	31.12.2022	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 categorised 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	Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	Market comparable method – price per perch (Note – 24.2.1)	LKR 325,000 p.p.	The estimated fair value would increase/(decrease) if price per perch would higher/(lesser)
B. Sc. (E.M.V.) Sp. (Sri Lanka) A.I.V. (Sri Lanka) – R/No: A 359	Lot 01, plan No: 1366, Boyagama, Pilimathalawa		LKR 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.

Notes to the Financial Statements

24. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2022	Note	Land LKR	Buildings LKR	Furniture and fittings LKR	Office equipment LKR	Computers and accessories LKR
At cost/valuation						
Balance as at January 01,		83,730,000	112,220,000	10,403,955	16,131,676	59,469,831
Additions		–	3,469,635	3,563,730	8,589,442	25,606,292
Disposals		–	–	–	(408,858)	(1,427,368)
Balance as at December 31,		83,730,000	115,689,635	13,967,685	24,312,260	83,648,755
Depreciation						
Balance as at January 01,		–	4,576,032	7,372,669	9,601,980	28,199,159
Charge for the year		–	2,686,477	868,364	1,986,566	11,675,263
Disposals		–	–	–	(341,753)	(1,290,523)
Balance as at December 31,		–	7,262,509	8,241,033	11,246,793	38,583,899
Building work-in-progress	24.12					
Carrying value as at December 31, 2022		83,730,000	108,427,126	5,726,652	13,065,467	45,064,856

For the nine months ended December 31, 2021	Note	Land LKR	Buildings LKR	Furniture and fittings LKR	Office equipment LKR	Computers and accessories LKR
At cost/valuation						
Balance as at April 01,		83,730,000	112,220,000	10,014,585	13,708,963	44,216,931
Additions		–	–	389,370	2,422,713	15,465,810
Disposals		–	–	–	–	(212,910)
Balance as at December 31,		83,730,000	112,220,000	10,403,955	16,131,676	59,469,831
Depreciation						
Balance as at April 01,		–	2,609,767	6,674,906	8,497,970	21,848,038
Charge for the year		–	1,966,265	697,763	1,104,010	6,443,608
Disposals		–	–	–	–	(92,487)
Balance as at December 31,		–	4,576,032	7,372,669	9,601,980	28,199,159
Building work-in-progress	24.12					
Carrying value as at December 31, 2021		83,730,000	107,643,968	3,031,286	6,529,696	31,270,672

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 LKR 63,953,734/- (Year ended December 31, 2021– LKR 41,059,236/-).

Also, there is a cash payments amounting to LKR 63,953,734/-(Year ended December 31, 2021 – LKR 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.

Sign boards LKR	Telephone system LKR	Electrical equipment LKR	Motor vehicles LKR	Fixtures and fittings LKR	Total 31.12.2022 LKR
4,016,481	1,234,045	10,382,020	21,883,498	8,628,201	328,099,707
1,665,432	520,000	5,921,272	–	5,929,923	55,265,726
–	(11,930)	–	–	–	(1,848,156)
5,681,913	1,742,115	16,303,292	21,883,498	14,558,124	381,517,277
1,386,309	879,021	3,362,379	16,011,621	2,506,492	73,895,662
642,929	266,302	1,494,282	1,924,474	1,569,864	23,114,521
–	(11,930)	–	–	–	(1,644,206)
2,029,238	1,133,393	4,856,661	17,936,095	4,076,356	95,365,977
					30,742,706
3,652,675	608,722	11,446,631	3,947,403	10,481,768	316,894,006

Sign boards LKR	Telephone system LKR	Electrical equipment LKR	Motor vehicles LKR	Fixtures and fittings LKR	Total 31.12.2021 LKR
3,748,581	1,234,670	7,081,613	21,767,873	7,017,774	304,740,990
267,900	27,800	3,300,407	390,000	1,610,427	23,874,427
–	(28,425)	–	(274,375)	–	(515,710)
4,016,481	1,234,045	10,382,020	21,883,498	8,628,201	328,099,707
1,008,319	746,008	2,680,592	14,837,760	1,766,394	60,669,754
377,990	142,300	681,787	1,448,236	740,098	13,602,057
–	(9,287)	–	(274,375)	–	(376,149)
1,386,309	879,021	3,362,379	16,011,621	2,506,492	73,895,662
					22,054,698
2,630,172	355,024	7,019,641	5,871,877	6,121,709	276,258,743

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 December 31, 2022 (Year ended December 31, 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 December 31, 2021: Nil)

24.5 Property, plant and equipment included fully depreciated assets amounting to LKR 39,562,235/- as at December 31, 2022 (as at December 31, 2021– LKR 36,698,043/-).

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 categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Notes to the Financial Statements

24.7 Information on valuation of freehold land and buildings of the Company.

Date of valuation: March 30, 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 recognised on	
					Land LKR	Buildings LKR	Land LKR	Buildings LKR	Land LKR	Buildings LKR
K.M.U Dissanayake A.I.V. Incorporated Valuer, Rambukpitiya, Sri Lanka.	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 LKR 5,500,000/- • Price per sq.foot LKR 9,000/-	59,662,500	73,656,176	65,630,000	85,320,000	5,967,500	11,663,824
	No. 182, Katugastota Road, Kandy.	3.29		• Useful life period of the Building is 27 years • Price per perch LKR 5,500,000/- • Price per sq.foot LKR 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 December 31,	2022			2021		
	Cost LKR	Accumulated depreciation LKR	Carrying value LKR	Cost LKR	Accumulated depreciation LKR	Carrying value LKR
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 December 31, 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 assets 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 December 31,	2022 LKR	2021 LKR
As at January/April 01,	**22,054,698**	4,869,889
Additions during the year	**8,688,008**	17,184,809
As at December 31,	**30,742,706**	22,054,698

25. INTANGIBLE ASSETS

Computer software

As at December 31,	2022 LKR	2021 LKR
Cost		
As at January/April 01,	**44,713,678**	43,195,370
Additions during the period	**5,939,936**	1,518,308
As at December 31,	**50,653,614**	44,713,678

Amortization

As at December 31,	2022 LKR	2021 LKR
As at January/April 01,	**15,320,620**	11,996,329
Additions for the period	**4,724,623**	3,324,291
As at December 31,	**20,045,243**	15,320,620
Carrying value as at December 31,	**30,608,371**	29,393,058

26. RIGHT-OF-USE

As at December 31,	2022 LKR	2021 LKR
As at January/April 01,	**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)
Amortisation for the period	**(19,357,603)**	(10,349,843)
As at December 31,	**67,406,857**	53,319,549

Notes to the Financial Statements

27. OTHER ASSETS

As at December 31,	Note	2022 LKR	2021 LKR
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 and 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 and insurance premium receivable

As at December 31,	2022 LKR	2021 LKR
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

As at December 31,	2022 LKR	2021 LKR
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

29. DUE TO BANKS

As at December 31,	Note	2022 LKR	2021 LKR
Bank overdrafts		**53,650,332**	22,460,800
Securitised borrowings	29.1	**2,280,285,530**	1,553,177,878
Unsecuritised borrowings	29.2	**133,608,903**	193,865,160
Total		**2,467,544,765**	1,769,503,838

29.1 Securitised borrowings

For the year ended December 31, 2022	As at January 01, 2022 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at December 31, 2022 LKR
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 December 31, 2021	As at April 01, 20221 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at December 31, 2021 LKR
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 Unsecuritised borrowings

For the year ended December 31, 2022	As at January 01, 2022 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at December 31, 2022 LKR
Direct bank borrowings					
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 December 31, 2021	As at April 01, 20221 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at December 31, 2021 LKR
Direct bank borrowings					
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

Notes to the Financial Statements

29.3 Institutional borrowings

Institution	As at January 01, 2022 LKR	Loan obtained during the year LKR	Interest expense for the year LKR	Repayments Capitals LKR	Repayments Interest LKR	As at December 31, 2022 LKR	Tenure of loan	Security offered	Prevailing interest rate %
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 and 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.

As at December 31, Nature of assets	Facility	2022 LKR	2021 LKR
Lease and loan receivable	Commercial Bank of Ceylon PLC – loans and bank overdraft	**2,897,275,043**	3,263,946,730
Property at No. 182 and 187, Katugastota Road, Kandy	Commercial Bank of Ceylon PLC – loan and bank overdraft	**75,000,000**	75,000,000
		2,972,275,043	3,338,946,730

30. EMPLOYEE BENEFITS

30.1 Defined benefit plans

As at December 31,	Notes	2022 LKR	2021 LKR
Movement in the present value of the defined benefit obligation			
As at January/April 01,		**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	30.1.1	**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 December 31,		**11,330,128**	14,972,957

30.1.1 Expense recognised in profit or loss

	2022 LKR	2021 LKR
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 recognised for defined benefit obligation in other comprehensive income

As at December 31,	2022 LKR	2021 LKR
Cumulative losses as at January/April 01,	**4,652,368**	2,879,968
Actuarial (gain)/losses recognised during the period	**(7,785,255)**	1,772,400
Cumulative (gain)/losses as at December 31,	**(3,132,887)**	4,652,368

30.1.3 Actuarial assumptions

As at December 31,		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 December 31, 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.

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.

As at December 31,	2022		2021	
	Increase LKR	Decrease LKR	Increase LKR	Decrease LKR
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

As at December 31,	2022 LKR	2021 LKR
As at January/April 01,	**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 December 31,	**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

As at December 31,	2022 LKR	2021 LKR
Interest on lease liabilities	**6,336,098**	3,806,170
Right-of-use asset amortisation	**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

As at December 31,	2022 LKR	2021 LKR
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.

	2022 LKR	2021 LKR
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

32. DEFERRED TAX ASSETS

As at December 31,	Note	2022 LKR	2021 LKR
As at January/April 01,		**(193,579,595)**	(195,023,364)
Origination/(reversal) of temporary differences			
– Recognised in profit or loss	32.2	**(90,474,116)**	1,910,892
– Recognised 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 December 31,	Notes	2022		2021	
		Temporary difference LKR	Tax effect LKR	Temporary difference LKR	Tax effect LKR
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)	32.3	**43,416,132**	**13,024,840**	43,416,132	10,419,872
Unrealised 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
Unrealised 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 December 31,		**(926,440,927)**	**(277,932,277)**	(810,504,319)	(193,579,595)

Notes to the Financial Statements

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

		Recognised in Profit or Loss		Recognised in Other Comprehensive Income		Statement of Financial Position	
	Note	**Year ended December 31, 2022 LKR**	09 months ended December 31, 2021 LKR	**Year ended 31.12.2022 LKR**	09 months ended December 31, 2021 LKR	**As at December 31, 2022 LKR**	As at December 31, 2021 LKR
Deferred tax liabilities							
Accelerated depreciation for tax purposes – Lease assets	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
Amortisation 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	32.3	**–**	–	**2,604,961**	–	**13,024,840**	10,419,872
Unrealised 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
Amortisation of right of use assets		**(6,045,221)**	(3,402,041)	**–**	–	**19,966,522**	13,921,301
Unrealised 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 December 31,						**(277,932,277)**	(193,579,595)

32.3 As per the Inland Revenue Act No. 24 of 2017, which is effective from April 01, 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 April 01, 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 April 01, 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 December 31, 2022 which were entered into prior to April 01, 2018.

32.5 Effect of change in tax rate

As at December 31,	2022		2021	
	Temporary difference LKR	**Tax effect LKR**	Temporary difference LKR	Tax effect LKR
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 December 31,	**(926,440,927)**	**(277,932,277)**	(810,504,319)	(193,579,595)

33. CURRENT TAX LIABILITIES

As at December 31,	**2022 LKR**	2021 LKR
As at January/April 01,	**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

As at December 31,	**2022 LKR**	2021 LKR
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

Notes to the Financial Statements

35. STATED CAPITAL

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

35.1 Shareholder

As at December 31,	**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.

36. ACCUMULATED LOSSES

As at December 31,	Note	**2022 LKR**	2021 LKR
As at January 01,		**(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

As at December 31,	Note	**2022 LKR**	2021 LKR
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 December 31,	2022 LKR	2021 LKR
As at January 01,	**31,349,432**	29,687,279
Transferred from retained earnings	**1,979,146**	1,662,153
As at December 31,	**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.

37.2 Revaluation reserve

As at December 31,	2022 LKR	2021 LKR
As at January 01,	**86,114,318**	86,114,318
Effect of change in tax rate	**(6,615,780)**	–
As at December 31,	**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.

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.

Notes to the Financial Statements

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

December 31, 2022	Classification	Note	Carrying amount	Fair value			
				Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
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	Fair value through OCI		**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	Amortised cost		**96,306,555**	–	–	–	–
Financial investment	Amortised cost		–	–	–	–	–
Loans and advances	Amortised cost		**8,505,035,651**	–	–	–	–
Other assets	Amortised cost	28	**23,021,652**	–	–	–	–
			8,624,363,858	–	–	–	–
Financial liabilities not measured at fair value							
Deposit liabilities	Amortised cost		**5,116,205,410**	–	–	–	–
Due to banks	Amortised cost		**2,467,544,765**	–	–	–	–
Lease liabilities	Amortised cost		**66,555,073**	–	–	–	–
Other liabilities	Amortised cost	34	**14,655,117**	–	–	–	–
			7,664,960,365				

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

38.1 FinaZncial 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 categorised 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 from the opening balances to the closing balances for Level 3 fair values.

	Note	Unquoted equity securities LKR
Balance as at April 01, 2021		2,098,266
– Net change in fair value (unrealised)		2,560
Balance as at December 31, 2021	20.1	2,100,826
Balance as at January 01, 2022		2,100,826
– Net change in fair value (unrealised)		19,402
Balance as at December 31, 2022	**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	LKR 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 December 31, 2022.

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 shareholder's funds employed by the Company is detailed below.

	2022			2021		
	Within 12 Months LKR	After 12 Months LKR	Total as at 31/12/2022 LKR	Within 12 Months LKR	After 12 Months LKR	Total as at 31/12/2021 LKR
Assets						
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 – Amortised 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 September 01, 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 September 01, 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.

40.2.1 Compensation of Key Management Personnel

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Short term employee benefits	**6,200,000**	4,620,000

40.2.2 Transactions with KMP

40.2.2.1 Statement of Financial Position

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Deposit Liabilities	**45,351,050**	49,001,187

40.2.2.2 Statement of Profit or Loss And Other Comprehensive Income

	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
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.

40.2.3.1 Statement of Financial Position

	Notes	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Deposit Liabilities		**16,242,838**	21,875,684

40.2.3.2 Statement of Profit or Loss and Other Comprehensive income

	Notes	Year ended December 31, 2022 LKR	09 months ended December 31, 2021 LKR
Interest on deposits		**2,570,243**	843,288

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40.2.4 Transactions with the parent and related entities

Name of the Company	Nature of transactions	Value of transactions: Year ended December 31, 2022 LKR	Value of transactions: 09 months ended December 31,2021 LKR	Balance as at December 31, 2022 LKR	Balance as at December 31, 2021 LKR
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 the period	–	–	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 Insurance 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 LKR 0.5 Bn. LKR 0.6 Bn. and LKR 0.5 Bn. respectively.

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 management policies and procedures.

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 categorised 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.

Notes to the Financial Statements

- 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.

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 December 31,	2022				2021
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	Total LKR
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

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 collateral requirements		Principal type of collateral
As at December 31,	**2022 LKR**	2021 LKR	**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.

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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 December 31,	2022 LKR	2021 LKR
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

Credit-impaired loans

As at December 31,	2022 LKR	2021 LKR
LTV Ratio		
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 LKR	2021 LKR
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.

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.

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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.

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 and Unemployment.

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.

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 December 31,	2022			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at January 01,	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 December 31,	39,085,575	274,647,056	860,604,483	1,174,337,114

As at December 31,	2021			
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at April 01,	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 allowance	(61,260,701)	9,499,673	389,263,265	337,502,237
New financial assets originated or purchased	42,289,199	16,481,956	1,704,344	60,475,499
Financial assets that have been derecognised	(16,564,232)	(14,418,099)	(50,189,887)	(81,172,218)
Write-offs	–	–	(99,284,082)	(99,284,082)
Balance as at December 31,	88,946,359	188,514,047	896,666,777	1,174,127,183

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 LKR 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 LKR 9 Mn. (approx.). Further, management overlays include additional ECL provisions of LKR 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 and 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 LKR 193.84 Mn. (2021: LKR 242.28 Mn.) worth of rescheduled/ restructured loans to Stage 1. Due to this upgrade, the impairment provision against these loans decreased by LKR 29.58 Mn. from LKR 33.27 Mn. as at December 31, 2021 to LKR 3.69 Mn. as at December 31, 2022.

Purchased or originated credit impaired financial assets

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

Impact due to the uncertain and volatile macroeconomic condition

The Company analysed 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 unutilised 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.

41.1.5 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 December 31, 2022	Cash and bank balances LKR	Financial investments – FVOCI LKR	Financial investments – amortised cost LKR	Loans and advances LKR	Other assets LKR	Total financial assets LKR
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 December 31, 2021	Cash and bank balances LKR	Financial investments – FVOCI LKR	Financial investments – amortized cost LKR	Loans and advances LKR	Other assets LKR	Total financial assets LKR
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

Notes to the Financial Statements

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

As at December 31,	2022 LKR	2021 LKR
Province		
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 LKR 43 Mn. as at December 31, 2022 (December 31, 2021 – LKR 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)

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 December 31, 2022	On demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Financial Assets						
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 December 31, 2021	On demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Financial Assets						
Cash and cash equivalents	154,599,310	–	–	–	–	154,599,310
Financial investments – FVOCI	–	430,196,797	–	–	2,100,826	432,297,623
Financial investments – Amortised 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

Notes to the Financial Statements

December 31, 2021	Encumbered		Unencumbered		
	Pledged as collateral LKR	Other * LKR	Available as collateral LKR	Other ** LKR	Total LKR
Cash and cash equivalents	–	–	154,599,310	–	154,599,310
Financial investments – FVOCI	–	–	430,196,797	2,100,826	432,297,623
Financial investments – Amortised 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	
	Increase in 100 bps LKR	Decrease in 100 bps LKR	Increase in 100 bps LKR	Decrease in 100 bps LKR
Net Interest Income				
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)

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 December 31, 2022	Up to 03 months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 years LKR	Non interest bearing LKR	Total as at December 31, 2022 LKR
Financial assets							
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 – Amortised 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%

Notes to the Financial Statements

As at December 31, 2021	Up to 03 months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 years LKR	Non interest bearing LKR	Total as at December 31,2021 LKR
Financial assets							
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%

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 Integrated 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 shareholder's 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 July 01, 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

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.

Notes to the Financial Statements

42.2 Information about reportable segments

As at December 31,	Leasing and Hire Purchase		Mortgage Loans	
	2022 LKR	2021 LKR	**2022 LKR**	2021 LKR
External Revenue				
Interest	**272,451,806**	137,990,004	**611,055,072**	484,971,946
Fees and commissions	**21,490,488**	24,548,154	**11,330,500**	7,533,150
Dividends	**–**	–	**–**	–
Other income	**–**	–	**–**	–
Total external revenue	**293,942,294**	162,538,158	**622,385,572**	492,505,096
Inter-segment revenue	**–**	–	**–**	–
Total revenue before impairment	**293,942,294**	162,538,158	**622,385,572**	492,505,096
Impairment (charges)/reversal	**(45,066,079)**	22,501,829	**(175,044,381)**	(183,322,031)
Net revenue	**248,876,215**	185,039,987	**447,341,191**	309,183,065
Profit before tax				
Income tax expenses				
Profit after tax				
Segment assets	**1,666,383,951**	1,774,452,428	**4,167,265,758**	5,376,748,909
Segment liabilities	**1,397,285,596**	1,214,398,283	**2,958,575,246**	3,679,734,963

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.

Notes to the Financial Statements

Other loans		Investments and Others		Total	
2022 LKR	2021 LKR	**2022 LKR**	2021 LKR	**2022 LKR**	2021 LKR
357,741,170	204,900,567	**282,488,279**	39,462,846	**1,523,736,327**	867,325,363
15,953,332	13,238,360	**2,413,227**	1,819,622	**51,187,547**	47,139,286
–	–	**240,000**	240,000	**240,000**	240,000
–	–	**60,997,307**	29,960,763	**60,997,307**	29,960,763
373,694,502	218,138,927	**346,138,813**	71,483,231	**1,636,161,181**	944,665,412
–	–	**–**	–	**–**	–
373,694,502	218,138,927	**346,138,813**	71,483,231	**1,636,161,181**	944,665,412
(29,307,730)	(147,975,922)	**256,680**	–	**(249,161,510)**	(308,796,124)
344,386,772	70,163,005	**346,395,493**	71,483,231	**1,386,999,671**	635,869,288
				9,726,234	88,112,788
				29,856,689	(54,869,724)
				39,582,923	33,243,064
2,502,121,470	2,381,454,014	**2,317,618,672**	780,392,705	**10,955,135,805**	10,313,048,056
1,776,396,101	1,629,817,525	**1,645,407,236**	534,084,512	**7,777,664,178**	7,058,035,283

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Fax : +94 65 205 0208
Email : batticaloa@cbcfinance.lk

TRINCOMALEE BRANCH
No. 70, Main Street, Trincomalee.
Phone : +94 26 205 0721
Fax : +94 26 205 6741
Email : trincomalee@cbcfinance.lk

VAVUNIYA BRANCH
No. 105, Kandy Road, Vavuniya.
Phone : +94 24 205 0033
Fax : +94 24 205 0034
Email : vavuniya@cbcfinance.lk

JAFFNA BRANCH
No. 139, Stanley Road, Jaffna.
Phone : +94 21 205 0491
Fax : +94 21 205 0492
Email : jaffna@cbcfinance.lk

Eight Year Summary

Results for the year (LKR Mn.)	2022	2021 - December (09 Months)	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16
Income	**1,636.16**	944.67	1,058.00	1,211.00	871.80	981.65	811.29	428.06
Interest income	**1,523.74**	867.33	963.00	1,131.11	816.79	911.21	748.51	388.57
Interest expenses	**986.33**	334.44	480.98	572.37	470.46	572.63	438.87	172.79
Net interest income	**537.41**	532.89	482.02	558.74	346.33	338.58	309.64	215.79
Non-interest income	**102.49**	74.61	93.56	78.30	55.01	70.44	62.78	39.48
Total operating income	**639.90**	607.50	575.59	637.04	401.33	409.02	372.42	255.27
Personnel cost	**164.81**	89.54	104.42	92.16	74.83	73.69	72.11	58.82
Administrative and other cost	**139.84**	68.43	82.34	69.99	75.74	76.68	60.44	71.18
Depreciation	**47.20**	27.28	29.80	20.72	10.34	11.34	10.29	9.94
Total operational expenses	**351.85**	185.25	216.57	182.86	160.91	161.71	142.84	139.94
Provision for bad debts/impairment	**249.16**	308.80	196.48	276.36	205.71	403.07	17.45	190.41
VAT on financial services	**29.17**	25.34	33.10	49.77	14.63	–	28.06	–
Profit/(loss) before tax	**9.73**	88.11	129.44	128.04	20.08	(155.76)	184.06	(75.08)
Taxation	**(29.86)**	54.87	64.95	59.07	0.38	(33.85)	56.62	8.68
Profit/(loss) after tax	**39.58**	33.24	64.49	68.98	19.70	(121.91)	127.45	(83.76)

Position as at March 31, (LKR Mn.)	December 31, 2022	December 31, 2021	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16
Cash and cash equivalents	**96.31**	154.60	324.31	56.38	60.92	227.00	19.29	4.56
Financial investments	**1,598.01**	838.54	739.31	274.84	332.08	275.92	154.02	96.57
Loans and advances (Net)	**8,505.04**	8,712.64	8,070.14	6,810.62	5,626.46	4,204.78	5,431.04	2,989.21
PPE and intangible assets	**347.50**	305.65	280.14	246.23	207.03	206.16	212.20	207.03
Other assets	**408.28**	301.62	287.00	187.45	179.11	18.04	9.62	22.97
Total assets	**10,955.14**	10,313.05	9,700.90	7,575.52	6,405.61	4,931.89	5,826.17	3,320.34
Deposit liability	**5,116.21**	5,068.85	4,838.98	222.66	–	–	–	–
Due to banks	**2,467.54**	1,769.50	1,411.12	5,085.41	4,426.03	3,668.03	4,863.28	2,464.66
Other liabilities	**193.91**	219.68	227.84	113.24	85.21	100.11	151.03	184.07
Total liabilities	**7,777.66**	7,058.04	6,477.94	5,421.31	4,511.24	3,768.14	5,014.31	2,648.73
Total equity	**3,177.47**	3,255.01	3,222.96	2,154.21	1,894.37	1,163.76	811.87	671.61
Total Liabilities and Equity	**10,955.14**	10,313.05	9,700.90	7,575.52	6,405.61	4,931.89	5,826.17	3,320.34

Eight Year Summary

Ratios	2022	2021 - December	2020/21	2019/20	2018/2019	2017/2018	2016/2017	2015/2016
Regulatory capital adequacy								
Core capital (Tier 1 capital) (LKR Mn.)	**3,102.63**	3,167.52	3,135.62	2,071.83	1,661.32	1,099.13	736.77	603.79
Total capital base (LKR Mn.)	**3,102.63**	3,167.52	3,135.62	2,071.83	1,661.32	1,099.13	736.77	603.79
Core capital adequacy ratio; core capital as % of risk weighted assets	**24.89%**	25.49%	26.57%	21.82%	23.34%	24.48%	13.03%	18.77%
Total capital adequacy ratio; total capital as % of risk weighted assets	**24.89%**	25.49%	26.57%	21.82%	23.34%	24.48%	13.03%	18.77%
Capital funds to total deposit liabilities ratio*	**59.99%**	62.49%	64.80%	967.49%	–	–	–	–
Assets quality (Quality of loan portfolio)								
Gross non performing accommodation ratio (%)	**16.98%**	13.14%	14.08%	22.56%	22.33%	26.86%	7.72%	13.13%
Net non performing accommodation ratio (%)	**8.10%**	1.30%	3.48%	9.07%	3.71%	7.46%	0.00%	0.00%
Profitability (%)								
Return on assets (before tax)	**0.09%**	0.88%	1.50%	1.83%	0.35%	-2.94%	4.01%	-3.14%
Return on equity (after tax)	**1.25%**	1.03%	2.40%	3.41%	1.29%	-13.41%	17.96%	-13.69%
Earnings per share (LKR)	**0.18**	0.15	0.35	0.48	0.24	-3.36	4.15	-3.88
Net assets per share (LKR)	**14.33**	14.68	14.53	14.22	13.63	21.81	26.42	21.86
Memorandum information								
Number of employees	**176**	145	145	131	120	111	114	102
Number of branches	**13**	10	10	10	4	5	5	5
Number of service centers	**0**	0	0	0	6	6	6	6
Fitch rating	**A(lka)/ Negative**	A(lka)/ Stable	A(lka)/ Stable	A+(lka)/ Negative	A+(lka)/ Stable	N/A	N/A	N/A

** Deposit mobilisation commenced in the financial year 2019/20*

Corporate Information

NAME OF COMPANY
CBC Finance Ltd.

COMPANY REGISTRATION NUMBER
PB276

LEGAL FORM
A limited liability company incorporated in Sri Lanka on February 18, 1987 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.

CBC Finance Limited is licensed under the Finance Business Act No. 42 of 2011 and registered under the Finance Leasing Act No. 56 of 2000.

Fully owned subsidiary of the "Commercial Bank of Ceylon PLC".

CREDIT RATING
"A(lka)/Rating Watch Negative" by Fitch Ratings Lanka Limited as at December 31, 2022.

"BBB+(lka)/Rating Watch Negative" by Fitch Ratings Lanka Limited as at March 31, 2023.

REGISTERED OFFICE
No. 187, Katugastota Road, Kandy.

HEAD OFFICE
No. 187, Katugastota Road, Kandy.

CONTACT DETAILS
Telephone (General) : +94 81 221 3498
Fax : +94 81 222 4521
Email : info@cbcfinance.lk
Web : www.cbcfinance.lk

FINANCIAL YEAR
December 31

TAX PAYER IDENTIFICATION NUMBER (TIN)
114032611

AUDITORS
Messrs KPMG (Chartered Accountants),
No.32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186, Colombo 03, Sri Lanka.

TAX CONSULTANTS
Messrs Ernst & Young (Chartered Accountants),
No. 839/2, Peradeniya Road, Kandy, Sri Lanka.

BOARD OF DIRECTORS
Mr K G D D Dheerasinghe – Chairman
(Relinquished office in December 2022)
(Independent/Non-Executive Director)

Mr S Muhseen – Chairman
(Appointed to the Board on September 01, 2022 and as the Chairman on March 03, 2023)
(Non-Independent/Non-Executive Director)

Dr (Ms) J P Kuruppu
(Resigned on January 31, 2023)
(Independent/Non-Executive Director)

Mr Raja Senanayake
(Resigned on June 30, 2022)
(Non-Independent/Non-Executive Director)

Mr S M S C Jayasuriya
(Independent/Non-Executive Director)

Mr D M D S S Bandara
(Independent/Non-Executive Director)

Mr D M U N Dissanayake
(Managing Director/Chief Executive Officer)

Mr L H Munasinghe
(Non-Independent/Non-Executive Director)

Mr M P Dharmasiri
(Appointed on September 01, 2022)
(Non-Independent/Non-Executive Director)

BOARD SUBCOMMITTEES

Board Credit Committee
Mr K G D D Dheerasinghe – Chairman
(Relinquished office on December 31, 2022)

Mr L H Munasinghe – Chairman
(Appointed on January 01, 2023)

Mr S M S C Jayasuriya

Mr D M D S S Bandara

Board Integrated Risk Management Committee
Mr K G D D Dheerasinghe – Chairman
(Relinquished office on December 31, 2022)

Mr S M S C Jayasuriya – Chairman
(Appointed on January 01, 2023)

Mr Raja Senanayake
(Resigned on June 30, 2022)

Mr D M D S S Bandara

Mr D M U N Dissanayake

Mr M P Dharmasiri
(Appointed on October 01, 2022)

Board Audit Committee
Mr Raja Senanayake – Chairman
(Resigned on June 30, 2022)

Mr S M S C Jayasuriya – Chairman
(Appointed on July 01, 2022)

Mr D M D S S Bandara

Mr M P Dharmasiri
(Appointed on October 01, 2022)

Board Nomination Committee
Mr K G D D Dheerasinghe – Chairman
(Relinquished office on December 31, 2022)

Mr S M S C Jayasuriya – Chairman
(Appointed on January 01, 2023)

Dr (Ms) J P Kuruppu
(Resigned on January 31, 2023)

Mr Raja Senanayake
(Resigned on June 30, 2022)

Mr S Muhseen
(Appointed on October 01, 2022)

Board Human Resources and Remuneration Committee
Dr (Ms) J P Kuruppu – Chairperson
(Resigned on January 31, 2023)

Mr S Muhseen – Chairman
(Appointed on February 01, 2023)

Mr D M D S S Bandara

Mr L H Munasinghe

Board Technology Committee
Mr S Muhseen – Chairman
(Appointed on October 25, 2022)

Mr L H Munasinghe

Mr D M D S S Bandara

Mr D M U N Dissanayake

COMPANY SECRETARY
Mrs H D U O Gunasekara

COMPLIANCE OFFICER
Mr K W M S B Kamathewatte

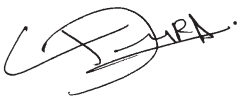
BANKERS
Commercial Bank of Ceylon PLC
Bank of Ceylon
People's Bank
Sampath Bank PLC
Seylan Bank PLC
DFCC Bank PLC

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of CBC Finance Ltd. will be held at the Boardroom of CBC Finance Head Office at No. 187, Katugastota Road, Kandy on Friday, June 30, 2023, immediately after the conclusion of the Meeting of the Board of Directors which is scheduled to be held at 10.30am, for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Audited Financial Statements of the Company for the year ended December 31, 2022 together with the Report of the Auditors thereon.
2. To re-appoint the retiring Auditors, Messrs KPMG, Chartered Accountants, to hold office as the Company’s External Auditors for the financial year ending December 31, 2023.

By Order of the Board



H D U Oshadi Gunasekara
Company Secretary
Colombo,
June 07, 2023

Note:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend in his/her stead and to vote on a poll. A Form of Proxy accompanies this notice.
2. A proxy holder need not be a Shareholder of the Company.
3. A Proxyholder (who is not a Shareholder) may vote on a show of hands.
4. The completed Form of Proxy must be deposited at the Company's registered office at No. 187, Katugastota Road, Kandy, not less than 48 hours before the time fixed for the meeting.

Form of Proxy

I/We ……..………………………………………………of……………………………………... ………………………………………….being the

Shareholder of CBC Finance Ltd hereby appoint ……………………………………………….(NIC No. ………………………)

of…………………………………………………………………………...………… whom failing:

Mr Muhseen Mohamed Sharhan Mohamed	whom failing
Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya	whom failing
Mr Dhanapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara	whom failing
Mr Lasantha Hasrath Munasinghe	whom failing
Mr Megelhewage Pushpakumara Dharmasiri	whom failing
Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake	

as my/our Proxyholder to represent me/us and to speak at the meeting and to vote on a show of hands or a poll on my/our behalf as indicated below at the **ANNUAL GENERAL MEETING** of the Company to be held on Friday, June 30, 2023 and at any adjournment thereof and at every poll which may be taken in consequence thereof. (Please indicate your preference with an "X" in the relevant box).

		For	Against
1.	To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Audited Financial Statements of the Company for the year ended December 31, 2022 together with the Report of the Auditors thereon.		
2.	To re-appoint the retiring Auditors, Messrs KPMG, Chartered Accountants, to hold office as the Company's External Auditors for the financial year ending December 31, 2023.		

Signed on this ……………day of ……………………..Two Thousand and Twenty-Three .

……………………………….
Signature of Shareholder

Notes:

1. Please indicate with an "X" in the space provided how your Proxy is to vote. If there is in the view of the proxy holder doubt (by reason of how the instructions contained in the Proxy have been completed) as to how the proxy holder should vote, the prox yholder shall vote as he thinks fit.
2. A proxy holder need not be a member of the Company.
3. Instructions as to completion appear on the reverse hereof.

INSTRUCTIONS AS TO COMPLETION

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company at No. 187, Katugastota Road, Kandy, not less than 48 hours before the time appointed for the holding of the meeting.
2. The instrument appointing a Proxy shall be signed by the appointor or by his Attorney in the case of an individual. In the case of a Company/Corporation, the Proxy Form must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.
3. If the Form of Proxy is signed under a Power of Attorney, the original Power of Attorney or a notarially certified copy thereof should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the proxy holder and the shareholder appointing the proxy holder should be entered legibly in the Form of Proxy.

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This Annual Report is GHG-neutral

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