Annual Report 2023

CBC Finance Ltd.

# Embracing change for empowering growth

CBC FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

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# EMBRACING CHANGE FOR EMPOWERING GROWTH

In a world that's constantly evolving, embracing change is not just an option; it's an imperative. At CBC Finance, we are staunch believers in the transformative potential of adaptability and innovation, recognising them as the bedrock of sustainable growth. Through our unwavering commitment to embracing new ideas and cutting-edge technologies, we empower our stakeholders, fostering an environment where opportunities abound and potential flourishes. Join us as we transcend challenges, embracing change to pave the path towards empowered growth and a brighter tomorrow.

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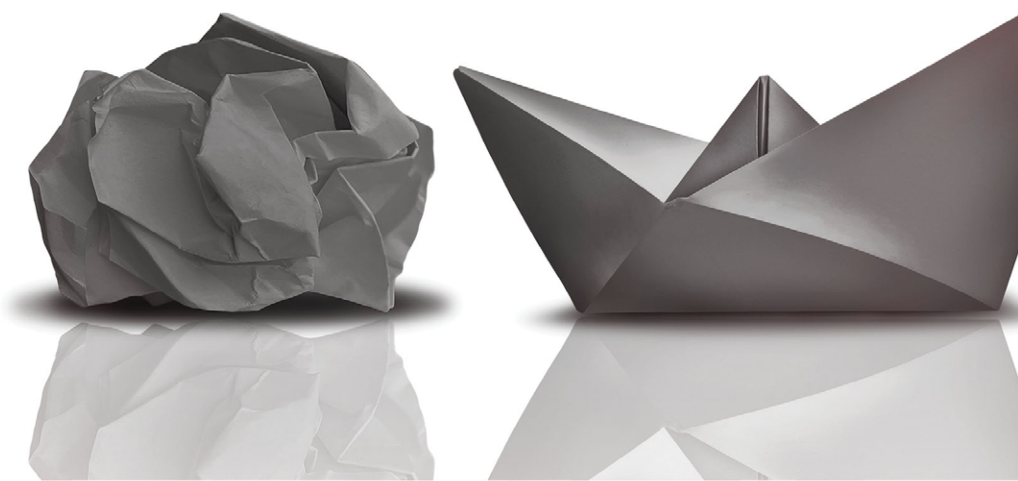

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87%

# OVERVIEW

# About the Report

It is with pleasure that we present to our shareholder, the Annual Report of CBC Finance Ltd. for the twelve months from January 01, 2023 to December 31, 2023.

The report concisely describes our performance and strategies in the year under review, which was a challenging one. Whatever the travails of the moment, we continued to conduct our business sustainably and ethically.

To convey a holistic picture of our performance, we have documented our strategy, Corporate Governance practices, risk mitigation and management, financial status, and delivery of value to our stakeholders. The Report also describes the Company's management and stewardship of its human resources.

## 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, 2023 to December 31, 2023, 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.

Where relevant, when making forward looking statements regarding the future performance of the Company conditions in the operating environment and probable trends are taken into consideration.

## Compliance

The Company operates in conformance with 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). We give a great deal of importance to prudent corporate governance and the Board of Directors takes full responsibility for its accurate disclosures in both letter and spirit, and that all disclosure requirements have been complied with.

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
- The Code of Best Practice on Corporate Governance issued by the CA Sri Lanka

# About Us

CBC Finance, a fully owned subsidiary of the Commercial Bank of Ceylon PLC, is a non-bank financial institution. The Commercial Bank is the largest private sector commercial bank in Sri Lanka, and has distinguished itself by winning many coveted awards. CBC Finance originated as Indra Finance, a wholly owned subsidiary of Indra Traders (Pvt.) Ltd., in 1987 to fill the market need for vehicle finance. The Commercial Bank of Ceylon PLC, acquired CBC Finance in 2014, under the Financial Sector Consolidation Plan then being implemented by the Central Bank of Sri Lanka, and was renamed as Serendib Finance Ltd. In December 2020, it was again re-named as CBC Finance Ltd. to emphasise its identity with Commercial Bank of Ceylon PLC and its other subsidiaries. This facilitated drawing on the expertise and institutionalised knowledge of its parent Company. We provide support to diverse commercial and industrial sectors to achieve their goals, through our diversified product portfolio. Our primary objectives are to add value to our parent Company while supporting the country's economic growth and provide financial services to segments not covered by the banking sector.

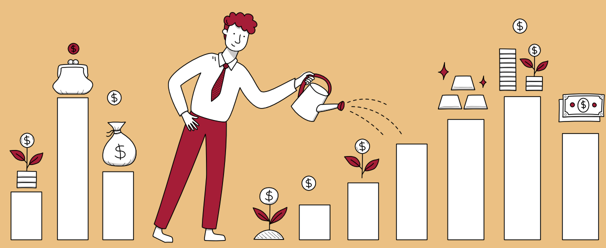
CBC Finance Ltd. is registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, with a credit rating of BBB+(lka), Outlook – Stable Rating from Fitch Ratings Lanka Ltd.

## OWNERSHIP STRUCTURE

THE COMMERCIAL BANK OF CEYLON PLC

100%

CBC FINANCE LTD.



## THE FINANCIAL SOLUTIONS WE OFFER

- Leasing
- Vehicle Drafts
- Business Drafts
- Mortgage Loans
- Gold Loans
- Vehicle loans
- Fixed Deposits

## 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.

# Our Journey

**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 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**

The Company's total assets exceeded LKR 12 Bn., while the branch network was extended to 15 branches.

Three new products were launched in three product segments; one in gold loans; one in two-wheeler leases, one in three wheeler leases.

The Chairman of Commercial Bank of Ceylon PLC, the largest private sector commercial bank in Sri Lanka, Mr S Muhseen assumed duties as Chairman, CBCF.

# YEAR IN REVIEW

# Highlights

| | 2023 LKR Mn. | 2022 LKR Mn. | Variance % |
|---|---|---|---|
| **Financial performance** | | | |
| Income | 1,991.47 | 1,636.16 | 21.72 |
| Net interest income | 496.48 | 537.41 | (7.62) |
| Net operating income | 206.67 | 390.74 | (47.11) |
| (Loss)/Profit before tax | (320.60) | 9.73 | (3,396.29) |
| (Loss)/Profit after tax | (225.18) | 39.58 | (668.88) |
| **Position as at the year end** | | | |
| Loans and receivables | 10,142.40 | 8,505.04 | 19.25 |
| Total assets | 12,458.76 | 10,955.14 | 13.73 |
| Total equity | 2,977.34 | 3,177.47 | (6.30) |
| Deposit liability | 6,534.18 | 5,116.21 | 27.72 |
| Due to banks | 2,758.60 | 2,467.54 | 11.80 |
| **Profitability ratios** | | | |
| Net interest margin (%) | 3.98 | 4.91 | (18.94) |
| Return on assets (PBT) (%) | (2.57) | 0.09 | (2,909.89) |
| Return on equity (PAT) (%) | (6.72) | 1.25 | (637.60) |
| Cost to income ratio (%) | 76.61 | 55.67 | 37.61 |
| **Capital adequacy and liquidity** | | | |
| Capital adequacy ratio (%) | 19.57 | 24.89 | (21.37) |
| Liquid assets ratio (Times) | 1.15 | 3.11 | (62.97) |
| Advances to deposits ratio (%) | 155.22 | 166.24 | (6.63) |
| **Other ratios** | | | |
| NPA ratio (Gross) (%) | 21.04 | 16.98 | 23.94 |
| NPA ratio (Net) (%) | 8.19 | 8.10 | 1.11 |
| Provision cover ratio (%) | 34.05 | 32.62 | 4.40 |
| **Manufactured capital** | | | |
| Number of branches | 15 | 13 | 15.38 |
| **Human capital** | | | |
| Total workforce | 271 | 176 | 53.98 |

Total assets
**LKR 12.5 Bn.**

Total income
**LKR 1,991 Mn.**

Deposit base reached
**LKR 6.5 Bn.**

New recruits
**160**

Hours of training
**3,022**

New loans and advances
**LKR 6.9 Bn.**

# Message from the Chairman

> "In 2023, CBC Finance surpassed LKR 1 Bn. in monthly disbursements for the first time in its history, marking a significant milestone in our journey of growth and excellence."

As I reflect on 2023, it was a year marked by both significant challenges and notable achievements. This year has been pivotal as we navigated a complex landscape with a steadfast commitment to resilience and growth. It is with pride and satisfaction I report that, for the first time in the history of CBC Finance, in 2023, we reached a remarkable milestone by surpassing LKR 1 Bn. in monthly disbursements of advances. This achievement highlighted our commitment to growth and excellence, reflecting our robust operational capabilities and strategic vision.

## Navigating a Complex Environment

The global operating environment during the post-pandemic recovery phase has been tumultuous. While some economies have shown promising growth, various global events, including the Russia-Ukraine conflict and fluctuating trade routes in the Gulf, have created a landscape of uncertainty. Despite these challenges, opportunities continue to emerge, requiring us to remain agile and adaptive. In Sri Lanka, the echoes of past economic and political upheavals, coupled with the ongoing recovery from the pandemic, have shaped our strategic approach. The economic crises and regulatory challenges have tested our resilience, but also provided moments for introspection and strategic realignment. At CBC Finance, we have remained committed to navigating these challenges with a focus on innovation, sustainability, and growth.

## Strategic Initiatives and Achievements

In 2023, we continued to implement the three-pronged strategy outlined in the joint message from myself and my predecessor in our 2022 Annual Report. This approach was aimed at fortifying our foundation and positioning CBC Finance for sustainable growth and stability. These efforts were designed to address immediate challenges while laying the groundwork for future success.

### Organic Growth and Asset Expansion

Our commitment to organic growth remains unwavering. In 2023, we meticulously crafted and implemented strategies aimed at expanding our total assets upto LKR 20 Bn. This ambitious target is part of our broader vision for sustained growth and reflects our goal to double our asset base from the previous year. Through careful planning and execution, we identified key areas for expansion and are pursuing them with vigour and vitality. Our focus on our own growth ensures that we build on our existing strengths and capitalise on emerging opportunities within the market.

### Enhanced Risk Management and Audit Functions

The volatile economic environment has highlighted the importance of robust risk management and audit functions. In response, we significantly enhanced these functions, leveraging the expertise and resources of our parent company. This collaboration has enabled us to implement more stringent oversight and adhere to responsible lending practices. By fortifying our risk management framework, we have enhanced our ability to anticipate and mitigate potential risks, ensuring the continued stability and integrity of our operations.

### Digital Transformation

Embracing digital transformation has been a cornerstone of our strategy in 2023. Recognising the limitations of traditional physical branches, we have plans to increasingly shift towards virtual business units. Supported by advanced digital platforms, this transition allows us to operate more efficiently and deliver superior customer experiences. Our digital roadmap includes significant investments in technology to enhance our operational capabilities and customer engagement. This shift not only optimises our resources but also positions us at the forefront of the digital revolution in the financial services sector.

### Enhancing Financial Resilience

One of the critical actions we took this year was to absorb a significantly high amount of Expected Credit Loss (ECL). This proactive measure was essential in strengthening our financial foundation, enabling us to better withstand economic volatility and preparing us for a robust growth in 2024 and beyond. By addressing potential credit risks head-on, defining our target market segment and identifying unique selling points, we have positioned CBC Finance to enhance its market share and aim for a top 20 market position in the coming year. This approach not only stabilises our current operations but also sets a strong baseline for future expansion and growth of CBCF's footprint.

### Strengthening Capital Adequacy

While the Company currently enjoys comfortable levels of core capital and capital adequacy, we are committed to further strengthening our capital base in the coming year, with the constant support of our parent company, Commercial Bank of Ceylon PLC. As the largest private sector bank in the country, their backing provides us with a robust safety net and instills the confidence to aggressively pursue our strategic goals. This reinforcement is essential for supporting our ambitious growth plans, equipping us to navigate future challenges, and enabling us to seize new opportunities with greater assurance, ultimately ensuring our long-term stability.

### Strategic Relocation for Enhanced Visibility

In a move designed to enhance our organisational symbolism and visibility, we have decided to relocate our Head Office from Kandy to Colombo. This strategic relocation will enable us to leverage Colombo's central position and its status as the business hub of Sri Lanka. By moving our headquarters to Colombo, we aim to strengthen our presence in the market and better serve our stakeholders. The Kandy head office building will be repurposed for operations that can be managed centrally, ensuring that we make the most effective use of our facilities.

### Brand Enhancement through Media Campaigns

Enhancing our brand image has been a key focus this year. We launched a comprehensive media campaign across digital and print channels to underscore CBC Finance's position as a fully-owned subsidiary of the prestigious Commercial Bank of Ceylon PLC. This campaign is designed to elevate our brand visibility and reinforce our commitment to delivering high-quality financial services. By highlighting our strong affiliation with the Commercial Bank, we aim to build greater confidence among our customers and other stakeholders.

These strategic initiatives and achievements underscore our commitment to resilience and growth. By proactively addressing challenges and leveraging our strengths, we have now positioned CBC Finance for a promising future. As we move forward, we remain dedicated to our mission of providing superior financial services and creating sustainable value for all our stakeholders.

## Financial Performance and Future Outlook

In line with more favourable economic landscape during the year compared to the previous year, gradual reductions in interest rates, consequent re-pricing of the funding sources and growth in business volumes enabled the Company to record a significant growth in its topline. Accordingly, gross income recorded a 22% growth in 2023. However, the decision to provide for a significantly higher impairment provision based on Expected Credit Losses, particularly for a few large business loans, impacted our net operating income. This, coupled with the cost of capacity enhancements in terms of human resources and other infrastructure, as well as inflationary pressures, led to a loss of LKR 225 Mn. for the year compared to the profit of LKR 40 Mn. reported for the previous year. A notable achievement during the year was the growth in total assets from LKR 10.955 Bn. as at December 31, 2022 to LKR 12.459 Bn. as at December 31, 2023. Our capital adequacy ratios continued to remain robust, a testament to our solid financial stability.

Looking ahead, our focus will be on achieving assets of LKR 20 Bn. by 2024, with a clear plan to strengthen our market position and increase our market share. We are committed to leveraging digital advancements to further optimise operations and enhance customer experience. Our strategy for the coming years includes exploring industry consolidation opportunities, enhancing our digital infrastructure, and promoting sustainability initiatives.

## Commitment to Sustainability and Innovation

As we move forward, sustainability and innovation will remain at the core of our strategic initiatives. We are focused on optimising our asset blend and enhancing our IT operations to support our digital transformation. Developing digital products and promoting sustainability initiatives are key components of our growth strategy. These efforts reflect our resolute commitment to adapting to evolving market dynamics and positioning CBC Finance for sustained growth and resilience in the face of future uncertainties.

## Acknowledgments

On behalf of the Board of Directors, I extend my deepest gratitude to Mr. Chamilantha Fernando, Managing Director/ Chief Executive Officer, for his exceptional leadership, and to the other members of the Leadership Team and every employee of the Company for their untiring dedication and commitment. Your relentless efforts have been instrumental in executing our strategies and achieving significant growth within a relatively short time span. As a team, you have demonstrated extraordinary resilience, adaptability, and a profound commitment to our shared goals. Your collective determination to navigate the complexities of our operating environment and drive our vision forward is truly commendable. Through your hard work and unwavering dedication, you have positioned CBC Finance as a robust and forward-thinking organisation.

I would like to extend a warm welcome to Ms Sharmini Wickremasekera, who joined our Board recently in March 2024. Her extensive experience in the fields of accounting, finance, auditing, IT governance, and risk management will undoubtedly be invaluable as we embark on our accelerated growth plans for the upcoming years. I also wish to extend my sincere gratitude to the members of the Board for their visionary leadership. Their guidance has been crucial in steering the Company through the challenges of the past year, effectively mitigating the lingering effects from the preceding years.

I also extend my heartfelt thanks to our regulators for their guidance and support during this turbulent period. Your oversight and timely interventions have been crucial in maintaining stability within the financial sector, and we deeply appreciate your ongoing support.

To our valued customers, your trust and confidence in us have been the driving forces behind our relentless pursuit of excellence. As we move forward, we remain loyal, faithful and steady in our commitment to delivering superior service and creating sustainable value for all our stakeholders. Your unwavering support is our greatest strength, and we look forward to continuing to serve you with dedication and integrity.

Together, we have emerged stronger from the challenges of 2023. With your continued support, we are optimally positioned to reach even greater heights in our journey in the years ahead.

**Sharhan Muhseen**
Chairman

Colombo
June 22, 2024

# Managing Director/ Chief Executive Officer's Review

> "Despite the challenges of 2023, CBC Finance stood firm, leveraging its strength and adaptability to steer towards a promising horizon."

## The Context

The year 2023 marked a period of recovery and stabilisation of the broader economic environment. Compared to the unprecedented challenges of 2022, this year witnessed an overall improvement in operating conditions as the lingering effects of the pandemic, economic downturn, and political turmoil gradually subsided. Macroeconomic variables such as exchange rates, interest rates, and inflation began to stabilise, and the economy started to record positive growth. Amidst this evolving landscape, resilience and strategic focus were paramount. At CBC Finance, we navigated these dynamics with a clear emphasis on sustaining growth and fostering stability. Our commitment to adaptability and innovation has been the cornerstone of our approach, allowing us to thrive despite persistent volatility and uncertainty. By maintaining liquidity, managing risks prudently, and ensuring our operations remained agile, we demonstrated our capacity to respond effectively to changing conditions, laying a strong foundation for future success.

## Support from Our Parent

Our ability to navigate these challenges was significantly bolstered by the unwavering support of our parent company, Commercial Bank of Ceylon PLC. As a fully-owned subsidiary of the country's largest private sector bank, the Company benefited immensely from the financial strength, managerial expertise, and strategic guidance provided by the Bank.

Throughout the year, we leveraged the Bank's comprehensive resources to enhance our operational capabilities and service delivery. This support spanned various dimensions, technological innovations, and the implementation of best practices in risk management, audit and corporate governance and including advanced staff training programs. The Bank's support it in our operations has been instrumental in maintaining our stability and fostering a culture of excellence and resilience within the Company.

## Performance and Growth in 2023

Despite imperfect conditions, the Company achieved significant milestones in 2023, reflecting our commitment to growth and operational excellence. We saw substantial growth in our business volumes, with deposits increasing by 28% to LKR 6.534 Bn., continuing in the strategy of changed business model of retail lending, we were able to disburse 6.856 Bn. volume within the period which lead to a 19% growth in net loans and advances to LKR 10.142 Bn. These achievements led to a 14% growth in total assets, underscoring our ability to expand and strengthen our financial position even in such conditions.

However, the year was not without its challenges. We faced a significant increase in impairment charges, which rose by 93% to LKR 482 Mn. This increase was due to a number of factors that included the heightened economic stress experienced by our customers, management overlays on affected customers under moratoria or granted concessions as per the CBSL guidelines, changing the default point to 120 days from 180 days at the beginning of the year, fully provided over selected legacy portfolios, revisit ECL model parameters such as Loss Given Default, Probability of Default, etc. Additionally, operating expenses surged, driven by inflationary pressures and an expanded workforce which increased from LKR 352 Mn. to LKR 527 Mn. as at end 2023.

Consequently, the Company reported a loss after tax of LKR 225 Mn. for the year, a stark contrast to the profit of LKR 40 Mn. recorded in the previous year. Despite these financial setbacks, our focus on maintaining asset quality yielded positive outcomes. We improved our provision coverages for all three stages specially in stage 3 loans, which are critical indicators of our underlying financial health and our commitment to prudent risk management.

## Embracing Innovation for Service Excellence

At CBC Finance, innovation is a cornerstone of our strategy to enhance service delivery and operational efficiency. As we look to 2024, we are committed to rolling out several advanced software applications designed to significantly improve our service quality and streamline our operations. These technological advancements are crucial to our vision of providing superior customer experiences and maintaining our competitive edge in the market.

We are revolutionising our payment collection processes with a sophisticated system that automates and streamlines operations, resulting in a more user-friendly and efficient experience for our customers. Internally, we are fostering a more cohesive and productive work environment by deploying a suite of productivity tools that improve communication and collaboration across departments. Our credit assessment capabilities are being optimised through an advanced application utilising data analytics and machine learning to evaluate borrower creditworthiness more accurately and efficiently. We are also launching a new notification service to keep customers informed and engaged, providing timely updates that help them manage their financial activities effectively. Additionally, as we expand our digital services, we are bolstering our cyber security measures with advanced technologies to protect our systems and customer data, ensuring robust security and maintaining customer trust in our digital future.

Our embrace of innovation is driven by a singular goal: to enhance the customer experience and operational excellence. By integrating these advanced technologies into our operations, we aim to create a more efficient, secure, and customer-centric organisation. We believe that these innovations will not only improve our service delivery but also position CBC Finance as a leader in the adoption of cutting-edge financial technologies.

# Managing Director/ Chief Executive Officer's Review

## Expanding Digital Payment Options

Recognising the growing demand for digital financial solutions, we are set to expand our digital payment options, providing our borrowing customers with more flexible and convenient ways to make their monthly instalment payments. We will integrate several advanced digital payment platforms into our services. Each of these platforms offers unique features that cater to the diverse needs of our customers, enabling them to choose payment methods that best suit their needs. By embracing digital solutions, we aim to provide a seamless and convenient service experience that aligns with the evolving preferences of our customers. These expanded payment options will not only enhance the customer experience but also improve our operational by reducing reliance on traditional payment channels.

## Strategic Initiatives and Future Outlook

Looking ahead to 2024, we are poised for a period of significant growth and transformation. CBCF has set ambitious targets for the coming year, underpinned by a clear strategic vision and a robust operational plan. We aim to increase our total assets by 54%, reaching LKR 20 Bn., and significantly expand our new loan and lease disbursements to LKR 15 Bn., up from LKR 6 Bn. in 2023. We also plan to grow our deposit base by 57%, aiming for LKR 11 Bn., and achieve a target profit after tax of LKR 104 Mn.

A central pillar of our growth strategy is the re-orientation of our business model and product mix towards vehicle-based financing. This strategic shift will allow us to better align with market demand, capitalise on our core strengths, increase our secured portfolio, and optimise our asset quality. We recognise the growing demand for vehicle financing and are well-positioned to leverage this trend to drive our growth and profitability.

In line with our expansion goals, we plan to broaden our branch network to 20 locations and increase our staff cadre to 385 by the end of 2024. This expansion will enable us to enhance our customer reach, provide more localised services, and support our strategic objectives of growth and market penetration.

## Commitment to Sustainability and Community Support

We also continued to align our operations with the broader sustainability goals of our parent company. This alignment includes initiatives to strengthen our capital base, attract low-cost funding, and achieve cost efficiencies that are essential for long-term sustainability. At the same time, we remain steadfast in our commitment to sustainability and community support. Our lending practices are guided by a firm commitment to environmental and social responsibility. We ensure that our financing activities do not support businesses and projects that cause damage to the environment or harm the society. This reflects our commitment to fostering sustainable and socially responsible growth within the communities we serve.

## Regulatory Compliance and Governance

Regulatory compliance and robust governance practices remain foundational to our operations. We maintain a strong and constructive relationship with the Central Bank of Sri Lanka (CBSL), ensuring that we adhere to all regulatory requirements and corporate governance standards, both to the letter and in spirit.

We continued to strengthen our governance framework. Besides the appointment of Mr Sharhan Muhseen, the incumbent Chairman to the Board on January 1, 2023, the Company appointed Ms Sharmini Wickremasekera to the Board in January 2024 to enhance Board diversity. These efforts are aligned with our commitment to maintaining the highest standards of corporate governance and regulatory compliance, which are critical to our long-term success and stakeholder trust.

## Acknowledgements

As we reflect on the achievements and challenges of 2023, I extend my heartfelt gratitude to our Chairman, Mr Sharhan Musheen and other members of the Board of Directors. Their steadfast support and insightful guidance have been instrumental in steering the Company through a year marked by complexity and uncertainty. Their collective expertise and unwavering dedication have not only helped us navigate these challenging times, but have also positioned us for future success. It is their leadership that has set the stage for our continued growth and strategic achievement.

My appreciation goes out to our dedicated Leadership Team, Senior Management Team, Cluster Managers, Branch Managers, and all our staff at the head office and branches. Their tireless efforts and commitment have been pivotal in achieving our goals and overcoming the challenges we faced. I count on your support and contribution as we strive to realise the ambitious targets we have set for 2024.

I am profoundly grateful to the Central Bank of Sri Lanka for their timely interventions and continuous support, which have been essential in maintaining our stability and operational integrity. I also express my sincere thanks to our customers for their trust and loyalty, and to all our stakeholders for their unwavering support and collaboration.

As we move forward into 2024, we are excited about the opportunities that lie ahead and are committed to delivering exceptional value to all our stakeholders. We remain focused on our strategic objectives and confident in our ability to drive significant growth and success in the coming year.

**Chamilantha Fernando**
Managing Director/
Chief Executive Officer

Colombo
June 22, 2024

# Financial Review



The financial review provides insights into the Company's financial performance during the year ended December 31, 2023 and should be read in conjunction with the detailed Financial Statements given on pages 94 to 171.

The Company recorded a substantial growth in total assets by 14% to LKR 12.46 Bn. from LKR 10.95 Bn. Net loans and advances were enhanced to LKR 10.14 Bn. from LKR 8.51 Bn. and mainly funded through deposit mobilisation. Accordingly, the Company's deposit base has grown by 28% from LKR 5.12 Bn. to LKR 6.53 Bn. in 2023. Further, the Company used excess funds invested in the government securities of LKR 886 Mn. to grow its loans and advances, resulting in an improvement in net interest income in 2023.

The Company changed its business model to a small-ticket sized retailed business specially secured over movable assets from 2022 onward. However, there were big ticket sized loans and advances portfolio consisting of immovable property backed mortgage loans and unsecured loans granted to SME business entities from 2018 to 2021. Due to a number of factors that included the heightened economic stress experienced by the customers who had taken loans prior to 2022, the Company provided significant impairment charge in 2023 and when compared to 2022, there was an increase by 93% to LKR 482 Mn. from LKR 249 Mn.

Consequently, the Company reported a loss after tax of LKR 225 Mn. for the year, a stark contrast to the profit of LKR 40 Mn. recorded in the previous year.

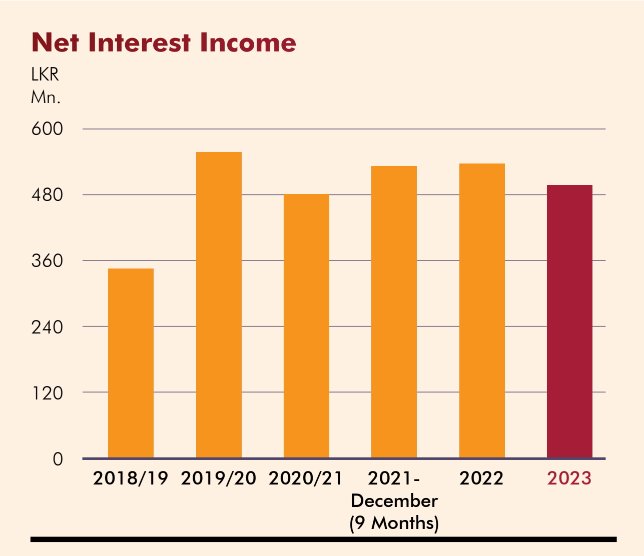
## A Summary of Financials

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

| Indicator | 2023 | 2022 | Variance (%) |
|---|---|---|---|
| Total income (LKR Mn.) | 1,991.47 | 1,636.16 | 22 |
| Profit/(loss) after tax (LKR Mn.) | (225.18) | 39.58 | (669) |
| Shareholder's funds (LKR Mn.) | 2,977.34 | 3,177.47 | (6) |
| Loan and advances (Gross) (LKR Mn.) | 11,637.64 | 9,679.37 | 20 |
| Deposit liability (LKR Mn.) | 6,534.18 | 5,116.21 | 28 |
| Bank borrowings (LKR Mn.) | 2,758.60 | 2,467.54 | 12 |
| Net cash flows (LKR Mn.) | 85.79 | (89.48) | (196) |
| **Capital adequacy ratio; core capital as a percentage of risk-weighted assets** | | | |
| – Tier I (%) | 19.57 | 24.89 | (21) |
| – Total capital (%) | 19.57 | 24.89 | (21) |
| Debt/equity (Times) | 3.12 | 2.39 | 31 |
| Earnings per share (LKR) | (1.02) | 0.18 | (667) |
| Return on assets (before tax) (%) | (2.57) | 0.09 | (2,910) |
| Return on equity (after tax) (%) | (6.72) | 1.25 | (638) |

Financial Review

## Net Interest Income (NII)

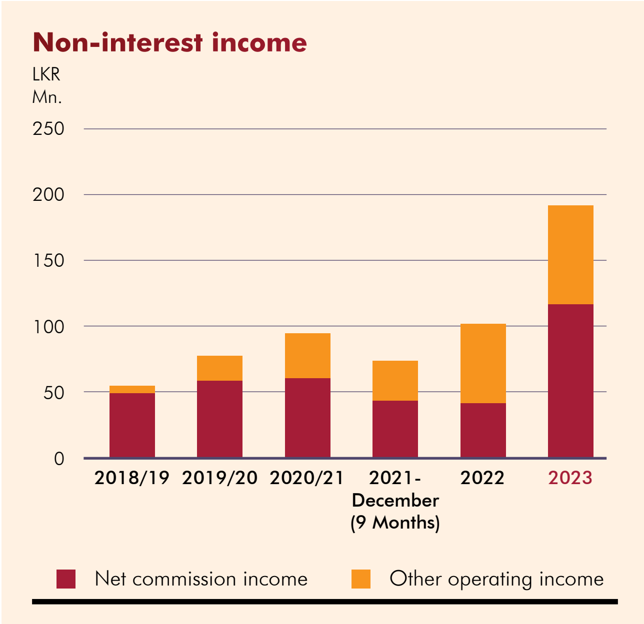



Interest income for the year increased by LKR 243 Mn. or 16% compared to the year 2022, as a result of enhancing the loans and advances portfolio. Interest rates were at a peak point in the last quarter in 2022 and rates dropped gradually during 2023. Hence, the tendency to reprice short-term loans was considerably high. Further, the Company decided to raise its hands to support affected customers due to the economic downturn and granted /extended moratoria or concessions in 2023 for selected customers under the guidelines issued by the Central Bank of Sri Lanka.

On the other hand, compared to the interest income, interest expense also increased by LKR 284 Mn. or 29% from LKR 986 Mn. to LKR 1,271 Mn. in 2023. The deposits base increased by 28% to LKR 6.5 Bn. from LKR 5.1 Bn. The average deposit cost stood at 16.76% in 2023 and it was at 19.88% at the end of 2022. Meantime, the borrowing cost decreased by a considerable margin from 20.70% to 12.87%, however the overall deposits to borrowings mix stood at 70:30 during both financial years.

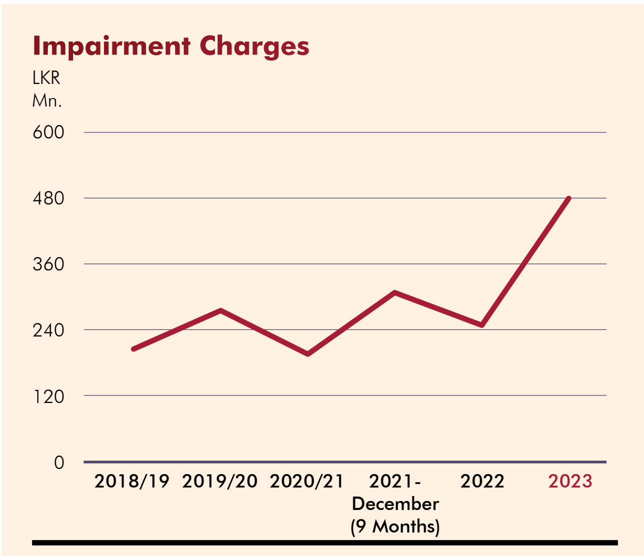
Consequently, the impact on net interest income was a decline of LKR 40.9 Mn. or 8% only. This resulted in the net interest margin dropping to 3.98% from 4.91% and however, the Company was able to improve year on year net interest spread from 1.35% to 1.68%.

## Non-Interest Income




Net fee and commission income recorded a considerable growth by 185% to LKR 117.4 Mn. from LKR 41.26 Mn. in 2022. With the relaxing of restrictions imposed by the Central Bank of Sri Lanka regarding charging of fees from default customers, a considerably high value of late fees were collected during the year. The fair value gain on investment properties of LKR 13.9 Mn. was recognised in 2023 against LKR 1.2 Mn. in 2022 due to an increasing acquisition of the number of properties during the year.

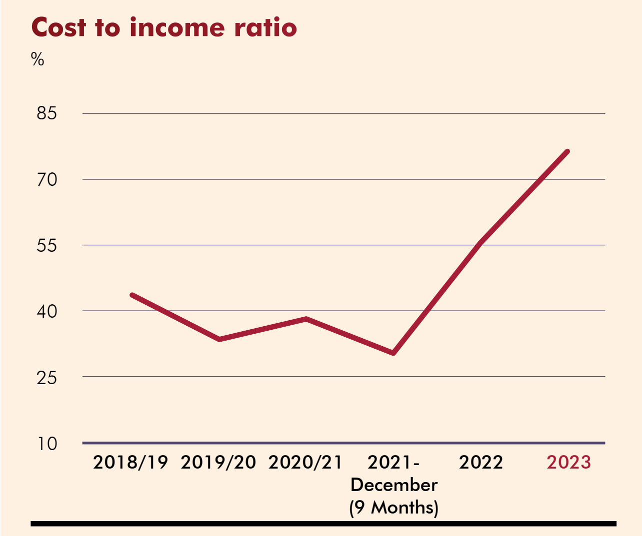
## Impairment Charges



The Company experienced a significant increase in impairment charges, which surged by 93% to LKR 481.62 Mn., up from LKR 249.16 Mn. Several factors contributed to this rise. Firstly, the default point was changed from 180 days past due to 120 days past due at the beginning of the year, in line with regulatory guidelines. Secondly, we made adjustments based on aggressive management overlays for customers under moratoria or concessions, as directed by the Central Bank of Sri Lanka (CBSL), after thoroughly evaluating their credit risk. Additionally, we fully provided for selected legacy portfolios, particularly for unsecured loans after one year and secured loans after three years. We also revisited the Expected Credit Loss (ECL) model parameters, such as Loss Given Default (LGD) and Probability of Default (PD). These revisions necessitated additional impairment provisioning to comply with the applicable accounting standards.

The Management wanted to improve the provision covers in line with the industry ratios and accordingly, the Stage 01, Stage 02 and Stage 03 covers stood at 2%, 9% and 34% respectively. Management believes that these additional charges sufficiently cover the entire expected credit risk of the legacy portfolio of the Company.

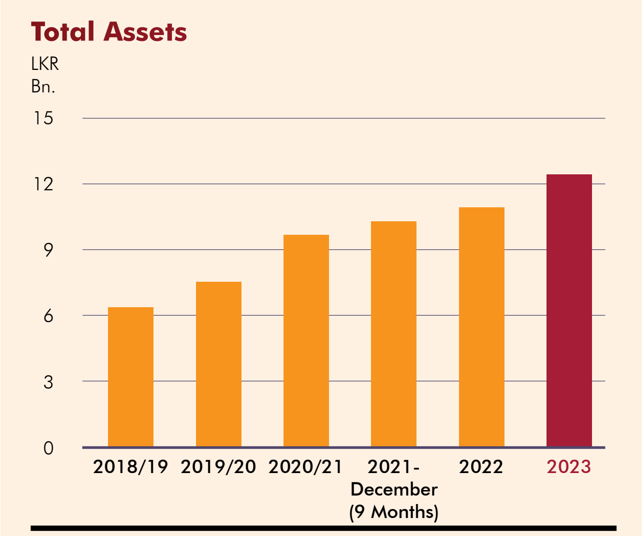
## Operating Expenses


In 2023, the Company expanded its workforce significantly, increasing from 176 to 271 employees, a growth of 54%. Management also restructured the remuneration scale to be competitive with similar companies in the finance industry. This year was marked by high inflation in the country, which drove up costs. As a result, operating expenses increased by 50%, reaching LKR 527.27 Mn., up from LKR 351.85 Mn.

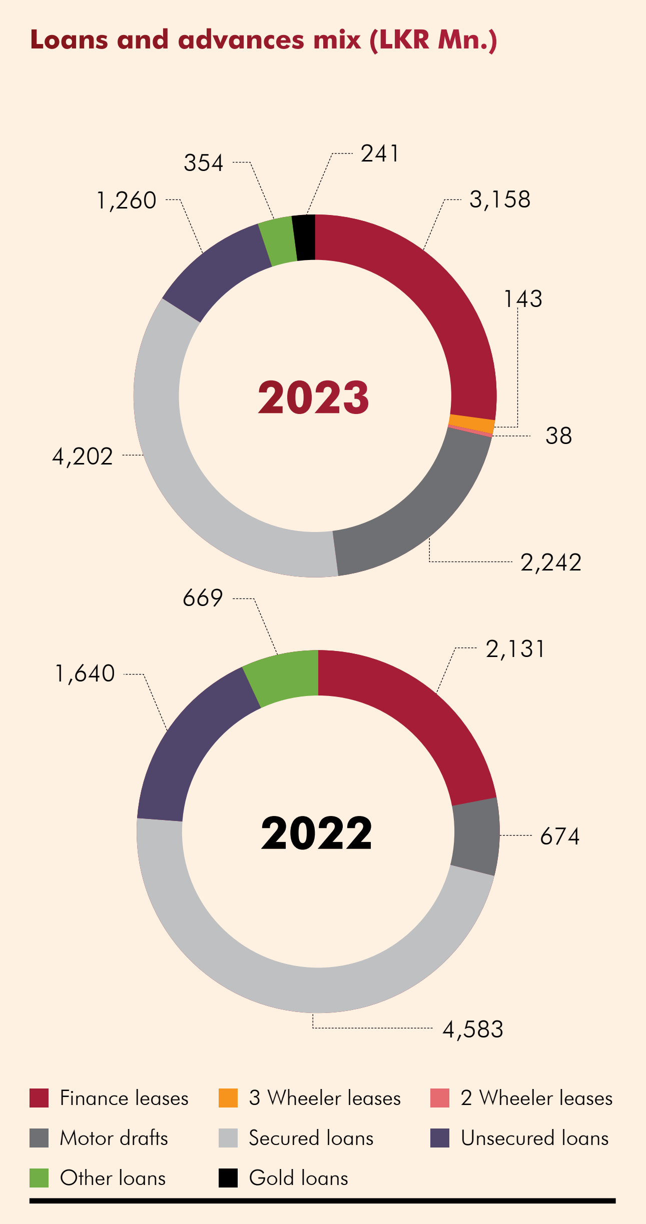
During the year, the Company also expanded its branch network and enhanced the visibility of its branches. We aligned our business promotion activities with a new business model, resulting in considerable revenue and capital expenditures. These investments contributed to a rise in the cost-to-income ratio, which went up to 76.61% from 55.67%.

## Total Assets



# Financial Review

Total assets of the Company grew substantially by 14% (2022: 6%) to LKR 12.46 Bn. as at December 31, 2023 from LKR 10.95 Bn. as at December 31, 2022. This achievement is significant as the industry has recorded year on year growth of around 8%. Based on the changes in business strategy, the net loans and advances to customers registered a 19% growth and also property, plant & equipment including intangible assets and right of use assets, investment properties, cash and short-term funds, deferred tax assets and other assets grew by 21%, 1945%, 60%, 29% and 34% respectively. Meanwhile, the financial investments declined by 52% due to the utilisation of excess funds invested in government securities upon maturity as a funding option to consider the benefit in the net interest income.

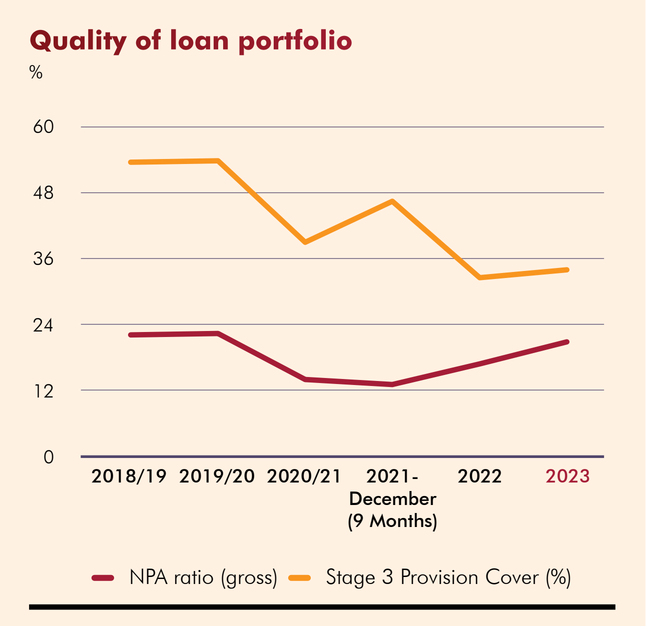



The Company expanded the product mix and 03 new products were launched during the year, such as Gold loan, Three wheeler lease and Two wheeler lease. The total gross loans of the Company crossed the LKR 11.5 Bn. cutoff during the year despite various business and operational disruptions. Accordingly, the loan portfolio grew by 20% during the year and as described in the above charts, the product mix has been balanced.

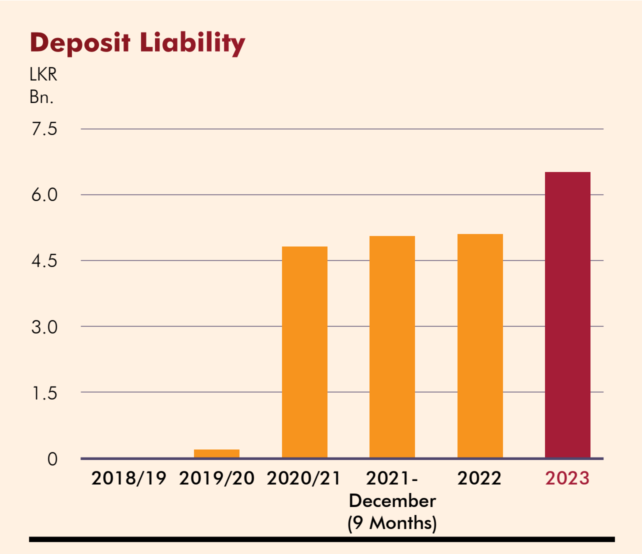
## Assets Quality

The Company managed the Gross NPA ratio at 21.04% (2022 – 16.98%) after changing the default point from 180 days past due to 120 days past due. Due to the first time adoption of Non-performing Loans (NPL) classification as per the directive introduced by the Central Bank of Sri Lanka, the NPL ratio grew up to 25.26% as of January 2023. The newly added value to NPL was around LKR 832 Mn. Management of NPLs afterward was a very challenging task due to the prevailing economic conditions in the country.

Based on the credit risk characteristics, the moratoria granted and or concessions extended to customers have been classified under stage 03 and provision cover on those loans enhanced in line with industry limits whilst absorbing the high value of impairment charge against profit in 2023.



## Deposits




The Company commenced accepting deposits in October 2019 and deposits became the primary source of funding for the Company within a relatively shorter period. Within this period up to December 31, 2023, the deposit base grew up to LKR 6.53 Bn. and when compared with last year, deposit growth rate was 28%. Market interest rates increased to their peak level in the final quarter of 2022 and accordingly, depositors invested funds in long term deposits. Then, after the first quarter of 2023, the market rates started to decline.

## Capital Adequacy/capital Management

The Company's core capital position stood at healthy level even after absorbing loss of LKR 225 Mn. for the year 2023. The minimum required core capital is LKR 2.5 Bn. and available capital as at December 31, 2023 was LKR 2.9 Bn.

The Company's risk-weighted assets grew by 13% during the year from LKR 11.23 Mn. to LKR 12.63 Mn. as of December 31, 2023. Accordingly, both the Tier 1 and the total capital ratios stood at 19.57% (2022 : 24.89%) (Minimum requirement; Tier I – 8.5% and total capital – 12.5%) as of December 31, 2023.

## Funding and Liquidity Management

The Company always tries to strike an optimum balance between profitability and stability when it comes to maintaining liquidity. The Assets and Liabilities Committee (ALCO) of the Company meets every month, or more frequently if the circumstances so require, to closely monitor the current and future funding and liquidity requirements as well as pricing of products and services. ALCO extensively deliberates various developments that affect funding and liquidity, such as market liquidity, current and perceived interest rates, changes in policy rates, regulatory directions, credit growth and facilities in the pipeline, capital expenditure commitments, contingency funding arrangements etc., at these meetings.

# OUR STEWARDSHIP

# Board of Directors' Profiles

**Mr Sharhan Muhseen**
Chairmen (Non-Independent, Non-Executive Director)

Appointed as a Non-Independent/Non-Executive Director in September 2022 and as the Chairman of CBC Finance Ltd. in March 2023. Appointed as the Chairman of the Board Information and Technology Committee in October 2022 and as the Chairman of the Board Human Resources and Remuneration Committee in February 2023.

He has been the Deputy Chairman of the Board of Directors of the parent company, Commercial Bank of Ceylon PLC since March 01, 2022, and became the Chairman of the Commercial Bank of Ceylon PLC in April 2024.

Mr Muhseen is a Senior Investment Banker with comprehensive experience in the areas of Mergers and Acquisitions, Corporate Finance and Capital Markets. He 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 and Lead Economist at Jardine Flemming. Mr Muhseen has started out as a Management Trainee at Standard Chartered Bank in the Corporate Banking Division, and at Rodman and Renshaw stock and commodities broker based in Chicago.

In Mr Muhseen's Investment Banking career extending over more than 20 years, he has completed landmark mergers and capital-raising transactions in excess of 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.

Mr Muhseen has experiences 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.

He has previously worked in best-in-class global investment banks, Credit Suisse, Bank of America, Merrill Lynch and J P Morgan in leading regional coverage roles. Mr Muhseen's most preceding role was as Managing Director, Head of South East Asia Financial Institutions Group and Head of Asia Insurance at Credit Suisse based in Singapore. He was a Director of Merrill Lynch and an Associate Director of Deloitte. He was also a Senior Advisor to TPG and BNP Paribas.

He serves as the Chairman/Director of Platinum Advisors Pte Ltd., a Director of H2O One Pte Ltd., David Pieris Holdings (Pvt) Ltd., Lankan Angel Network, and Gestetner Ceylon PLC. He is the Deputy Chairman of Amana Takaful Life PLC and also an Independent Director of PCCW Limited, Hongkong. He is a Senior Advisor to Great Eastern Holdings Ltd., Singapore.

Mr Muhseen holds a Masters degree in Economics from the University of Colombo and a Bachelor of Business Administration (Hons) from Western Michigan University. He has completed the Corporate Finance training programme with JP Morgan in New York and undertaken several Programmes in effective board leadership from the Singapore Management University.

**Dr (Ms) Janaki Kuruppu**
Former Senior Director (Independent, Non-Executive)

Appointed to the Board of Directors in September, 2014 Dr 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.

Starting her career of over 26 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 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 Kuruppu holds a PHD from the University of Colombo, an M.A. in Statistics and a B.Sc. in Mathematics from the University of Missouri, USA.

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

**Mr Sarath Jayasuriya**
Independent, Non-Executive Director

Appointed as an Independent Non-Executive Director in December 2017. Mr Jayasuriya became the Chairman of the Board Audit Committee in July 2022 and the Chairman of the Board Integrated Risk Management Committee in February 2023. Appointed as the Senior Director of CBC Finance Ltd. in March 2023.

Mr Jayasuriya is 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 Institute of Chartered Global Management Accountants (CGMA) (UK) and also a member of the Institute of Chartered Shipbrokers (MICS) (UK). He holds a Bachelor of Science Degree from the University of Sri Jayewardenepura.

Mr Jayasuriya has proven track records of over 32 years 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 and Investment Banking) and Deputy General Manager (Finance and Planning). He has served as a Director and 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 BOC Investment Committee, BOC Pension Fund, BOC Provident Fund and BOC W&OP Fund as well. In addition, he has served as a member of the Standing Cabinet Appointed Procurement Committee (SCAPC) which is the body approve all tenders for procurement of petroleum and petroleum related products for Ministry of Petroleum Industry.

# Board of Directors' Profiles

**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 27 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 and the Deputy Chairman of the Criminal Law Committee of the Bar Association of Sri Lanka in recent years. He has also been a visiting lecturer for the post graduate programme at the Kothalawala Defense University. Mr Bandara holds a Bachelor of Arts Degree from the University of Kelaniya and Masters of Laws degree from the University of Staffordshire, UK.

**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 has been the Chairman of the Board Information Technology Committee from November 2021 to October 2022 and became the Chairman of the Board Credit Committee in February 2023.

Mr Munasinghe currently serves as the Deputy General Manager – Retail Banking and Marketing of the parent company, Commercial Bank of Ceylon PLC. He also serves as a Trustee of the Commercial Bank CSR Trust. He oversees Retail Banking including Retail deposits and loans, Cards business, Remittance business, the Marketing function, Customer experience and Sustainability, CSR and Women Banking verticals of the Bank. Mr Munasinghe possesses 30 years of experience including 13 years in Banking.

Mr Munasinghe 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 over 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 Chartered 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. He is also a Board Director of Sri Lanka Business and Biodiversity Platform of Ceylon Chamber of Commerce.

**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), a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and a fellow 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 34 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.

**Mrs Sharmini Wickremasekera**
Independent, Non-Executive Director

Appointed as an Independent Non-Executive Director in March 2024. Mrs Wickremasekera is an accomplished professional with an illustrious career spanning across a variety of roles. She has exhibited exceptional leadership skills and expertise in the areas of accounting, finance, Internal auditing, IT governance, and Risk Management. She holds globally recognised credentials viz CISA (Certified Information System Auditor) and CRISC (Certified in Risk and Information System Control).

Mrs Wickremasekera began her journey at Ford Rhodes Thornton and Company and joined LOLC in 1983 where she started out as an Accounts Clerk and successively promoted in recognition of her performance. She has played a pivotal role in introducing Standards in Internal Audit, IT Governance, Enterprise Risk Management, Business Continuity Management and fraud prevention for the LOLC Group. She retired as the Chief Risk Officer – LOLC Group, in March 2023.

Mrs Wickremasekera also served as the President of ISACA Sri Lanka Chapter from 2007 to 2009 breaking barriers as the first female president to lead a professional IT association in Sri Lanka. Under her leadership, the Chapter was recognised as the Best Medium-sized Chapter in Asia.

Moreover, she has held honorary positions on the Boards of Sri Lanka Cert from 2007 to 2009 and Infotel ICT Exposition from 2006 to 2009 as an Independent Non-Executive Director, further contributing to the information security landscape. Currently, she serves as an Independent Non-Executive Director at SUNTRUST Insurance Brokers (Pvt) Ltd., and SUNTRUST Digital Innovations, focusing on strategy, accounting and finance.

Mrs Wickremasekera has gained international recognition as a representative and speaker on Risk Management, participating in conferences both locally and overseas. She has contributed her expertise as a presenter, panellist and moderator in seminars and Conferences organised by various professional bodies and Corporates.

Her contributions and achievements had won numerous accolades. Notably, the ISACA SL Chapter was awarded the K Wayne Snipes Award in 2009 for the best medium-sized chapter in Asia, by ISACA (USA) and the Achievement Award for GRC in the USA by the OCEG in 2012 for the GRC standards implemented at LOLC.

# Board of Directors' Profiles

**Mr Upul Dissanayake**
Former Managing Director/Chief Executive Officer

Mr Dissanayake has been the Managing Director of CBCF since October 2018 to October 2023. 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 Jayewardenepura and is a member of the Institute of Directors of Sri Lanka. Mr Dissanayake became a CCC Certified Coach in 2021. After five years of great service, his tenure at CBCF ended successfully on 12 October 2023.

**Mr Chamilantha Fernando**
Managing Director/Chief Executive Officer

Appointed as Managing Director and Chief Executive Officer of CBCF in October 2023. Mr Fernando has a stellar track record spanning over two decades in the banking and finance industry.

As the current dynamic leader at the helm of CBC Finance Ltd. he brings a wealth of experience and expertise to his role. Armed with a Master of Science in Finance from Asia e University and a Bachelor of Commerce in Marketing from the University of Western Sydney, Australia, his academic prowess complements his extensive practical knowledge.

Moreover, his commitment to professional development is evident through his certifications, including Certified Practicing Marketer (CPM – Asia Pacific), and Practicing Marketer (SLIM), his associations with the Sri Lankan Institute of Marketing (MSLIM) and the Chartered Institute of Marketing UK. Mr Fernando is also an associate member of Institute of Bankers of Sri Lanka.

Mr Fernando has started out his career in banking at Hong Kong and Shanghai Banking Corporation and then moved to Standard Chartered Bank and then to Nations Trust Bank where he was involved in Sales and Marketing at the time of the launch of American Express Credit cards to the local market. He has later got in to the Sri Lankan finance industry holding senior positions at Softlogic Finance PLC, Merchant Bank and Finance PLC, Orient Finance PLC and finally at Dialog Finance PLC.

Mr Fernando's career journey continued through various prestigious institutions and positions has honed his strategic vision and business acumen. Notably, his tenure as Head of Business Development and handling the marketing of eZ Cash/ Mobile Money Operations gave him the opportunity to get a thorough understanding and involvement in digitalisation, mobile applications and mobile money.

As a seasoned leader, Mr Fernando has consistently demonstrated his proficiency in steering organisations towards success. His roles as General Manager at Softlogic Finance PLC and Heading Business Development and Marketing at other financial institutions and his overall experience in the industry underscore his adeptness in operational management and driving sustainable growth.

**Ms Oshadi Gunasekara**
Company Secretary

Appointed as the Company Secretary in September 2020. Mrs Gunasekara has studied at Sri Lanka Law College and was called to the Bar in 2013. She counts almost over a decade of experience in the legal profession. She is adept at the subjects of Commercial and Intellectual Property Law being a Junior to Dr Harsha Cabraal, President's Counsel who taught her the nuances of the profession. During the initial three years of her career Mrs Gunasekara has led and managed her own portfolio of matters whilst working collegiately with Senior Lawyers at Ratnapura, Kandy and Colombo bars. Mrs Gunasekara later served as an Associate Lawyer of Messrs. 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.

# Leadership Team

**Mr Chamilantha Fernando**
Managing Director/Chief Executive Officer

**Mr Krishantha Perera**
Chief Operating Officer

**Mr Harsha Samarasekara**
Head of Credit and Branch Administration

**Mr Mahasen Kamathewatte**
Compliance Officer

**Mr Rukmal Kaldera**
Chief Risk Officer

**Mr Namal Cooray**
Head of Sales and Marketing

**Mrs Yashikala Nawagamuwa**
Head of Legal

**Mr Amila Bandara**
Head of Finance

**Mr Sanka Fernando**
Chief Manager Recoveries

**Mr Nuwan Sardarathne**
Chief Manager Finance

**Mr Chathuranga Suraweera**
Chief Manager IT

**Mr Danushka Ariyarathne**
Senior Manager Recoveries

**Mr Sumith Amarasinghe**
Senior Manager Human Resources

**Mr Chamara Wickramaratne**
Senior Manager Credit

**Mr Lakmal Kalansooriya**
Senior Manager Gold Loan

## Distribution Channel

**Mr Hashan Priyadarshana**
Cluster Manager (Colombo Cluster)

**Mr Chanaka Nilantha**
Cluster Manager (Southern Cluster)

**Mr Duminda Karunarathne**
Cluster Manager (North Central Cluster)

**Mr Sachintha Nakandala**
Cluster Manager (Central Cluster)

# Corporate Governance

| Section | Corporate governance principle | Compliance level |
|---|---|---|
| **1. Board's Overall Responsibilities** | | |
| **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.<br>Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled by the Board, directly Overall business strategy, policies and procedures of the Company are addressed at the meetings of the Board of Directors, Corporate Management, Senior Management and other similar groups held every month.<br>The Corporate Plan for 2023-2027 is in place and approved by the Board of Directors on February 17, 2023. |
| **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.<br>(b) Approving and implementing FC's governance framework commensurate with the FC's size, complexity, business strategy and regulatory requirements.<br>(c) Assessing the effectiveness of its governance framework periodically.<br>(d) Appoint the Chairperson and the Chief Executive Officer (CEO) and define the roles and responsibilities. | It is complied with.<br>The Board has established and approved the strategic objectives and corporate values and revised them for 2022 to 2027 on February 17, 2023<br>The Board approved the budget for the year 2023 at the Board meeting held on February 17, 2023.<br>The said business strategy includes Risk Management policies, procedures, guidelines and mechanisms with measurable goals.<br>The Risk Management Policy was reviewed for the last time before the year 2023 in August 2022. The latest review was initially submitted to the Board on April 26, 2024 and re-submitted on May 20, 2024.<br>In replacement of Yes. The former Chairperson Mr K G D D Dheerasinghe, Mr Sharhan Muhseen was appointed to the Company's Board as its Chairman with effect from March 03, 2023 and in replacement of the former MD/CEO, Mr G A J C S Fernando was appointed as the Company's MD/CEO with effect from October 13, 2023. Responsibilities and the duties of the Chairman and the MD/CEO has been clearly defined in the Board approved Board Charter. |
| **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.<br>(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.<br>(c) Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.<br>(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.<br>Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled by the Board, directly. 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.<br>The Board has discussed, established and approved the strategic objectives and corporate values under the Company's Corporate Plan for 2023-2027 on December 30, 2022.<br>The business strategy includes Risk Management policies, procedures, and mechanisms with measurable goals.<br>The Board approved Code of Ethics is available in the Company's HR Department to all employees. |

| Section | Corporate governance principle | Compliance level |
|---|---|---|
| | | 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. |
| 1.(4) **Risk appetite, Risk Management and Internal Controls** | Risk Appetite, Risk Management and Internal Controls<br>(a) Establishing and reviewing the Risk Appetite Statement (RAS) aligns with FC's business strategy and governance framework.<br>(b) Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.<br>(c) Adopting and reviewing the adequacy and effectiveness of the FC's internal control and management information systems periodically.<br>(d) 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.<br>The Risk Management policy was reviewed for the last time before the year 2023 in August 2022. The latest review was initially submitted to the Board on April 26, 2024 and re-submitted on May 20, 2024 and the Board approved the Business Continuity and Disaster Recovery Plan 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.<br>Risk indicators and monitoring of credit risk, market risk, operational risks, and other residual risks have been discussed, whilst recommending appropriate mitigating actions at BIRMC meetings.<br>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 supports the process by conducting audits to assess the internal controls over financial reporting and MIS.<br>Board-approved comprehensive Business Continuity Management Plan (BCMP) is in place. The BIRMC reviews BCMP, and the current status have been updated at meetings. |
| 1.(5) **Board commitment and competency** | Board Commitment and Competency<br>(a) All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the FC.<br>(b) All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.<br>(c) The Board shall regularly review and agree on all members' training and development needs.<br>(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.<br>(e) The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the FC. | It is complied with.<br>The Board adopted a scheme of self-assessment to evaluate the effectiveness of the overall function, responsibilities and duties of the Board of Directors.<br>The Chairperson evaluated the effectiveness of the performances and the contribution of each Director, filling out a questionnaire on the performance.<br>All the Non-Executive Directors assessed the Chairperson's performance through a performance questioner.<br>As per Section 7.2 of the Finance Business Direction No. 6 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 1, 2024.<br>The resolution concerning the summary of the self-assessment questionnaire was adopted by circulation on February 19, 2024. |

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| | | Yes. This has been properly implemented. The annual self-assessments conducted by each Board member have properly evaluated competencies, Board dynamics and processes, composition and diversity, effectiveness of the Board members, and those reliable processes are in place to satisfy essential oversight requirements and they have measured how well the Board fulfilled its responsibilities and met specific standards or objectives. Self-assessments for 2023 have been submitted for the Board approval in February 2024.<br><br>As per the Section 5 of the Board Charter on Board Commitment and Competency, the Board can resolve anytime to obtain external independent professional advice to the Board to discharge duties to the Company. |
| **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.<br>(b) Defining the areas of authority and Key responsibilities for the Senior Management.<br>(c) Ensuring the Senior Management possesses the qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.<br>(d) Ensuring appropriate oversight of the affairs of the FC by Senior Management.<br>(e) Ensuring the FC has an appropriate succession plan for Senior Management.<br>(f) Meeting regularly with the Senior Management to review policies, establish lines of communication and monitor progress towards strategic objectives. | It is complied with.<br><br>Board has exercised oversight of the affairs of the Company during the Board meetings.<br><br>Messrs KPMG 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.<br><br>In line with the Central Bank's (CBSL) Direction on Corporate Governance, the Board of Directors and MD/CEO, COO, Head of Branch Credit and Branch Administration, Compliance Officer, Chief Risk Officer, Company Secretary, Head of Finance and Head of Legal have been identified as Key Responsible Persons (KRPs).<br><br>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. |
| **1.(7) Adherence to the existing legal framework** | (a) Ensuring that the FC does not act detrimental to the interests of and obligations to depositors, shareholders and other stakeholders.<br>(b) Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.<br>(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.<br><br>The Board evaluated the effectiveness of corporate governance practice and agreed that the Company fully complied with regulatory requirements, relevant laws, regulations, and directions.<br><br>The resolution concerning the summary of the assessment of the effectiveness of Corporate Governance practices in 2023 was adopted by circulation on February 19, 2024. |
| **2. Governance Framework** | | |
| **2.(1)** | Confirm the Board has developed and implemented a governance framework in line with the CBSL directions and including but not limited to the following:<br>(a) Role and responsibilities of the Board,<br>(b) Matters assigned for the Board,<br>(c) Delegation of authority,<br>(d) Composition of the Board,<br>(e) The Board's independence, | It is complied with.<br><br>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 No. 5 of 2021 and the same was approved by the Board on July 27, 2022. |

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| | (f) The nomination, election and appointment of Directors and appointment of Senior Management,<br>(g) The Management of conflicts of interests,<br>(h) Access to information and obtaining independent advice,<br>(i) Capacity building of Board members,<br>(j) The Board's performance evaluation,<br>(k) Role and responsibilities of the Chairperson and the CEO,<br>(l) Role of the Company Secretary,<br>(m) Board subcommittees and their role; and,<br>(n) Limits on related party transactions. | |
| **3. Composition of the Board** | | |
| **3.(1)** | Confirm the Board's composition to ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC. | It is complied with.<br>The Board possesses the right skills, experience, diversity and independence to manage current and future critical issues. |
| **3.(2)** | Confirm number of Directors on the Board which shall not be less than seven (7) and not more than thirteen (13). | It is complied with.<br>The Board consisted of seven (7) directors until the resignation of the former senior Director on January 31, 2023. Two out of six Directors were Independent Directors and it was 1/3 of the total number of Directors. The Board decided to function only with six Directors since the Finance Business Act Direction No. 5 of 2021 specified a transitional provision until July 1, 2024 for the Company to adhere to the CBSL direction on Board composition. As per the Section 3.2 of the said Direction the regulatory requirement of maintaining seven Directors minimum is now fulfilled with the appointment of Mrs Sharmini Wickremasekera as an Independent Director to the CBCF Board with effect from March 22, 2024. |
| **3.(3)** | Confirm whether the total period of service of a Director other than a Director who holds the position of CEO/Executive Director, shall not exceed nine years, subject to Direction 3.4. | It is complied with.<br>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 direction 4.2 and 4.3. However, the number of Non- Executive Directors eligible to exceed nine years is limited to one-fourth (1/4) of the total number of directors on the Board. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |
| **3.(5) Executive Director** | (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. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |

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| | (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. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |
| | (c) | Confirm whether the CEO is one of the Executive Directors and is designated as the Managing Director of the FC, in the event of having Executive Directors on the Board. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |
| | (d) | Observe whether all Executive Directors have a functional reporting line in the organisation structure of the FC. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |
| | (e) | The executive directors are required to report to the Board through CEO. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |
| | (f) | Confirm whether Executive Directors have refrained from holding Executive Directorships or Senior Management positions in any other entity through a written confirmation by the Board Secretary. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023. |
| **3.(6) Non-Executive Directors** | (a) | Non-Executive Directors shall possess credible track records and have the necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023.<br>The Central Bank, based on the annual information submitted on March 30, 2023, assessed the Fitness and propriety of the Board's Directors and approval granted them to continue their directorships on the Company's Board for 2023. |
| | (b) | A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the FC. | It is complied with.<br>There is only one Executive Director on the Board since the appointment of the Managing Director on October 13, 2023.<br>The Central Bank, based on the annual information submitted on March 30, 2023, assessed the Fitness and propriety of the Board's Directors and approval granted them to continue their directorships on the Company's Board for 2023. |

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| **3.(7) Independent Directors** | (a) | Confirm the number of Independent Directors of the Board, which shall be at least three (3) or one-third (1/3) of the total number of Directors, whichever is higher. | During 2023 there were only six Directors on the Board. Two out of six (1/3) Directors were Independent Directors, therefore the regulatory requirement relating to the number of Independent Directors on the Board per the Section 3.7 of the Finance Business Act Direction No. 5 of 2021 were fulfilled by the Company in 2023 since the particular direction was subject to transitional provisions until July 1, 2024. A new Independent Director has been appointed to the Company's Board with effect from March 22, 2024, and three Independent Directors are now on the Board. Accordingly, Section 3.7 of the cited direction has been fulfilled before the end of the transition period. |
| | (b) | Independent directors appointed shall be of the highest calibre, with professional qualifications, proven track records and sufficient experience. | It is complied with.<br><br>All Independent Non-Executive Directors of the Company are of the highest caliber with professional qualifications, a proven track records, and sufficient experience in the given fields. |
| | (c) | A Non-Executive Director shall not be considered independent if such:<br>(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.<br>(ii) Director or a relative has or had during the period of one year immediately preceding the appointment as Director, material business transaction with the FC, as described in Direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited Statement of Financial Position.<br>(iii) Director has been employed by the FC or its affiliates or is or has been a Director of any of its affiliates during the one year, immediately preceding the appointment as Director.<br>(iv) Director has been an advisor or 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.<br>(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.<br>(vi) Director represents a shareholder, debtor, creditor, or such other similar stakeholder of the FC.<br>(vii) Director is an employee or a Director or has 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. | It is complied with. |

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| | | (viii) Director is an employee or a Director or has 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) | Confirm whether the Nomination Committee and Board have determined whether there is any circumstance or relationship, which is not listed at Direction 3.7, which might impact a Director's independence, or the perception of the independence. | No such occasions raised. |
| | (e) | Confirm whether Independent Directors have immediately disclosed to the Board on any change in circumstances that may affect the status as an Independent Director.<br><br>Confirm whether the Board has reviewed such Director's designation as an Independent Director and observe whether it has been notified to the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation. | No such occasions raised. |
| **3.(8) Alternative Directors** | (a) | Confirm whether FC has appointed any alternative director. If yes, confirm whether such representation is allowed in this Direction.<br><br>Representation through an alternative Director is allowed only;<br>(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<br>(ii) If the current Director is unable to perform the duties as a Director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad. | There were no alternative director appointments. |
| | (b) | The existing directors of the FC cannot be appointed as alternate directors to another existing director of the FC. | No such occasions raised. |
| | (c) | Report any person appointed as an Alternate Director to one of the Directors cannot extend the role as an Alternate Director to another Director in the same Board. | No such occasions raised. |
| | (d) | Confirm whether any Alternate Director Cannot be appointed to represent an Executive Director. | No such occasions raised. |
| | (e) | Confirm whether the Alternate Director who is appointed to represent an Independent Director, meets with the criteria for Independent Directors. | No such occasions raised. |

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| **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. | No such occasions raised. |
| | (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. |
| **3.(10) Common Directorships** | | Confirm whether any Director or a Senior Management of a FC has 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). | No such occasions raised. |
| **3.(11)** | | Observe the Board has determined the appropriate limits for Directorships that can be held by Directors.<br><br>Confirm any Director of a FC shall not holds 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.<br><br>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)** | | Confirm whether the nominated, elected or appointed Director of the FC or who continues as a Director of such FC is a fit and proper person to hold office as a Director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended. | It is complied with.<br><br>The relevant regulators have assessed, evaluated and approved all the Directors' appointments. |
| **4.(2)** | | Confirm any person serving as a Director of the FC who is over the age of 70 years. (Note: A Director will be allowed to exceed 70 years only up to March 31, 2025) | 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:<br>(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.<br>(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).<br>(c) The maximum number of Directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of Directors.<br>(d) The Director concerned shall have completed a minimum period of three (3) continuous years in office, as at the date of the first approval. | It is complied with. |

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| **5. Appointment and Registration 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.<br>Necessary documentation pertaining to the resignations of Mr Dharma Dheerasinghe, former Chairman Dr J P Kuruppu, former Senior Director, Mr Suhad Pannila, former Head of HR and Operations, Mr Upul Dissanayake, former Executive Director and the appointment of Mr G A J C S Fernando current Executive Director, were submitted to the Central Bank in line with the Finance Business Act Direction No. 6 of 2021 (Assessment of Fitness and Propriety of Key Responsible Persons) Direction and approvals were obtained. |
| **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.<br>The requirement is included in the approved Board Charter. |
| **6.(2)** | Observe the Chairperson is an Independent Director, subject to 6.3 below. | It is complied with.<br>The Chairperson Mr Sharhan Muhseen is a Non-Independent Director since he is a Director of the parent company's Board however simultaneously with the Chairman's appointment the Board appointed a Senior Independent Director as well. |
| **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.<br>Mr S M S C Jayasuriya was appointed as a Senior Director on March 3, 2023 since Mr Muhseen, Chairman of our Board, was a Non-Independent Director due to his deputy chairmanship on the parent company's Board he held simultaneously. |
| **6.(4) Responsibilities of the Chairperson** | Confirm the responsibilities of the Chairperson which at least include the following:<br>(a) Provide leadership to the Board.<br>(b) Maintain and ensure a balance of power between Executive and Non-Executive Directors.<br>(c) Secure effective participation of both Executive and Non-Executive Directors.<br>(d) Ensure the Board works effectively and discharges its responsibilities.<br>(e) Ensure all key issues are discussed by the Board in a timely manner.<br>(f) Implement decisions/directions of the regulator.<br>(g) Prepare the agenda for each Board meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the Company Secretary.<br>(h) Not engage in activities involving direct supervision of Senior Management or any other day-to-day operational activities.<br>(i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. | It is complied with.<br>The requirement is included in the approved Board Charter. |

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| | (j) Annual assessment on the performance and the contribution during the past 12 months of the Board and the CEO. | |
| **6.(5) Responsibilities of the CEO** | Confirm the CEO has functioned as the apex executive-in-charge of the day-to-day management of the FC's operations and business.<br><br>The responsibilities of the CEO shall at least include:<br>(a) Implementing business and risk strategies in order to achieve the FC's strategic objectives.<br>(b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions.<br>(c) Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behaviour.<br>(d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.<br>(e) Strengthening the regulatory and supervisory compliance framework.<br>(f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.<br>(g) CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a Non-Executive Director of another company, subject to Direction 3.10. | It is complied with.<br><br>The requirement is included in the approved Board Charter. |
| **7. Meetings of 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.<br><br>The Company held 12 Board meetings during the period under review. |
| 7.(2) | 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.<br><br>The agenda is circulated to the members of the Board. Suppose any further matters are to be discussed. In this regard, the Company Secretary is informed via formal communication by the Management and the Directors, and those are included under "Any Other Businesses" in the agenda.<br><br>Directors can include matters in the agenda before the circulation of the same. |
| 7.(3) | Confirm whether at least three (3) days notice has been given for a scheduled Board meeting.<br><br>Observe whether reasonable notice has been given for all other Board meetings. | It is complied with. |
| 7.(4) | Confirm whether a Director has devoted sufficient time to prepare and attend Board meetings and actively contributed by providing views and suggestions, by reading Board meeting minutes. | It is complied with. |

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| **7.(5)** | | Confirm whether 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)** | | Confirm whether the chairperson has held meetings at least twice a year, only with the Non-Executive Directors, without the Executive Directors being present, as necessary. | It is complied with. |
| **7.(7)** | | 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 raised. |
| 7.(9) **Scheduled Board meetings and Ad Hoc Board meetings** | | 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. | It is complied with.<br><br>The Company's Senior Management member was appointed as a Company Secretary on September 12, 2020. |
| | (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.<br><br>The Company's Senior Management member was appointed as a Company Secretary on September 12, 2020. |
| **8.(2)** | | Confirm all Directors have access to advice and services of the Company Secretary with a view to ensure the Board procedures, laws, directions, rules and regulations are followed. | It is complied with. |
| **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.<br><br>Further, the Chairman has delegated the function of preparing the agenda to the Company Secretary.<br><br>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. |

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| **8.(5)** | The Company Secretary is responsible for maintaining minutes orderly and following the proper procedure in the Articles of Association of the FC. | It is complied with. |
| **8.(6)** | Confirm whether minutes of the Board meetings has recorded in sufficient detail to ascertain whether the Board acted with due care and prudence in performing its duties.<br>The minutes of a Board meeting shall clearly include the following:<br>(a) a summary of data and information used by the Board in its deliberations;<br>(b) the matters considered by the Board;<br>(c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual Director;<br>(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;<br>(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<br>(f) the decisions and Board resolutions. | It is complied with.<br>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 Functions by the Board** | | |
| **9.(1)** | Confirm the Board has approved a Delegation of Authority (DA)<br>Confirm Board has given clear directions to the Senior Management, as to the matters that shall be approved by the Board before decisions are made by Senior Management, on behalf of the FC. | It is complied with.<br>The Board approved the reviewed Delegation of Authority (DA) on November 30, 2023. |
| **9.(2)** | In the absence of any of the sub-committees 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 sub-committees with appropriate DA to assist in Board decisions. | It is complied with.<br>The Company has formulated executive-level committees such as ECC, ALCO, MAC, EIRMC, BCM and ITSC comprising of the Senior Management members. |
| **9.(4)** | Confirm the Board has not delegated any matters to a Board subcommittee, Executive Directors or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions. | It is complied with. |
| **9.(5)** | Confirm the Board has reviewed the delegation processes in place on a periodic basis, to ensure that they remain relevant to the needs of the FC. | It is complied with. |

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| **10. Board SubCommittee** | | | |
| **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 19.3. | It is complied with.<br>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. Furthermore, as per Finance Business Act Direction No. 5 of 2021, we need to implement the Related Party Transaction Committee by June 30, 2024. We are in the process of implementing the Committee by June 30, 2024. |
| | (b) | Each Board sub-committee shall have board-approved written terms of reference specifying its authority and duties. | It is complied with.<br>BIRMC TOR-reviewed and Board approval obtained on December 25, 2022.<br>BAC TOR-reviewed, and Board approval was obtained on February 17, 2023.<br>BCC TOR-reviewed and Board approval obtained on April 25, 2022.<br>BHR and RC-TOR-reviewed, and Board approval obtained on October 31, 2022.<br>BITC TOR-BITC was formulated, and the TOR was approved on October 29, 2021.<br>BNC TOR-reviewed and Board approval obtained on February 28, 2022. |
| | (c) | Confirm the Board has presented a report at the Annual General Meeting of the FC on the performance of duties and functions of each Board subcommittee. | It is complied with.<br>Included in this Annual Report (Page number 63) |
| | (d) | Confirm whether each subcommittee has appointed a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the Chairperson of the Committee. | It is complied with. |
| | (e) | Confirm each Board subcommittee consists of at least three Board members and is only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the Committee. | It is complied with.<br>All the Board subcommittees consist of three Board members in line with Finance Business Act Direction No. 5 of 2021. |
| | (f) | The Board may consider the occasional rotation of members and the Chairperson of Board sub-committees to avoid undue concentration of power and promote new perspectives. | It is complied with.<br>Occasional rotations of the compositions of the sub committees have taken place when needed and required. |
| **10.(2) Board Audit Committee (BAC)** | (a) | Confirm whether the chairperson of BAC is an independent director who possesses qualifications and experience in accountancy and/or audit. | It is complied with.<br>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 Chartered Shipbrokers (MICS) (UK). Mr Jayasuriya holds a Bachelor of Science Degree from the University of Sri Jayewardenepura and counts over 32 years of experience in Banking, specialised in Treasury, Investment Banking and International Banking. |

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| | (b) | Confirm the composition of BAC which includes Non-Executive Directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC. | It is complied with.<br><br>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.<br><br>1. Mr S M S C Jayasuriya – Chairman<br>2. Mr D M D S S Bandara<br>3. Mr M P Dharmasiri<br>4. Mrs S C De S Wickremasekera (Appointed on April 26, 2024) |
| | (c) | Confirm whether the secretary to the BAC is the Chief Internal Auditor (CIA). | It is complied with.<br><br>The Company Secretary has been secretary to the BAC. |
| **(d)**<br>**External Audit Functions** | | (i) Confirm the BAC has made recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.<br><br>(ii) Confirm whether the Engagement of an audit partner has not exceeded five years, and that 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.<br><br>Confirm whether, FC has not used the service of the same external audit firm for not more than ten years consecutively.<br><br>(iii) Confirm whether the Audit partner of an FC has not be a substantial shareholder, director, Senior Management or employee of any FC.<br><br>(iv) Observe the committee has reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.<br><br>(v) Confirm whether the Audit partner has not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out.<br><br>Inspect the BAC has developed and implemented a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.<br><br>(vi) Confirm whether that, before the audit commences, the BAC has discussed and finalised with the external auditors the nature and scope of the audit, including:<br><br>(i) an assessment of the FC's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved. | (i) It is complied with.<br><br>(ii) It is complied with.<br><br>All engagements are confirmed based on the recommendations of the Board Audit Committee.<br><br>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 1, 2023 to December 31, 2023, and accordingly, BAC recommendation for the KPMG engagement letter and the fee proposal for the audit 2023 was obtained on January 03, 2024 by circulation.<br><br>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 1, 2023 to December 31, 2023. Accordingly, BAC recommendation for the KPMG engagement letter and the fee proposal for their engagement on the afore said other assurance services; Corporate Governance Report and Internal Control Report was obtained on May 13, 2024 by circulation.<br><br>(iii) It is complied with.<br><br>(iv) 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 & statutory requirements.<br><br>(v) It is complied with.<br><br>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. |

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| | (vii) Confirm the BAC has reviewed the financial information of the FC, in order 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 judgments contained therein. In reviewing the FC's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental 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.<br>(viii) Confirm the BAC has discussed issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Senior Management, if necessary.<br>(ix) Confirm the BAC has reviewed the external auditor's management letter and the management's response thereto within 3 months of submission of such, and report to the Board. | (vi) It is complied with.<br>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 November 23, 2023. 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.<br>(vii) It is complied with.<br>(viii) It is complied with.<br>The meeting was held on November 23, 2023.<br>(ix) It is complied with. |
| | (e) Confirm the BAC has at least annually conducted a review of the effectiveness of the system of internal controls. | It is complied with. |
| | (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. |
| **(g) Internal Audit function** | (i) Confirm the Committee has established 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.<br>(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.<br>(iii) Confirm the BAC shall take the following steps with regard to the internal audit function of the FC:<br>(i) Review the adequacy of the scope, functions and skills and resources of the Internal Audit Department and ensure the Internal Audit Department has the necessary authority to carry out its work.<br>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit.<br>(iii) Assess the performance of the head and senior staff members of the Internal Audit Department. | (i) It is complied with.<br>(ii) It is complied with.<br>(iii)<br>(i) It is complied with.<br>(ii) It is complied with.<br>(iii) It is complied with. |

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| | (iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.<br>(v) Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.<br>(vi) Examine the major findings of internal investigations and management's responses thereto. | (iv) It is complied with.<br>(v) It is complied with.<br>(vi) It is complied with. |
| | (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. |
| **(i) Meetings of Committee** | (i) Confirm the BAC has met as specified in 10.1 above, with due notice of issues to be discussed and has recorded its conclusions in discharging its duties and responsibilities.<br>(ii) Confirm whether the other Board members, Senior Management or any other employee can attend meetings upon the invitation of the Committee when discussing matters under their purview.<br>(iii) Confirm the BAC has met at least twice a year with the External Auditors without any other Directors/Senior Management/employees being present. | (i) It is complied with.<br>(ii) It is complied with.<br>(iii) It is complied with. |
| **10.(3) Board Integrated Risk Management Committee (BIRMC)** | (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.<br>The Committee was initially appointed on September 30, 2014, comprising three Non-Executive Directors, including two Independent Non-Executive Directors and an Executive Director.<br>1. Mr S M S C Jayasuriya – Chairman<br>2. Mr D M D S S Bandara<br>3. Mr M P Dharmasiri<br>4. Mrs S C De S Wickremasekera (Appointed on April 26, 2024)<br>5. Mr G A J C S Fernando<br>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. |
| | (b) Confirm the Secretary to the Committee is the CRO. | It is complied with.<br>The CRO was appointed as the Secretary to the Committee on March 1, 2022. |
| | (c) Observe the Committee has assessed 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.<br>Monthly basis reported to the BIRMC. |

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| | (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.<br>The documentation process for the Risk Management process has been streamlined since April 2015.<br>Therefore, with effect from May 2015, these risks are analysed and presented in a report to the BIRMC. |
| | (e) Confirm the BIRMC has reviewed the FC's risk policies including RAS, at least annually. | It is complied with.<br>It is included in the Risk Management Policy. |
| | (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. |
| | (g) The Committee shall assess all aspects of Risk Management, including updated business continuity and disaster recovery plans. | It is complied with. |
| | (h) Confirm that BIRMC has annually assessed the performance of the compliance officer and the CRO. | It is complied with. |
| **(i) Compliance function** | (i) Confirm BIRMC has established an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.<br>(ii) Confirm whether for FCs with asset base of more than LKR 20 Bn. a dedicated Compliance Officer has considered to be Senior Management with sufficient seniority, who is independent from day-to-day management to carry out the compliance function and report to the BIRMC directly.<br>Observe the Compliance Officer has not have management or financial responsibility related to any operational business lines or income-generating functions, and there has not be "dual hatting", i.e. the Chief Operating Officer, Chief Financial Officer, Chief Internal Auditor, Chief Risk Officer or any other Senior Management has not served as the Compliance Officer.<br>(iii) Confirm whether for FCs with asset base of less than LKR 20 Bn. has an officer with adequate seniority considered to be Senior Management has appointed as Compliance Officer avoiding any conflict of interest.<br>(iv) Confirm the BIRMC has ensured responsibilities of a Compliance Officer would broadly encompass the following:<br>(i) develop and implement policies and procedures designed to eliminate or minimise the risk of breach of regulatory requirements; | (i) It is complied with.<br>The Compliance Officer selected from Senior Management has been appointed to carry out the compliance function. Compliance Unit reviews the Company's compliance with laws, regulations guidelines and rules on a regular basis and reports non-compliances, if any, to the BIRMC.<br>(ii) Not applicable.<br>(iii) It is complied with.<br>A dedicated Compliance Officer appointed to overlook the compliance function and directly reported to the BIRMC.<br>(iv)<br>(i) It is complied with. Policies and procedures are implemented to minimise the breach of regulatory requirements.<br>(ii) It is complied with.<br>The Compliance Department conducts regular training programmes for employees in order to enhance compliance culture.<br>(iii) It is complied with.<br>The Compliance Department conducts regular compliance reviews to ensure the level of compliance with regulatory requirements as well as internal policies and procedures and standards. |

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| | (ii) ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;<br>(iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;<br>(iv) understand and apply new legal and regulatory developments relevant to the business of FC;<br>(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;<br>(vi) highlight serious or persistent compliance issues and where appropriate, work with the Management to ensure that they are rectified within an acceptable time; and<br>(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. | (iv) It is complied with.<br>The Company implements all new legal and regulatory developments that are applicable to its business.<br>(v) It is complied with.<br>The Compliance Officer involve in the development of new products, processes and systems and ensure compliance with relevant regulatory and internal requirements.<br>(vi) It is complied with.<br>Compliance audits are carried out periodically and actions are taken to rectify if deviations are observed.<br>(vii) It is complied with.<br>The Compliance Officer maintains a healthy relationship with regulators and ensures clear and timely reporting at all times. |
| **(J) Risk management function** | (i) Confirm BIRMC has established an independent Risk Management function responsible for managing risk-taking activities across the FC.<br>(ii) Confirm whether for FCs with asset base of more than LKR 20 Bn. has a separate Risk Management Department and a dedicated CRO considered to be Senior Management to carry out the Risk Management function and report to the BIRMC periodically.<br>(iii) Observe the CRO has the primary responsibility for implementing the Board approved Risk Management policies and processes including RAS in order to ensure the FC's Risk Management function is robust and effective to support its strategic objectives and to fulfil broader responsibilities to various stakeholders.<br>(iv) Confirm the BIRMC has ensured 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.<br>(v) Observe the CRO has participated in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and made recommendations on Risk Management.<br>(vi) Confirm the CRO has maintained an updated risk register, which has submitted to the BIRMC on a quarterly basis.<br>(vii) Confirm the BIRMC has submitted a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions. | (i) It is complied with.<br>(ii) Not applicable.<br>(iii) It is complied with. Prepared and obtained Board Approval for the Risk Management Policy on May 31, 2022.<br>(iv) It is complied with.<br>Prepared and obtained Board approval for the Risk Management Policy on May 31, 2022.<br>(v) It is complied with.<br>The CRO attend the meeting of ALCO, EIRMC, and MAC, assisting the decision-making process at the executive level.<br>(vi) To be implemented.<br>(vii) It is complied with. |

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| **10.(4) Nomination Committee** | (a) | Confirm the Nomination Committee has constituted with Non-Executive Directors and the majority are Independent Directors.<br>Confirm whether an Independent Director has chaired the Committee.<br>Observe whether the CEO can present at meetings by invitation of the committee. | It is complied with.<br>The Committee was initially appointed on September 30, 2014, comprising three Non-Executive Directors, including two Independent Non-Executive Directors.<br>1. Mr S M S C Jayasuriya – Chairman<br>2. Mr S Muhseen<br>3. Mr D M D S S Bandara<br>4. Mrs S C De S Wickremasekera (Appointed on April 26, 2024) |
| | (b) | Confirm whether the Company Secretary has appointed as the secretary to the Nomination Committee. | It is complied with. |
| | (c) | Confirm the Committee has implemented a formal and transparent procedure to select/appoint new Directors and Senior Management.<br>Confirm whether the Senior Management has appointed with the recommendation of CEO, excluding CIA, CRO and Compliance Officer. | It is complied with.<br>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. |
| | (d) | Observe the Committee has ensured 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.<br>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. |
| | (e) | Confirm the selection process has included reviewing whether the proposed Directors (i) possess the knowledge, skills, experience, independence, and objectivity to fulfil their responsibilities on the Board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities. | It is complied with.<br>The Board Nomination Committee considers all the relevant criteria and assesses the capability, competence and Director's suitability for the job role. |
| | (f) | Observe the Committee has taken all reasonable steps to ensure that the Board composition was 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.<br>The Board has never been influenced, infected, or dominated by any individual or a group of individuals detrimentally to the shareholder's interest. |
| | (g) | Confirm the Committee has set the criteria, such as qualifications, experience and key attributes required for eligibility, which to be considered for appointment to the post of CEO and Senior Management. | It is complied with.<br>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. |
| | (h) | Confirm the Committee has assigned the responsibility to the Company Secretary to disclose below to shareholders, upon the appointment of a new Director to the Board; (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.<br>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. |
| | (i) | Observe the Committee has considered and recommended (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. |

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| | (J) | Observe the Committee has considered and recommended from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Senior Management. | It is complied with.<br>With the recommendation of BHRRC, the Succession of the Senior Management has been approved by the Board. |
| | (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. |
| **10.(5) Human Resource and Remuneration Committee** | (a) | A Non-Executive Director shall chair the Committee, and most members shall consist of Non-Executive Directors. | It is complied with.<br>The following members were appointed for the Committee.<br>1. Mr S Muhseen – Chairman<br>2. Mr D M D S S Bandara<br>3. Mr L S Munasinghe |
| | (b) | Confirm whether the Company Secretary has appointed as the Secretary to the Human Resource and Remuneration Committee. | It is complied with.<br>The Company Secretary was appointed as Secretary to the Committee on February 22, 2022. |
| | (c) | Observe the Committee has determined the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and Senior Management of the FC and fees and allowances structure for Non-Executive Directors. | It is complied with.<br>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. |
| | (d) | There shall be a formal and transparent procedure in developing the remuneration policy. | It is complied with. |
| | (e) | Observe whether the Committee has recommended the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC.<br>Confirm whether the policy was subject to periodic review of the Board, including when material changes are made. | It is complied with.<br>The Human Resources Policy and Process Manual is reviewed annually. The reviewed policy is recommended by the BHRRC and approved by the main Board. |
| | (f) | Observe whether the remuneration structure was in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivise employees to take excessive risk or to act in self-interest. | It is complied with.<br>The remuneration structure is in line with the Company's business strategy, objectives, values, long-term interests, and cost structure. |
| | (g) | Confirm the Committee has reviewed the performance of the Senior Management (excluding Chief Internal Auditor, Compliance Officer, Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives. | It is complied with.<br>The performance of the Senior Management, excluding the Manager Audit, Chief Risk Officer and Compliance Officer, has been reviewed by the BHRRC. |
| | (h) | Observe the Committee has ensured that the Senior Management has abstained from attending Committee meetings, when matters relating to them are being discussed. | It is complied with. |

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| **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. |
| **11.(2)** | Observe that FC has a proper internal control system which: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimise the operating risk of losses from irregularities, fraud and errors; (e) ensure effective Risk Management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies. | It is complied with. |
| **11.(3)** | All employees shall be responsible for internal controls as part of their accountability for achieving objectives. | 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. |
| **12. Related party transactions** | | |
| **12.(1)** | Board shall establish a policy and procedures for Related Party Transactions, which covers the following:<br>(a) All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the Chairperson shall be an Independent Director and the members shall consist of Non-Executive Directors.<br>(b) All related party transactions shall be prior reviewed and recommended by the RPTRC.<br>(c) The business transactions with a related party that are covered in this Direction shall be the following:<br>(i) Granting accommodation.<br>(ii) Creating liabilities to the FC in the form of deposits, borrowings and any other payable.<br>(iii) Providing financial or non-financial services to the FC or obtaining those services from the FC.<br>(iv) Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party. | A policy which outline the scope responsibilities objectives and the purpose of the Related Party Transaction Policy has already been prepared by the Company's Management and yet to be validated by the respective department of the parent company. The Committee will be formulated as soon as the Company receives parent company feedback. |

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| 12.(2) | The Committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.<br>(a) Directors and Senior Management.<br>(b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.<br>(c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.<br>(d) Directors and Senior Management of legal persons in paragraph (b) or (c).<br>(e) Relatives of a natural person described in paragraph (a), (b) or (d).<br>(f) Any concern in which any of the FC's Directors, Senior Management or a relative of any of the FC's Director or Senior Management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest. | A policy which outline the scope responsibilities objectives and the purpose of the Related Party Transaction Policy has already been prepared by the Company's Management and yet to be validated by the respective department of the parent company. The Committee will be formulated as soon as the Company receives parent company feedback. |
| 12.(3) | The Board shall ensure that the Company does not engage in business transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the Company. For the purpose of this paragraph, "more favourable treatment" shall mean:<br>(a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the Committee.<br>(b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.<br>(c) Providing preferential treatment, such as favourable terms, that extends beyond the terms granted in the normal course of business with unrelated parties.<br>(d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or<br>(e) Maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions. | A policy which outline the scope responsibilities objectives and the purpose of the Related Party Transaction Policy has already been prepared by the Company's Management and yet to be validated by the respective department of the parent company. The Committee will be formulated as soon as the Company receives parent company feedback. |

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| **13. Group Governance** | | |
| **13.(1) Responsibilities of the FC as a holding company** | (a) 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. |
| | (b) Confirm the Board of the FC has:<br>(i) Ensured that the Group governance framework clearly defined the roles and responsibilities for the oversight and implementation of group-wide policies.<br>(ii) Ensured that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework.<br>(iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries.<br>(iv) Assessed whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and<br>(v) Ensure that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements. | The Company is a fully owned subsidiary of Commercial Bank of Ceylon PLC. Further, the Company does not have subsidiaries or associates. |
| | (c) Observe whether the FC, as the apex entity, has ensured that the group structure does not undermine its ability to exercise effective oversight.<br>Observe the Board has established a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls. | Not applicable. |
| | (d) Observe the Board and Senior Management of the FC has validated that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed. | Not applicable. |
| | (e) Confirm the FC has avoided setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations. | Not applicable. |
| **13.(2) Responsibility as a subsidiary** | Confirm whether the FC has discharged its own legal and governance responsibilities, if the FC is a subsidiary of another financial institution subject to prudential regulation. | Not applicable. |
| **14. Corporate culture** | | |
| **14.(1)** | Confirm whether a FC has adopted a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of Company assets and fair treatment of customers. | It is complied with.<br>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. |

| Section | Corporate governance principle | Compliance level |
|---|---|---|
| **14.(2)** | Inspect the FC has maintained records of breaches of Code of Conduct and addressed such breaches in a manner that upholds high standards of integrity. | No such occasion was raised.<br>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)** | Observe whether a FC has established a Whistle-blowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed.<br>Observe whether employees are able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal.<br>Confirm whether the BAC shall review the policy periodically. | It is complied with.<br>The whistle-blowing policy was approved and implemented on April 25, 2022. |
| **15.Conflict of interest** | | |
| **15.(1)** | (a) Observe whether relationships between the Directors have not exercised undue influence or coercion.<br>Confirm whether a Director has abstained from voting on any Board resolution in relation to a matter in which such Director or any of the relatives or a concern in which such Director has substantial interest, is interested, and such Director has not be counted in the quorum for the relevant agenda item in the Board meeting. | No such occasion was raised.<br>However, a policy in this regard has already being drafted by the Management and yet to be validated by the respective department of the parent company. The policy will be formulated as soon as the Company receives parent company feedback. |
| | (b) Confirm whether the Board has a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties.<br>The policy for managing conflicts of interest shall,<br>(i) Identify circumstances which constitute or may give rise to conflicts of interests.<br>(ii) Express the responsibility of Directors and Senior Management to avoid, to the extent possible, activities that could create conflicts of interest.<br>(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.<br>(iv) Implement a rigorous review and approval process for Director and Senior Management to follow before they engage in certain activities that could create conflicts of interest.<br>(v) Identify those responsible for maintaining updated records on conflicts of interest with related parties, and<br>(vi) Articulate how any non-compliance with the policy to be addressed. | A policy in this regard has already being drafted by the management and yet to be validated by the respective department of the parent company. The policy will be formulated as soon as the Company receives parent company feedback. |

# Corporate Governance

| Section | Corporate governance principle | Compliance level |
|---|---|---|
| **16. Disclosures** | | |
| **16.(1)** | Confirm the Board has ensured that:<br>(a) annual audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that<br>(b) Such Statements are published in the newspapers in Sinhala, Tamil, and English.<br>Confirm the Board has ensured that at least following disclosures are made in the Annual Report of the FC. | It is complied with.<br>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.<br>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,<br>• A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.<br>• A statement of responsibility of the Board in preparation and presentation of Financial Statements. | This is disclosed in the "Annual Report" on pages 94 to 171. |
| **(ii) Chairperson, CEO and Board related disclosures** | • Name, qualification, and a brief profile.<br>• Whether Executive, Non-Executive and/or Independent Director.<br>• Details of the Director who is serving as the Senior Director, if any.<br>• The nature of expertise in relevant functional areas.<br>• Relatives and/or any business transaction relationships with other Directors of the Company.<br>• Names of other companies in which the Director/CEO concerned serves as a Director and whether in an executive or non-executive capacity.<br>• Number/percentage of Board meetings of the FC attended during the year; and<br>• 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 28 to 33 of the Annual Report.<br>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. |

| Section | Corporate governance principle | Compliance level |
|---|---|---|
| (iv)<br>**Remunerations** | A statement on 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).<br><br>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.<br><br>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.<br><br>Directors' fees are given in Note 39.2.1 of the Financial Statement. |
| (v)<br>**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.<br><br>Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital.<br><br>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 152 to 153 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.<br><br>The nature of the relationship, if any, between the Chairperson and the CEO and the relationship among members of the Board.<br><br>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.<br><br>Net accommodation for Directors – Nil.<br><br>Net accommodation for Senior Management – Nil.<br><br>The aggregate values of the transactions of the FC with Senior Management is follows;<br><br>Deposits – LKR 2,300,000/- |
| (vi)<br>**Board appointment committees** | The details of the Chairperson and members of the Board committees and attendance at such meetings. | Committee memberships' tables given on page 63 to 69 of the Annual Report. |
| (vii)<br>**Group structure** | The group structure of the FC within which it operates.<br><br>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)<br>**Director's report** | A report, which shall contain the following declarations by the Board:<br>• The FC has not engaged in any activity which contravenes laws and regulations.<br>• The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.<br>• The FC has made all endeavours to ensure the fair treatment for all stakeholders, in particular the depositors.<br>• The business is a going concern with supporting assumptions; and<br>• The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness. | Given on pages 80 to 85 of the Annual Report. |

# Corporate Governance

| Section | Corporate governance principle | Compliance level |
|---|---|---|
| **(ix) Statement of internal control** | A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.<br>The External Auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.<br>A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.<br>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 86 and 89 of the Annual Report. |
| **(x) Corporate governance report** | Shall disclose the manner and extent to which the Company has complied with Corporate Governance Direction and the External Auditor's assurance statement of the compliance with the Corporate Governance Direction. | The Corporate Governance Report is set out on pages 36 to 62 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. 5 of 2021 on Corporate Governance. |
| **(xi) Code of conducts** | FC's Code of Business Conduct and Ethics for Directors, Senior Management and employees.<br>The Chairperson shall certify that the Company has no violations of any of the provisions of this code. | A Board-approved Code of Ethics for Directors and all employees are in place. Please refer to the Chairperson's Message on pages 14 to 17 that the Company has no violations of any of the provisions of this Code. |
| **(xii) Management report** | • Industry structure and developments.<br>• Opportunities and threats.<br>• Risks and concerns.<br>• Sustainable finance activities carried out by the Company.<br>• Prospects for the future. | Please refer Managing Director's Review on pages 18 to 20. |
| **(xiii) Communication with shareholders** | The policy and methodology for communication with shareholders.<br>The contact person for such communications. | The Board-approved Communication Policy is in place, which covers all stakeholders, including depositors, creditors, shareholders, 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) appointed by the Board of Directors comprised of the following members.

| | |
|---|---|
| **Mr S M S C Jayasuriya** | Independent Non-Executive Director (Appointed as Chairman of BAC w.e.f. July 1, 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 1, 2022) |

Brief profiles of the members are given on page 28 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 counts over 31 years of service in Banking, specialised in Treasury, Investment Banking and International Banking and he has been serving 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 eight meetings during the year ended December 31, 2023. 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 Head of Finance, Chief Risk Officer and Compliance Officer attended meetings by invitation of the Committee.

In addition, Deputy General Manager – Management Audit or in his absence, an experienced Officer from the Inspection Department of the Bank attended the meeting regularly and Assistant General Manager – Compliance/Compliance Officer of the Bank attended the meeting by invitation of the Committee.

During the year 2023, two (02) meetings were held with the External Auditors, without any other Directors, Senior Management and employees being present in compliance with the Section 10.2. (h) (iii) of the Finance Business Act Direction No 5 of 2021 on Corporate Governance.

## 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. 5 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 on the preparation of Financial Statements to evidence an accurate and fair view on financial position and performance. This process is based on the Company's accounting records and in accordance with 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 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 ensured the independence and objectivity and effectiveness of the audit processes in accordance with applicable standards, regulations, Corporate Governance Principles and/or best practices.

Based on the statutory directions provided in Section 10.2 (d) (vi) of the Finance Business Act Direction No 5 of 2021 on Corporate Governance, the Committee discussed the audit plan and scope of the audit before commencing the Audit.

During the period, the Committee met the Partner of KPMG, who is in charge of the Audit of the Company and reviewed the adequacy of Company's ECL provision for the year ended December 31, 2023.

# Board Audit Committee Report

Further, the Committee engaged M/S KPMG to attend to the Company's Corporate Governance reporting and Internal Control reporting as required by Section 16.1 of Finance Business Act Direction No. 05 of 2021 on Corporate Governance by Central Bank of Sri Lanka.

The Committee reviewed the Management Letter of the External Auditors for the year ended December 31, 2023 and instructed the Management to initiate necessary action to rectify the issues highlighted.

## 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, procedures and business objectives and that they are sufficiently robust and in place to minimise the risk of frauds, 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 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 they 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 carry 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.

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 in 2020. This enabled online monitoring of Company operations by the Bank's Inspection Department, thereby enhancing the scope to mostly near the time and real-time auditing on set frequency and providing an opportunity to the Company to address audit observations proactively on a near-time basis.

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

- The Committee approved the programme of Internal Audits for 2023 formulated jointly by the Internal Audit Unit and Commercial Bank's Inspection Department and reviewed its progress of implementation 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, 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 are 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. 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 22, 2024

# Board Integrated Risk Management Committee Report

In accordance 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 adhere to the provisions outlined in sections 8(3) (a) to (h) of the aforementioned direction. The Terms of Reference for the BIRMC were reviewed and updated in compliance with Section 10.3 of the Finance Business Act Direction No. 5 of 2021, issued on December 31, 2021 by the CBSL.

## Composition of the Committee

The Board Integrated Risk Management Committee, appointed by the Board of Directors, comprises the following members:

- Mr S M S C Jayasuriya* (Chairman) – appointed as Chairman w.e.f. February 17, 2023
- Mr D M D S S Bandara* (Director)
- Mr M P Dharmasiri (Director)
- Mr C Fernando MD/CEO – appointed to the Committee w.e.f. October 13, 2023
- Mr U Dissanayaka MD/CEO – secondment term ended on October 12, 2023

### Regular attendees by invitation

- Mr S K K Hettihamu (Chief Risk Officer – Commercial Bank of Ceylon)
- Ms A V P K T Amarasinghe (Compliance Officer – Commercial Bank of Ceylon)

### Secretary to the Committee

- Chief Risk Officer

**Independent Non-Executive Director*

The BIRMC assists the Board of Directors in overseeing the Company's Risk Management framework and activities, including the review of major risk exposures and the steps taken to monitor and control those exposures. The duties of the BIRMC include evaluating the adequacy and effectiveness of these measures and ensuring the Company's actual risk profile aligns with the Board-defined desirable risk profile.

The BIRMC supports the Board in determining the Company's risk appetite and ensures significant risks are managed appropriately. This includes assessing the impacts of risks such as credit, market, liquidity, operational, strategic, compliance, and IT through appropriate risk indicators and management information, and making recommendations on risk strategies and appetite to the Board.

The Committee held eleven (11) meetings during the financial year under review. Attendance details for each member are provided on page 48 of the Annual Report.

The Committee has delegated the executive-level risk management function to the Executive Integrated Risk Management Committee (EIRMC), which includes members from core divisions such as Risk, Compliance, Credit, Recoveries, Legal, Operational, and Finance. The Chief Executive Officer chairs the Executive Risk Management Committee. (EIRMC)

All Key Management Personnel report to the EIRMC regarding Risk Management issues in their operational areas. This reporting is facilitated by the Executive Credit Committee (ECC), Assets and Liability Committee (ALCO), and Information Technology Steering Committee (ITSC), which meet regularly to address risk management issues and decision-making.

## Critical functions performed during the year under review:

- **Business Strategy Review:** The Committee reviewed the Company's new business strategy, focusing on asset-based lending strategies such as leases, motor drafts, three-wheeler, two-wheeler financing, and gold loans. Strategic decisions were made to improve net interest income moving forward accordingly.
- **Risk Management Continuity:** Continued integrated risk management functions and reviewed periodic management reports on risk metrics, ensuring risks are monitored and managed appropriately.
- **Framework Improvements:** Recommended improvements to the Company's Risk Management Framework and related policies and procedures, considering anticipated changes in the economic and business environment.
- **Key Risk Indicators:** Regularly reviewed the adequacy of Key Risk Indicators (KRIs) designed to monitor specific risks and ensure they meet intended Risk Management objectives.

### Credit Risk

- Reviewed and approved policies and guidelines related to the Credit Risk Policy Manual, Lending Guidelines, Valuation Policy, and the new Product Guideline Manual (Motor Draft, Gold Loans, 3 wheels and 2 wheel).
- Assessed the portfolio quality of the Company and focused on improving the high NPA ratio.
- Reviewed the impact of regulatory relief measures such as loan moratorium schemes and the Company's measures to mitigate future default risks.
- Evaluated updates on Collections, Recoveries, Loan Review Mechanism, and the activities of the Credit and Risk Management Committees.

# Board Integrated Risk Management Committee Report

### Operational Risk

- Conducted the biannual Risk Control Self-Assessment (RCSA) process covering the main departments of Credit, Operation, Finance, IT, Compliance and Risk.
- Reviewed Operational Risk reports, including significant risks, incidents, and losses.
- Addressed Key Risk Indicator breaches related to Human Resources, Information Technology, Finance, Compliance, and Business lines.
- Ensured the Company's Business Continuity Management (BCM) policy was in place, including a Business Continuity Plan (BCP) and an IT Disaster Recovery Plan (IT DRP).
- Introduced the Reputational Risk Management Policy.

### Market and Liquidity Risk

- Reviewed and approved the Company's Market Risk policy framework, procedure guidelines, and terms of reference (TORs) for the management of Market and Liquidity Risk, to ensure the same are 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 management of Market and Asset Liability Risk Management, including, strategies and other relevant issues related to financial market activities and the business environment.
- Analysis of Asset Liability Committee (ALCO) reports and decisions taken by each committee and assessment of the effectiveness of the Committees in line with relevant TORs.

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 22, 2024

# 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 2023. The attendance of the members at these meetings is given on page 48.

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 December 31, 2023:

| | |
|---|---|
| **Mr L H Munasinghe** | Non-Independent Non-Executive Director (appointed as Chairman w.e.f. February 17, 2023) |
| **Mr S M S C Jayasuriya** | Independent Non-Executive Director (Appointed w.e.f. December 5, 2017) |
| **Mr D M D S S Bandara** | Independent Non-Executive Director (Appointed w.e.f. January 1, 2021) |

The Head of Credit and Branch Administration is the secretary to the Committee.

## 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, 2023 to December 31, 2023:

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 review of performance of the existing products and proposal for the introduction of new products 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.

**L H Munasinghe**
Chairman,
Board Credit Committee

June 22, 2024

# Board Human Resources and Remuneration Committee Report

## Composition of the Committee

The Human Resource 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. The Committee was chaired by a Non-Executive Director.

The Committee met twice during the year under review. The attendance of the members at these meetings are given on page 48.

The Committee comprised of the following members during the year.:

| | |
|---|---|
| **Dr (Ms) J P Kuruppu** (former Chairperson of the Committee) | Independent Non-Executive Director/ Designated as Senior Director (Appointed w.e.f. September 02, 2014 and resigned w.e.f. January 31, 2023) |
| **Mr S Muhseen** (current Chairman) | Non-Independent Non-Executive Director (Appointed w.e.f. February 17, 2023) |
| **Mr D M D S S Bandara** | Independent Non-Executive Director (Appointed w.e.f. December 5, 2017) |
| **Mr L H Munasinghe** | Non-Independent Non-Executive Director (Appointed w.e.f. January 12, 2021) |

The Company Secretary functions as the secretary of the Committee.

## Functions of the Committee

The Committee is responsible for creating and/or monitoring values-based systems and policies to ensure that the Company is following local laws and certain best practices relating to its employees and creating an attractive environment for current and prospective employees.

The Committee is also tasked to explore, examine, review, develop, advise, make, and/or implement:

- 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.
- The organisational structure and the succession plan, and make recommendations on the changes to the Board.
- Recommendations to the Board of promotions of Key Management Personnel (KMP)
- 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.
- 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.
- Compensation and benefits of the KMP and establish their individual performance goals and targets.
- Evaluations of the performance of the KMP against the pre-agreed targets and goals.
- Recommendations to the Board from time to time of the additions/new expertise required by the Company.
- Terms of any compensation package in the event of early termination of the contract of any Executive Director or any KMP of the Company.
- Recommendations to the Board regarding the content included in the Annual Report on the Directors' remuneration.
- Recommendations to the Board on performance reviews of staff members for payment of annual bonuses, increments, promotions and changes in positions.
- Annual increments, bonuses, changes in perquisites and incentives ensuring it is linked to performance.
- 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.
- Recommendations/decisions/directions pertaining to the statutory payments made by the Company on behalf of the employees (EPF, ETF, terminal benefits etc.).
- Recommendation/decisions/directions on disciplinary matters relating to incidents of significant losses to the Company caused by or due to actions of KMP.
- Final interviews for shortlisted candidates for positions of Heads of Departments and KMP.

The Committee recognises the importance 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. 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 2022, considering the satisfactory annual performance of the Company.
- The Committee reviewed the organisational structure and advised the Management on changes and improvements to be made.
- The Committee provided the direction and guided to succession planning by reviewing and addressing the Company's succession plan in line with the HR strategies, Company's objectives and business goals to promote the diversity of the workforce throughout the Company.
- The Committee screened selected applicants and conducted structured interviews with the top candidates for the positions of Chief Executive Officer, Senior Manager-Gold Loan, Senior Manager-Human Resources and Senior Manager-Credit Administration.

**S Muhseen**
Chairman,
Board Human Resources and Remuneration Committee
June 22, 2024

# Managing Risk

In today's rapidly evolving financial landscape, effective Risk Management is more essential than ever. The financial industry, including institutions like CBC Finance, is being reshaped by innovative ideas, technological advancements, and a significant increase in the variety, volume, and speed of financial transactions. CBC Finance competes not only with traditional banks but also with a wide array of financial institutions currently operating in the country. The regulatory environment is in a state of constant flux, prompting the creation of more robust Risk Management frameworks within CBC Finance. Advances in both Risk Management methodologies and technology have enabled CBC Finance to more efficiently identify, assess, monitor, and control risks. The acceleration of communication and data processing capabilities has further enhanced CBC Finance's ability to promptly evaluate risks and refine Risk Management strategies across its current operations.

At CBC Finance, risk evaluation focuses on future uncertainties and the potential benefits they may bring. The primary goal of the Risk Management function is to minimise potential negative impacts while strategically maximising opportunities within established risk tolerance limits.

CBC Finance's risk appetite is actively defined and tracked using both qualitative and quantitative metrics. Risk control at CBC Finance involves setting and communicating clear risk limits through well-defined policies, standards, and procedures. These measures specify the responsibilities and authorities related to the various risks undertaken by the institution.

The Risk Management process at CBC Finance employs a variety of tools to continuously identify, measure, and manage risks. In addition, CBC Finance has implemented a thorough risk monitoring system using Key Risk Indicators (KRI). By empowering company staff with the knowledge and tools for risk-aware decision-making, CBC Finance has significantly strengthened its operational resilience.

## Approach to Risk Management process of the CBC Finance

Risk Management is an integral part of the overall governance structure. As a Licensed Finance Company, CBC Finance Ltd. is engaged in non-bank financial services, which presents a higher overall risk than the banking sector. This fact suggests higher significance being placed on Risk Management, as the Company cannot eliminate risks in its operations.

Being a fully owned subsidiary of Commercial Bank of Ceylon PLC (the Bank), CBCF is subject to the Group policies adopted on Risk Management. Accordingly, the Bank's Risk Management policy shall be the apex policy concerning the management of risk at CBCF.

The Board of Directors at CBC Finance holds the ultimate responsibility for overseeing the institution's Risk Management. They determine the risk appetite, regularly review the governance structure, and update the policy framework and Risk Management processes to ensure they remain effective and compliant. The system of internal control shall, however, be 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, CBC Finance internal control system will provide reasonable assurance against material misstatements of management and financial information and records or against financial losses.

The Board established a mechanism for identifying, evaluating, and managing material risks. This process included enhancing the system of internal control when needed in line with changes in the business environment or regulations. The management of the Company shall assist 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 suitable internal controls to control risks.

## Risk Governance and Management Structure

To support its risk oversight functions, the Board has established several specialised committees:

| 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 and assists the Board in overseeing the Risk Management function. |
| Board Credit Committee (BCC) | To approve high-value credit in line with the Company's risk appetite and line with regulatory requirements and monitors compliance with the Board's set risk appetite in credit operations and oversees the credit Risk Management processes. |
| 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 (ITSC) | To monitor and review the IT infrastructure to support the optimisation of overall business strategy and mitigate technological risks. |

## Risk Management Objectives

The main objectives of Risk Management in the Company are:

1. Establishing a process for identifying, measuring, monitoring, analysing, documenting and reporting all the current and future risks to the Management and the Board of Directors.
2. Breaking down the risks to the individual risk level so that trends and benchmarks are identified, and exceptions can be easily reported and rectified.
3. Adopting necessary tools, controls and strategies for managing and mitigating the identified risks with enhanced transparency and accountability to protect earnings and the economic value of assets and liabilities, thereby ensuring financial soundness and protecting the Company's reputation.
4. Defining and documenting the overall risk appetite and the corresponding tolerance levels for each risk type and implementing processes to ensure that these limits are not breached.
5. Ensuring efficient capital allocation and availability of comfortable liquidity and funding positions at optimum cost to support the business activities and future expansion.
6. Acting as a restraint against excessive risk-taking, thereby promoting sustainable growth of the Company through prudent Risk Management.
7. Developing a shared understanding of risk across various functions and business units so that their roles, responsibilities and authorities are clearly understood enables risk to be managed cost-effectively.
8. Establishing KPIs designed to drive functional and business unit behaviour in alignment with the Company strategy and rewarding effective articulation and management of critical risks.
9. Identifying gaps in the management of risks based on changes in Company objectives, strategies and the operating environment and ongoing monitoring, communication and review.
10. Ensuring compliance with applicable laws, rules and regulations through adopting best practices and fostering a culture of good governance and ethical conduct.

## Risk Management Overview in 2023

In 2023, the Sri Lankan economy began to stabilise after grappling with significant challenges since 2020. This revival can be credited to various factors, including political stability, crucial reforms such as the introduction of cost-reflective utility pricing, innovative revenue strategies, and tighter monetary policies. Notably, inflation dropped to single digits by July – 2023, signaling a positive trend. Key economic indicators, including a resurgence in tourism, increased trade and worker remittances, ongoing suspension of external debt servicing, increased development inflows, and an improved trade balance due to import restrictions, significantly bolstered official reserves. However, discrepancies between the Prime Lending Rate and interest rates on Government Securities, along with weak demand for private sector credit-particularly in the first half of the year-and a lack of alternative investment opportunities for surplus funds, led to increase the institutional risk further.

On the global front, the economic landscape was turbulent, characterised by post-pandemic recovery challenges, the Ukraine-Russia conflict, rising hostilities between Israel and Palestine, escalating global inflation, climate-induced disasters, disruptions in food and energy supply chains, cyber threats, and shifts in the dominance of the US Dollar. Despite these challenges, global economic growth showed resilience, albeit at a sluggish pace.

## Integrated Risk Management Department (IRMD)

The IRMD faced the challenge of managing increased risk levels within the Company's risk appetite while supporting innovation and growth, ultimately delivering desired results for stakeholders. The IRMD diligently monitored and managed risks within acceptable thresholds, striving to balance risk mitigation with organisational objectives.

The lending portfolio of CBC Finance continued to face heightened credit risks due to rising defaults, leading to a gradual deterioration of asset quality. The main contributors to this decline were defaults in debt repayments, continued credit moratoria, and increased interest rates. In response to these challenges, CBC Finance shifted its business model during the year, focusing more on asset-based lending, including Leasing, Motor Draft, 3-wheel and 2-wheel leasing and Gold loans.

Despite the rapidly changing risk landscape and the resultant significant stresses, CBC Finance operated with utmost vigilance and maintained operational resilience by being incisive, adaptable, and innovative in managing the various risks associated with its business model.

Pragmatic measures, such as conducting risk and control self-assessments, regularly evaluating Risk Management processes and tools, monitoring Key Risk Indicators (KRIs), introducing additional risk reviews, and ensuring strict compliance with laws, regulatory guidelines, and internal controls across all operations, helped CBC Finance manage risks commendably.

Managing Risk

## Key Risk Management Initiatives Adopted in 2023

In response to the numerous challenges faced, CBC Finance implemented various Risk Management initiatives throughout the year, including the following:

1. **Strengthened the Existing Risk Management Policy Framework:**

   CBC Finance reinforced its Risk Management policy framework to ensure robust governance and comprehensive risk oversight across all operations.

2. **Review and Validation of the Credit Risk Model:**

   The company undertook a thorough review and validation of its existing credit risk model and introduced a rating model specifically for the motor draft product, enhancing the accuracy and reliability of credit assessments.

3. **Strengthened the Credit Process:**

   Continuous process improvements were made to the credit process, ensuring more efficient and effective management of credit risk.

4. **Enhanced Operational Risk Resilience:**

   Operational risk resilience was significantly bolstered, equipping CBC Finance to better withstand and adapt to potential operational disruptions.

5. **Enhanced Operational Risk and Control Self-Assessment (RCSA) Process Coverage:**

   The RCSA process was expanded to provide more comprehensive coverage, ensuring thorough identification and management of operational risks.

6. **Introduced the Post-Credit Risk Review Process:**

   A post-credit risk review process was introduced to retrospectively analyse and assess credit decisions, improving future credit Risk Management.

7. **Introduction of the Reputational Risk Management Policy and Guideline:**

   CBC Finance developed and implemented a reputational Risk Management policy and guideline to safeguard its reputation and ensure proactive management of reputational risks.

8. **Establishment of the Slippage Committee**

   To proactively address the gradual increase in NPAs throughout the year, the Company established a Slippage Committee comprising relevant stakeholders, convening on a monthly basis. The main task of the Committee is to analyse and identify the reasons for delinquency within the existing portfolio, categorised into moratorium-granted portfolios, recently granted portfolios (within one year), legal portfolios, and write-off portfolios. Additionally, the Committee assigns responsibilities to Direct Lending Officers and Recovery Officers for future actions, suggests corrective measures to minimise the Days Past Due position of active credit facilities, and identifies Early Warning Signals (EWS) based on risk assessment and noteworthy observations.

## Company's Priorities for 2024

In order to integrate strategic focus and Risk Management plans effectively with the capital plan, the risk department is planning to introduce the following initiatives:

1. **Introduction of the ICAAP Process:**

   CBC Finance aims to implement the Internal Capital Adequacy Assessment Process (ICAAP), aligning strategic focus with Risk Management plans in a structured manner.

2. **Implementation of Stress Testing Plan and Policy:**

   CBC Finance will introduce a comprehensive stress testing plan and policy that includes scenario analysis, sensitivity analysis, and reverse stress testing. This initiative aims to assess and manage material risks such as credit risk (including NPCF), operational risk, and liquidity risk.

3. **Enhancement of Risk Reporting:**

   There will be a focus on improving risk reporting to ensure relevance, focus, and quality. This enhancement aims to provide timely and insightful information to support effective decision-making across the organisation.

4. **Improvement of Risk Tolerance Framework and Policies:**

   CBC Finance plans to enhance its Risk Tolerance Framework and Risk Management policies by introducing additional Key Risk Indicators (KRI). These KRIs will cover areas such as credit risk, operational risk, market risk, and IT risk, ensuring a more comprehensive approach to Risk Management.

5. **Update and Validation of the Risk Registry:**

   The Company will update and validate its Risk Registry to ensure it accurately reflects the current risk landscape and supports informed decision-making and risk mitigation efforts.

## Risk Management Framework of the CBC Finance

CBC Finance has established an Integrated Risk Management Framework (IRMF) aligned with guidelines from the Central Bank of Sri Lanka (CBSL) and adhering to the Three Lines of Defence model. This structured framework defines the roles of different departments within the organisation, aligning their efforts to enhance overall Risk Management effectiveness. It encompasses all types of risk exposures and is supported by robust organisational structures, systems, processes, procedures, and industry best practices. The IRMF proactively addresses potential risks, losses, and uncertainties faced by CBC Finance, ensuring a resilient Risk Management approach aligned with international standards.

Regular reviews and updates of the IRMF ensure its relevance and responsiveness to changes in regulatory requirements and operational environments.

## Risk Governance

Risk governance at CBC Finance embodies a structured organisational setup designed to uphold high standards of governance in risk-related decision-making. It includes committees, regulations, processes, and mechanisms that guide risk-related decisions in alignment with the Company's risk appetite and tolerance levels. The primary goal of risk governance is to foster a robust risk culture while effectively overseeing and managing risks across the organisation.

Implementing the Three Lines of Defence model promotes a responsible risk culture with clear accountability at every level of CBC Finance. The Board of Directors plays a pivotal role in establishing a strong governance framework that integrates corporate governance best practices with Risk Management principles. This governance structure encompasses Board Committees, executive functions, and empowered committees, ensuring accountability for risks across all levels and types within the organisation.

Decision-making in Risk Management is centralised across various Risk Management committees, ensuring an integrated and cohesive approach that aligns with CBC Finance's strategic objectives and Risk Management goals.

## Risk Management Model of the CBC Finance

| First Line of Defence | Second Line of Defence | Third Line of Defence |
|---|---|---|
| **Business Lines** | **Risk Management & Controls** | **Assurance** |
| Takes ownership of and manages risks directly associated with daily operations.<br><br>Assesses risks using informed judgment, ensuring they align with the Company's risk appetite and policies.<br><br>Implements robust internal controls and fosters a culture of risk awareness throughout the organisation. | Independently oversees the implementation of the risk management framework.<br><br>Promotes a culture of heightened risk awareness across all departments and ensures adherence to established risk management policies.<br><br>Develops and maintains a comprehensive risk management policy framework.<br><br>Monitors, measures, and reports on risks to both Management and the Board Integrated Risk Management Committee. | Includes internal audit, external audit, and regulatory reviews to provide objective assurance to the Board regarding the effectiveness of the First and Second Lines of Defence.<br><br>Upholds rigorous governance and control standards.<br><br>Delivers timely reports of findings to Management and the Board Audit Committee, supporting informed decision-making processes. |
| **Department heads/ Branch Managers** | **Risk Management Department/ Compliance Department** | **Internal Audit/ External Audit** |

# Managing Risk

**First Line of Defence:**

At CBC Finance, the first line of defence comprises the business units supported by centralised support functions. These units engage in various activities that expose them to diverse risks, managed through well-documented procedures, internal controls, and limits approved by the Board. Front-office and back-office teams diligently execute their responsibilities in alignment with regulatory requirements and approved internal policies, procedures, and controls. Their diligent efforts not only identify potential risk factors but also nurture a culture of risk awareness, thereby enhancing overall Risk Management practices across the organisation.

**Second Line of Defence:**

The second line of defence includes the Executive Integrated Risk Management Committee (EIRMC) and the Compliance Division. This line of defence plays a pivotal role in effective Risk Management, ensuring that risk-taking remains within the defined risk appetite. The EIRMC identifies and evaluates primary and emerging risks, events, and outcomes that could significantly impact profitability and reputation. They implement appropriate controls and provide regular updates to the Board on these critical matters.

The Compliance Division serves a crucial function by coordinating Risk Management processes and embedding Risk Management and internal control systems deeply within the organisation's culture. They provide assurance to the EIRMC and the Audit Committee on regulatory compliance and risk tolerance. Additionally, they establish 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, serving as the final layer of control to ensure the practical implementation of processes and controls. Internal Auditors routinely communicate their findings and assurance through monthly review reports to the Board Audit Committee. This Committee thoroughly assesses financial reporting, evaluates the effectiveness of internal controls, and monitors the Group's adherence to statutory and regulatory requirements, including the established code of conduct.

The collaboration among these three lines of defence at CBC Finance ensures a robust Risk Management framework where risks are systematically identified, evaluated, and addressed throughout the organisation. This multi-layered approach enhances risk mitigation, promotes regulatory compliance, fortifies the control environment, instills stakeholder confidence, and fosters sustainable growth.

## 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 key elements of the risk assessment process are considered during the risk assessment:

- **Risk Appetite Evaluation:**

  Both qualitative and quantitative parameters are used to measure the risk appetite of the Company. These parameters are evaluated from time to time and adjusted to reflect the vulnerabilities in the market and the macroeconomic sentiments the Company is confronted with.

- **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

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.

### Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) serve as early warning signals for CBC Finance, reflecting potential adverse events or thresholds that could impact the Company. KRIs are formulated based on identified key risk areas and regularly monitored to detect emerging risks promptly.

### Risk Appetite and Tolerance Limits

Risk appetite at CBC Finance refers to the amount and type of risk the organisation is willing to pursue or retain. Linked to business decisions, CBC Finance collects appropriate metrics to measure risk appetite, ensuring alignment with strategic objectives and regulatory requirements. Tolerance limits, on the other hand, quantify the highest level of risk the Company is prepared to accept. These limits are set at the enterprise level, covering key areas such as credit and funding, and are monitored against actual risk levels to prevent regulatory breaches while capitalising on business opportunities.

## Risk Control and Mitigation

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 mitigation involves four key strategies: acceptance, avoidance, limitation, and transference.

- **Risk Acceptance:** Risk acceptance processes involve evaluating risk-reward trade-offs and considering the costs of alternative Risk Management options like avoidance or limitation before assuming certain types of risk, such as credit risk. Examples include credit approval procedures and pre-disbursement processes, as well as approvals for borrowings.
- **Risk Avoidance:** Risk avoidance is the act of completely eliminating exposure to a particular risk. For instance, rejecting credit facilities that do not meet predefined criteria is an example of risk avoidance.
- **Risk Limitation:** Risk limitation involves reducing a company's exposure to risk by taking specific actions. It allows managing risk by accepting a certain level while avoiding it to some extent. Examples include setting transaction-level limits based on size or duration and establishing single borrower limits to control aggregate risk assumed by the Company.
- **Risk Transference:** Risk transference entails transferring risk to a willing third party. Common methods include outsourcing certain activities to external entities or obtaining insurance coverage to mitigate potential losses.

## 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 working on managing non-performing loans below industry norms.

At the core of CBC Finance's robust credit Risk Management framework is its Credit Policy, sanctioned by the Board of Directors. This policy serves as a foundational guide for lending activities, supplemented by detailed guidelines and circular instructions that direct lending responsibilities. Regular reviews of the Credit Policy and Lending Guidelines ensure alignment with the dynamic financial landscape, enabling CBC Finance to effectively pursue its business objectives.

CBC Finance employs a centralised credit processing mechanism facilitated by its dedicated Credit Administration Department. This department oversees the processing of retail assets, including loans against property, leases, motor drafts, and business loans. Despite facing challenges from the economic difficulties, increased living costs, and ongoing vehicle importation restrictions observed throughout the year 2023, CBC Finance navigated these conditions satisfactorily.

The Company adapted to the challenging operating environment by implementing proactive measures such as closely monitoring loans under moratoria, devising strategies for facilities emerging from moratoria, intensifying recovery initiatives, enhancing scrutiny in loan assessments, rationalising credit exposures through thorough analyses, and initiating post-sanction monitoring and recovery efforts. Early Warning Signals (EWS) systems were employed to identify stressed borrowers promptly, contributing to maintaining acceptable credit quality by the end of 2023 with maximum effort and mitigating potential credit risks.

In tandem with the comprehensive credit Risk Management framework guiding CBC Finance in managing both new and existing exposures, the company exercises prudence in customer, product, industry, segment, and geographic selection. Continuous monitoring of loan age analysis and movement across overdue loan categories allows CBC Finance to take timely action, effectively mitigating default risks.

### Operational Risk

Operational risk is a pivotal aspect of CBC Finance's business activities, encompassing potential losses stemming from internal process deficiencies, system failures, human errors, and external events, including legal risks. Effective management of operational risk is integral to CBC Finance's ongoing operations, necessitating robust practices to mitigate these risks.

The governance of operational risks at CBC Finance follows the three lines of defence approach, aimed at safeguarding the company, its customers, and shareholders from potential losses and reputational damage. This approach ensures transparency, accountability, and a clear segregation of duties in Risk Management.

CBC Finance has developed a comprehensive Operational Risk Management Policy aligned with regulatory guidelines, delineating the responsibilities of each section for managing operational risks. Losses from operational risk incidents can be severe, impacting not only financially but also threatening the company's overall business and reputation.

Key challenges in operational Risk Management include defining efficient risk parameters, managing large datasets and complex logic, and achieving a consolidated enterprise-wide view. Board-approved manuals comprehensively cover all company-wide processes to ensure thorough documentation and adherence to operational standards.

To address cyber security threats, CBC Finance conducts regular IT audits to identify and mitigate security vulnerabilities. Findings from these audits inform upgrades to the existing IT infrastructure. A Board-approved Business Continuity Plan (BCP) is in place, encompassing Disaster Recovery planning. CBC Finance regularly tests its Disaster Recovery site to assess its adequacy and readiness.

In addition to internal Risk Management practices, CBC Finance employs risk transfer strategies to further mitigate operational risks. This includes securing insurance coverage for risks such as fire, natural disasters, theft/robbery, and fraud. The Risk and Insurance Departments collaborate to ensure insurance policies are adequate and that outsourced activities maintain requisite controls before engagement.

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

**Rigorous Incident Reporting and Investigation Procedures:**

Finance places a strong emphasis on rigorous incident reporting and investigation procedures to promptly identify and address operational incidents. This proactive approach ensures that any potential risks or incidents are swiftly identified, assessed, and mitigated to minimise their impact on operations.

**Comprehensive Business Continuity Plans:**

CBC Finance maintains comprehensive business continuity plans (BCPs) to ensure uninterrupted operations during disruptions. Enhancements included conducting regular BCP testing and simulations to validate effectiveness and identify areas for improvement, establishing redundant systems and alternate work arrangements to minimise disruptions during emergencies or unforeseen events and collaborating closely with key vendors and partners to ensure their BCPs align with CBC Finance's continuity objectives and expectations.

**Ongoing Training and Awareness Programmes:**

CBC Finance emphasises ongoing training and awareness Programmes for employees to enhance risk awareness and foster a robust risk culture.

**Continuous Monitoring and Review of Operational Processes:**

CBC Finance engages in continuous monitoring and review of operational processes, systems, and controls to identify gaps and implement necessary improvements.

**Regular Review and Updating of Operational Risk Policies:**

CBC Finance regularly reviews and updates its operational risk policies and frameworks to align with evolving industry practices and regulatory requirements.

## Market Risk

Market risk at CBC Finance encompasses the potential for losses in both on and off-balance sheet positions due to fluctuations in market prices. This includes risks such as Interest Rate Risk (IRR), Foreign Exchange Risk (FX), Equity Price Risk, and Commodity Price Risk. Managing market risk effectively is crucial for CBC Finance to protect its financial positions and ensure stability.

The Asset and Liability Management Committee (ALCO) assumes a central role in overseeing market Risk Management at CBC Finance, particularly focusing on Interest Rate, Liquidity, and Equity Price Risks. To guide these efforts, CBC Finance has established robust Risk Management policies, including the Market Risk Management Policy and the Asset and Liability Risk Management Policy. These policies provide a structured framework for identifying, assessing, and mitigating various market risks.

The Integrated Risk Department and Finance Department collaborate closely to develop and implement effective market Risk Management strategies. They define guidelines for risk measurement methodologies, establish risk limits, and deploy appropriate Risk Management techniques. This collaborative approach ensures consistency and coherence across all aspects of market Risk Management within the organisation.

CBC Finance remains particularly sensitive to fluctuations in market interest rates, which can impact its net interest income and net interest margin significantly. The company's exposure to interest rate risk primarily arises from its borrowing activities, which predominantly consist of floating-rate borrowings. Despite minimal floating-rate lending facilities, CBC Finance manages repricing risk stemming from differences in interest rate adjustment frequencies between its borrowing and lending portfolios. Additionally, unexpected shifts in the market yield curve could further amplify the company's exposure to interest rate fluctuations. Therefore, the Market Risk Management Policy guides comprehensive measures to proactively manage these risks, ensuring CBC Finance's financial stability amid market uncertainties.

## Liquidity Risk

At CBC Finance, managing liquidity risk is pivotal to ensuring the company's ability to meet financial obligations promptly, regardless of market conditions. The company aims to optimise liquidity to safeguard against unacceptable losses and uphold organisational integrity.

The company's approach to liquidity management emphasises maintaining sufficient liquidity to support business operations and accommodate growth while minimising funding costs. The Asset and Liability Management Committee (ALCO) oversees this process, analysing and monitoring liquidity risk across market cycles. The company maintains statutory liquid asset ratios and adheres strictly to the Asset and Liability Management Policy to manage daily liquidity risk effectively.

Monitoring liquidity risk involves assessing key indicators such as the liquid asset ratio, conducting maturity gap analyses, and evaluating funding concentrations. These assessments are integral to our monthly ALCO meetings, where liquidity Risk Management remains a priority agenda item. ALCO ensures robust liquidity management through strategies that attract deposits at competitive rates and secure low-cost funding, balancing our lending and borrowing portfolios to mitigate maturity mismatches.

Given the dynamic economic landscape, forecasting cash flows under various stress scenarios is essential. This proactive approach during ALCO meetings enables us to closely monitor liquidity positions and adjust strategies as needed. By diligently managing liquidity risk and anticipating potential stressors, CBC Finance protects its financial stability and enhances our value proposition to stakeholders.

## 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 cyber security strategies to protect the Company and its customers from cyber threats. CBC Finance's cyber security strategy is focused on securely enabling new technology and business initiatives while maintaining a persistent focus on protecting the Company from cyber threats.

## Reputational Risk

Reputation risk encompasses the potential harm to CBC Finance Limited's reputation resulting from one or more reputation events, including negative publicity related to business practices, conduct, or financial stability. Such adverse publicity, regardless of its veracity, has the potential to erode public trust in CBC Finance Limited, leading to legal challenges, diminished customer loyalty, and reduced business opportunities. In the financial sector, effective reputation Risk Management involves proactive forecasting and evaluation of potential reputational risks, coupled with the implementation of strategies to mitigate their impact. This comprehensive approach enables financial institutions to actively shape public perceptions of their products, services, and brand, thereby fostering trust and confidence among stakeholders.

The reputation Risk Management process adopted by CBC Finance encompasses the identification, assessment, control, monitoring, and reporting of reputation risks. Through this structured approach, CBC Finance aims to safeguard its reputation and uphold its commitment to transparency, integrity, and customer satisfaction. The Reputational Risk Management Policy serves as a guiding framework for these efforts, ensuring diligent oversight and mitigation of reputation-related challenges.

## Key Risk Indicators of the Company

| Ratio | December 2023 | December 2022 | Regulation/Budget |
|---|---|---|---|
| Gross NPA | 21.04% | 16.98% | <20% |
| Net NPA | 8.19% | 8.10% | <15% |
| Infection ratio | 1.02% | 0.38% | <1% |
| Stage III cover | 34.05% | 32.62% | >35% |
| Total cover | 12.85% | 12.11% | >15% |
| Aggregate of exposures exceeding 2.5% of capital | 25.98% | 29.93% | <50% of the total portfolio |
| Loan to value ratio of the mortgage portfolio (market value) | Below 75% | Below 75% | <=75% |
| Loan to value ratio of the leasing portfolio (market value) | Below 80% | Below 80% | <=80% |
| Unsecured loans to total loans | 10.11% | 17.57% | <10% |
| Advance to deposits and debt ratio | 114% | 112% | 110% |
| Fixed rate:floating rate | 100% Fixed Rate | 100% Fixed Rate | 100% Fixed |
| Single borrower limit | Below the threshold (Max-LKR 241 Mn.) | Below the threshold (Max LKR 247 Mn.) | Individual – 12.5% of the Total Capital Base |
| Debits to income statement o/a operational losses | Actual Loss – LKR 1.235 Mn (Max 3%-LKR 45.72 Mn.) | Actual Loss – NIL (Max 3%-LKR 36.39 Mn.) | < 03% of the average gross income for the last 3 audited years |
| Staff turnover rate (monthly) | 2.27% | 0.6% | <5% |
| Net interest margin | 3.98% | 4.91% | >5.0% |
| Net interest spread | 1.68% | 1.35% | >3.0% |
| Financial leverage/gearing ratio | 0.95 | 0.80 | < 5 Times |
| Liquid assets ratio (times) | 1.15 | 2.90 | >1.10 times |
| Borrowings to total assets | 21.55% | 22.52% | <15% |
| Wholesale deposits to total deposits ratio (%) | 69.55% | 72.08% | Below 60% |
| Top 10 depositors to total deposits (%) | 29.40% | 31.25% | Below 40% |
| ROA (PBT) | (2.57%) | 0.09% | >1.25% |
| ROE (PAT) | (6.72%) | 1.25% | >8.5% |
| Total capital adequacy ratio | 19.57% | 24.89% | >12.5% |
| Net advances to total assets | 81.41% | 77.63% | <92% |

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

**For the twelve months ended December 31, 2023**

The details set out herein provide the information required by the Section 168 (1) of the Companies Act No. 7 of 2007 and recommended best accounting practice.

## 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. 7 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 27, 2024.

## 2. Review of Business

### 2.1 Principal activities

the Company has obtained the license to carry on finance business as per the Finance Business Act No. 42 of 2011. The principal activities of the Company comprise of finance leasing, hire purchase financing, gold financing, other credit financing, trading of leased assets and accepting public deposits.

Other than the above, there have been no significant changes in the nature of the principal activities of the Company during the twelve months period under review.

### 2.2 Financial Statements

The Financial Statements of the Company have been duly certified by the Head of Finance and approved by two Directors in compliance with the requirements of the 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 the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view 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 thereto have been prepared in accordance with 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

Company's Auditors, Messrs KPMG performed the audit on the Financial Statements for the twelve months period ended December 31, 2023 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 the preparation of 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 required by Sri Lanka Accounting Standards.

### 2.5 Interests register

An Interests Register is maintained by the Company, as 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. 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 required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

### 2.6 Directors' remuneration and other benefits

Directors' remuneration and other benefits, in respect of the Company for twelve months period ended December 31, 2023 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 at December 31, 2023 was as follows:

- Mr. Muhseen Mohamed Sharhan Mohamed (Chairman)
- Mr. Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr. Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr. Lasantha Hasrath Munasinghe
- Mr. Megelhewage Pushpakumara Dharmasiri
- Mr Gardiyawasan Albratulage Jagath Chamilantha Sampath Fernando

Names of the Directors, who were the Directors at any time during the twelve months ended December 31, 2023 of the Company as required by the section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

- Mr Muhseen Mohamed Sharhan Mohamed (Chairman)
- Dr (Ms) Janaki Padma Kuruppu
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Lasantha Hasrath Munasinghe
- Mr Megelhewage Pushpakumara Dharmasiri
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
- Mr Gardiyawasan Albratulage Jagath Chamilantha Sampath Fernando

### New appointments and resignations

#### New appointments

- Mr Gardiyawasan Albratulage Jagath Chamilantha Sampath Fernando (appointed on October 13, 2023)

#### Resignations

- Dr. Janaki Padma Kuruppu (former Senior Director) (resigned w.e.f. January 31, 2023)
- Mr. Dissanayake Mudiyanselage Upul Nishantha Dissanayake (secondment tenure ended on October 12, 2023)

### 2.8 Gross income

The income of the Company for the twelve months period ended December 31, 2023 was LKR 1991 Mn. An analysis of the income is given in Notes to the Financial Statements attached hereto.

## 3. Dividends and Reserves

### 3.1 Profit and appropriations

The details of profit of the Company are given below.

| For the period ended December 31, | 12 months period ended December 31, 2023 LKR '000 | 12 Months period ended December 31, 2022 LKR '000 | 09 Months period ended December 31, 2021 LKR '000 |
|---|---|---|---|
| Profit/(loss) before tax | (320,605) | 9,726 | 88,113 |
| Tax reversal/(charge) | 95,427 | 29,857 | (54,870) |
| Net other comprehensive income | (305) | 5,846 | (1,347) |
| Total comprehensive income after tax | (225,483) | 45,429 | 31,896 |
| Unappropriated profit brought forward | (205,842) | (138,979) | (169,213) |
| Surcharge levied under surcharge act | – | (110,313) | – |
| Profit/(loss) available for appropriation | – | – | (137,317) |
| (Transfers)/reversals to/from reserves | – | (1,979) | (1,662) |
| Final dividend paid | – | – | – |
| Unappropriated profit/(loss) carried forward | (431,325) | (205,842) | (138,979) |

## 4. Dividends on Ordinary Shares

The Board has not declared any dividends for the twelve months period ended December 31, 2023, and financial years 2022 and 2021 (nine months period).

### 4.1 Provision for taxation

Income tax for the twelve months period ended December 31, 2023 has been provided at 30% for on taxable income arising from the operations of the Company and has been disclosed in accordance with 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 at December 31, 2023 amounted to LKR 277.66 Mn. (December 31, 2022 – LKR 77.53 Mn.). The movement of the reserves is given in the Statement of Changes in Equity and Notes to the Financial Statements attached hereto.

## 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 | 2023 | 2022 | Nine months period ended December 31, 2021 | 2020/21 |
|---|---|---|---|---|
| | LKR Mn. | LKR Mn. | LKR Mn. | LKR Mn. |
| Property, plant and equipment | 408.6 | 316.8 | 276 | 249 |

Details are given in relevant Notes to the Financial Statements.

## 6. Market value of Freehold Properties

The value of freehold properties owned by the Company as at December 31, 2023 is included in the Financial Statements at LKR 249.6 Mn. (December 31, 2022 – LKR 192.2 Mn.). Latest Revaluation of the Company's freehold properties was carried out as of March 31, 2023, and Directors are of the opinion 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 hereto.

## 7. Stated Capital

The stated capital of the Company as at December 31, 2023 was LKR 3,255 Mn. comprising of 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 given in respective notes to the Financial Statements attached hereto.

### 8.1 Issue of shares

There were no new shares issued by the Company during the twelve months period ended December 31, 2023.

## 9. Substantial Shareholding

All the shares of the Company are owned by Commercial Bank of Ceylon PLC.

### 9.1 Equitable treatment to all stakeholders

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

## 10. Directors

### 10.1 Information on Directors

The names of the persons who were Directors of the Company at any time during the twelve months period ended December 31, 2023 are given in section 2.7 of this Report.

### 10.2 Board subcommittees

Information with regard to Board subcommittees is as follows.

**Board Audit Committee**

- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya (Chairman) appointed with effect from July 1, 2022
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Megelhewage Pushpakumara Dharmasiri
- Mrs Sharmini Cynthia De Sayrah Wickremasekera (appointed on April 26, 2024)

**Board Integrated Risk Management Committee**

- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya (Chairman) appointed with effect from January 1, 2023
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake (tenure ended on October 12, 2023)
- Mr Megelhewage Pushpakumara Dharmasiri
- Mr Gardiyawasan Albratulage Jagath Chamilantha Sampath Fernando (appointed on October 13, 2023)
- Mrs Sharmini Cynthia De Sayrah Wickremasekera (appointed on April 26, 2024)

**Board Credit Committee**

- Mr Lasantha Hasrath Munasinghe (Chairman) appointed with effect from February 17, 2023
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mrs Sharmini Cynthia De Sayrah Wickremasekera (Appointed on April 26, 2024)

**Board Nominations Committee**

- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya (Chairman) appointed with effect from February 17, 2023
- Dr (Ms) Janaki Padma Kuruppu (resigned on January 31, 2023)
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Muhseen Mohamed Sharhan Mohamed

**Board Human Resources and Remuneration Committee**

- Mr Muhseen Mohamed Sharhan Mohamed (Chairman) appointed w.e.f. February 17, 2023
- Dr (Ms) Janaki Padma Kuruppu (resigned on January 31, 2023)
- Mr Dimuthu Senarath Bandara
- Mr Lasantha Hasrath Munasinghe

**Board Information and Technology Committee**

- Mr Muhseen Mohamed Sharhan Mohamed (Chairman)
- Mr Lasantha Hasrath Munasinghe
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake (tenure ended on October 12, 2023)
- Mr Dimuthu Senarath Bandara
- Mr Gardiyawasan Albratulage Jagath Chamilantha Sampath Fernando (appointed on October 13, 2023)

## 11. Disclosures of Directors' dealings in shares

### 11.1 Directors' interest in ordinary shares

Directors did not hold any shares of the Company as at December 31, 2023.

## 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 period ended December 31, 2023 other than those disclosed in relevant Notes to the Financial Statements attached hereto.

## 13. Environmental Protection

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

## 14. Statutory Payments

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

## 15. Events after the Reporting Date

There have been no material events that occurred after the reporting date that 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 Financial Statements of the Company 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, whose ten-year tenure ended up at December 31, 2023. Accordingly, pursuant to the Section 10.2 (d)(ii) of Finance Business Act Direction No. 05 of 2021, Corporate Governance, a resolution to appoint Messrs Ernst and Young as Auditors and authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

## 18. Auditors' remuneration and interest in contracts with the Company

The Auditors, Messrs KPMG was paid LKR 2.28 Mn. (2022 – LKR 1.93 Mn.) as audit and related fees by the Company during the period. Apart from this, the Company has 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.

## 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 an effective and comprehensive system of internal controls to ensure that proper controls are in place to safeguard the assets of the Company, to detect and prevent frauds and irregularities, to ensure that proper records are maintained and Financial Statements presented are reliable. Monthly management accounts are prepared, providing management with relevant, reliable and up to date financial statements and key performance indicators.

The Audit Committee reviews on a regular basis, 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. The main corporate governance practices of the Company are in compliance with the Finance Companies (Corporate Governance) Direction No. 05 of 2021 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

## 21. Human Resources

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving 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. There have been no irregularities involving management or employees that could have a material financial effect or otherwise.

## 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 hereby acknowledges the contents of the report.

For and on behalf of the Board

**S Muhseen**
Chairman

**Chamilantha Fernando**
Managing Director/
Chief Executive Officer

**H D U O Gunasekara**
Company Secretary

June 22, 2024

# Directors' Responsibility for Financial Reporting

This Report has been presented in accordance with Section 16.1 of the Finance Business Act Direction (Corporate Governance) No. 5 of 2021.

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 63 of this Report. The Financial Statements for the period ended December 31, 2023 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 94 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 92 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 22, 2024

# Directors' Statement on Internal Control over Financial Reporting

## Board's Responsibility

This Report on Internal Control has been presented under Section 16.1 (ix) of the Finance Business Act Directions No. 5 of 2021 (Corporate Governance) 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 Business Act Directions No 5 of 2021 (Corporate Governance) of the Central Bank of Sri Lanka. 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 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 year ended 31 December 2022 were attended, and corrective measures were initiated to rectify such concerns.
- The recommendations made by the External Auditor in the financial year ended 31 December 2023 in connection with the internal control system will be addressed in future.

Since adopting the Sri Lanka Accounting Standard – SLFRS 09 on "Financial Instruments" on 1 April 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 09 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 Auditor's Review of the Statement

The External Auditors have reviewed the above Directors' Statement on Internal control for 31 December 2023. 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

**Chamilantha Fernando**
Managing Director/
Chief Executive Officer

**Sarath Jayasuriya**
Chairman-Board Audit Committee

May 29, 2024

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

KPMG

KPMG
(Chartered Accountants)
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## To the Board of Directors of CBC Finance Limited

### Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of CBC Finance Limited ("the Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended December 31, 2023.

### Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with Finance Business Act Direction No. 05 of 2021 on Corporate Governance by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

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

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

### Our Responsibilities

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 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 for the Company.

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 Directors 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) Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

(f) 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.

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

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

The procedures selected depend on our judgement, 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.

## Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement 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 system over the financial reporting of the Company.

KPMG

**CHARTERED ACCOUNTANTS**
Colombo
June 5, 2024

# FINANCIAL REPORTS

# Independent Auditor's Report

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(Chartered Accountants)
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**TO THE SHAREHOLDERS OF CBC FINANCE LIMITED**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the Financial Statements of CBC Finance Limited ("the Company"), which comprise the Statement of Financial Position as at December 31, 2023 and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies.

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

### Basis for Opinion

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

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

KPMG

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

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

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

## Report on Other Legal and Regulatory Requirements

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

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
March 27, 2024

# Statement of Profit or Loss and Other Comprehensive Income

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Gross income** | 9 | 1,991,470,180 | 1,636,161,181 |
| Interest income | | 1,767,177,189 | 1,523,736,327 |
| Interest expenses | | (1,270,698,792) | (986,329,636) |
| **Net interest income** | 10 | 496,478,397 | 537,406,691 |
| Fee and commission income | | 149,882,005 | 51,187,547 |
| Fee and commission expenses | | (32,488,653) | (9,931,409) |
| **Net fee and commission income** | 11 | 117,393,352 | 41,256,138 |
| Other operating income | 12 | 74,410,986 | 61,237,307 |
| **Total operating income** | | 688,282,735 | 639,900,136 |
| Impairment charges and other losses | 13 | (481,615,526) | (249,161,510) |
| **Net operating income** | | 206,667,209 | 390,738,626 |
| **Operating expenses** | | | |
| Personnel expenses | 14 | (253,178,874) | (164,812,691) |
| Depreciation and amortisation | | (61,802,621) | (47,196,748) |
| Other operating expenses | 15 | (212,290,253) | (139,837,491) |
| **Operating (loss)/profit before taxes on financial services** | | (320,604,539) | 38,891,696 |
| Taxes on financial services | | – | (29,165,462) |
| **(Loss)/profit before taxation** | | (320,604,539) | 9,726,234 |
| Income tax reversal | 16 | 95,427,017 | 29,856,689 |
| **(Loss)/profit for the year** | | (225,177,522) | 39,582,923 |
| **Other comprehensive income** | | | |
| **Items that will never be reclassified to profit or loss** | | | |
| **Revaluation surplus of property, plant and equipment, net of tax** | | | |
| Revaluation surplus of property, plant and equipment | 23 | 27,169,343 | – |
| Deferred tax charge on revaluation surplus of property, plant and equipment | 16.2 | (8,150,803) | – |
| Effect on change in tax rate | 16.2 | – | (6,615,780) |
| | | 19,018,540 | (6,615,780) |
| **Actuarial (loss)/gain on defined benefit plans, net of tax** | | | |
| Actuarial (loss)/gain on defined benefit plans | 29.1 | (436,423) | 7,785,255 |
| Deferred tax reversal/(charge) on actuarial losses | 16.2 | 130,927 | (2,335,577) |
| Effect of change in tax rate | 16.2 | – | 396,510 |
| | | (305,496) | 5,846,188 |
| **Unquoted equity securities, net of tax** | | | |
| Net change in fair value of FVOCI financial assets | 37.1 | 64,814 | 19,402 |
| Deferred tax (charge) on fair value reserve | 16.2 | (19,444) | (5,821) |
| Effect of change in tax rate | 16.2 | – | (118,628) |
| | | 45,370 | (105,047) |

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **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 | | 8,976,735 | (8,493,914) |
| Deferred tax (charge)/reversal on fair value reserve | 16.2 | (2,693,021) | 2,548,174 |
| Effect of change in tax rate | 16.2 | – | 9,687 |
| | | 6,283,714 | (5,936,053) |
| **Other comprehensive income/(expense) for the year, net of tax** | | 25,042,128 | (6,810,692) |
| **Total comprehensive (expense)/income for the year** | | (200,135,394) | 32,772,231 |
| **Basic (loss)/earnings per share** | 17 | (1.02) | 0.18 |

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 | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 19 | 154,177,733 | 96,306,555 |
| Financial investments at fair value through other comprehensive income | 20 | 712,023,869 | 1,598,013,279 |
| Loans and advances | 21 | 10,142,399,731 | 8,505,035,651 |
| Investment properties | 22 | 538,875,000 | 26,350,000 |
| Property, plant and equipment | 23 | 408,560,886 | 316,894,006 |
| Intangible assets | 24 | 31,727,740 | 30,608,371 |
| Right of use assets | 25 | 62,696,695 | 67,406,857 |
| Deferred tax assets | 31 | 359,259,949 | 277,932,277 |
| Other assets | 26 | 49,039,147 | 36,588,809 |
| **Total assets** | | 12,458,760,750 | 10,955,135,805 |
| **Liabilities** | | | |
| Deposit liabilities | 27 | 6,534,180,634 | 5,116,205,410 |
| Due to banks | 28 | 2,758,596,459 | 2,467,544,765 |
| Employee benefits | 29 | 15,694,914 | 11,330,128 |
| Lease liabilities | 30 | 64,874,901 | 66,555,073 |
| Current tax liabilities | 32 | 2,605,060 | 37,092,827 |
| Other liabilities | 33 | 105,472,549 | 78,935,975 |
| **Total liabilities** | | 9,481,424,517 | 7,777,664,178 |
| **Equity** | | | |
| Stated capital | 34 | 3,254,999,963 | 3,254,999,963 |
| Accumulated losses | 35 | (431,325,175) | (205,842,157) |
| Other reserves | 36 | 153,661,445 | 128,313,821 |
| **Total equity** | | 2,977,336,233 | 3,177,471,627 |
| **Total liabilities and equity** | | 12,458,760,750 | 10,955,135,805 |

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.

**Amila Bandara**
Head of 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,

**Chamilantha Fernando**
Managing Director/Chief Executive Officer

**S M S C Jayasuriya**
Director

27 March 2024
Kandy, Sri Lanka

# Statement of Changes in Equity

| | Stated capital | Other reserves | | | | | 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 January 1, 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 (Note 16.4.1) | – | – | – | – | – | – | (110,313,377) | (110,313,377) |
| **Restated balance as at January 1, 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 |
| Balance as at January 1, 2023 | 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 |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (225,177,522) | (225,177,522) |
| Other comprehensive income for the year net of tax | – | – | 19,018,540 | – | 6,329,084 | – | (305,496) | 25,042,128 |
| **Total comprehensive income** | – | – | 19,018,540 | – | 6,329,084 | – | (225,483,018) | (200,135,394) |
| **Balance as at December 31, 2023** | 3,254,999,963 | 50,000 | 98,517,078 | 33,328,578 | 1,667,900 | 20,097,889 | (431,325,175) | 2,977,336,233 |

# Statement of Cash Flows

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before taxation | | (320,604,539) | 9,726,234 |
| **Adjustments for:** | | | |
| Interest expenses | 10.2 | 1,270,698,792 | 986,329,636 |
| Impairment charges and other losses | 13 | 481,615,526 | 249,161,510 |
| Interest income from bank deposits and government securities | 10 | (168,577,924) | (282,488,280) |
| Dividend income | 12 | (179,520) | (240,000) |
| Depreciation | 23 | 34,746,169 | 23,114,521 |
| Amortisation | | 27,056,453 | 24,082,226 |
| Provision for defined benefit plans | 29 | 4,690,036 | 4,501,065 |
| Gain on disposal of property, plant and equipment | 12 | (380) | (47,281) |
| Fair value gain on investment properties | 22 | (13,980,000) | (1,200,000) |
| **Operating profit before working capital changes** | | 1,315,464,613 | 1,012,939,631 |
| Changes in loans and receivables | | (2,117,177,242) | (41,560,278) |
| Changes in other assets | | (530,649,977) | (40,463,994) |
| Changes in deposit liabilities | | 411,470,878 | (640,570,229) |
| Changes in other liabilities | | 44,388,849 | 4,678,493 |
| **Cash generated (used in)/from operations** | | (876,502,879) | 295,023,623 |
| Taxes paid | 32 | (31,120,764) | (67,665,464) |
| Surcharge levied under surcharge act | | – | (110,313,377) |
| Gratuity paid | 29 | (761,673) | (358,639) |
| **Net cash flows generated (used in)/from operating activities** | | (908,385,316) | 116,686,143 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and CWIP | 23 | (99,332,344) | (63,953,735) |
| Proceeds from sale of property, plant and equipment | | 89,019 | 251,232 |
| Proceeds from/(invest) in sale and maturity of financial investments – FVOCI | | 895,030,959 | (1,174,190,168) |
| Purchase of financial investments – at amortised cost | | – | 406,243,569 |
| Purchase of intangible assets | 24 | (5,613,385) | (5,939,936) |
| Interest received | | 168,577,924 | 282,488,280 |
| Dividend received | 12 | 179,520 | 240,000 |
| **Net cash flows generated from/(used in) from investing activities** | | 958,931,693 | (554,860,758) |

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Loans obtained | 28 | 3,990,000,000 | 2,875,000,000 |
| Repayments of loans | 28 | (3,669,352,951) | (2,219,352,952) |
| Interest paid on loans | | (258,953,321) | (280,821,579) |
| Interest paid on overdraft | | (15,294) | (39,689) |
| Repayment of lease liabilities | 30 | (26,432,781) | (26,093,452) |
| **Net cash flows generated from financing activities** | | 35,245,653 | 348,692,328 |
| Net increase/(decrease) in cash and cash equivalents | | 85,792,030 | (89,482,287) |
| Cash and cash equivalents at the beginning of the year | | 42,656,223 | 132,138,510 |
| **Cash and cash equivalents at the end of the year** | | 128,448,253 | 42,656,223 |
| **Analysis of cash and cash equivalents at the end of the year** | | | |
| Cash and bank balances | 19 | 154,177,733 | 96,306,555 |
| Bank overdraft | 28 | (25,729,480) | (53,650,332) |
| | | 128,448,253 | 42,656,223 |

Figures in brackets indicate deductions.

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

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# 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 7 of 2007 under the Company Registration No. PB 276.

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

### 1.2 Principal activities and nature of operations

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

### 1.3 Parent entity and ultimate parent entity

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

### 1.4 Number of employees

The number of employees as at December 31, 2023 is 271 (December 31, 2022: 176)

## 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.

### 2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended December 31, 2023 were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on March 27, 2024.

### 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 realise 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.

## 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.

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 December 31, 2023 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;
- **Note 3.9** – 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**

Even though the Company has incurred a net loss of LKR 225,177,522 (2022 – Profit of LKR 39,582,923) for the year ended December 31, 2023, the Financial Statements have been prepared on a going concern basis as 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.

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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.

Moreover, the Company has been relishing the protection and guidance of Commercial Bank of Ceylon PLC as the parent and ultimate parent of the Company.

Furthermore, the Management believes that the Company has sufficient financial resources for the continuing operations for the next 12 months and beyond and 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 Material accounting policies – Statement of Financial Position

Material 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.

In addition, the Company adopted Disclosures of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 01, 2023. The amendments require the disclosure of "Material", rather than "Significant", accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information.

### 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 18.

**Financial assets – Business model assessment**

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

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

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

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

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

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

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

- Contingent events that would change the amount or timing of cash flows;
- Leverage features;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features;
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

**Financial assets – subsequent measurement and gains and losses**

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

**Reclassification**

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

## 3.2.1 Modifications of financial assets and financial liabilities

**Financial assets**

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

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

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

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

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

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

**Financial liabilities**

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

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

### 3.2.2 Identification and measurement of Impairment of financial assets

The Company recognises loss allowances for ECLs on:

- Financial assets measured at amortised cost; and
- Debt investments measured at FVOCI.

No impairment loss is recognised on equity investments.

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 120 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". Financial instruments allocated to stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

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'.

Financial instruments for which a lifetime ECL is recognised but which are credit-impaired are referred to as 'Stage 3 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 decrease the weightings assigned for worst case scenario while increase 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 recovery from the impact of economic downturn related uncertainties and volatilities.

| | 2023 % | 2022 % |
|---|---|---|
| Base case | 45 | 35 |
| Best case | 5 | 5 |
| Worst case | 50 | 60 |

#### 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 3 loans and others to be continued on gross carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The present value of the estimated future cash flows was discounted at the financial asset's original EIR.

**Collective assessment of impairment**

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

**Collateral valuation**

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

**Restructured/rescheduled financial assets**

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

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

For financial assets modified as part of the Company's rescheduled/restructured policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of rescheduled/restructured may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour as agreed under the modified contractual terms over a period as specified in the Central Bank directives before the exposure is no longer considered to be credit-impaired/in default such that it upgrade to Stage 1 or 2 by the Company's Recovery Department based on their independent evaluation of the customers.

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

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

**Credit-impaired financial assets**

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

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 120 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 judgement 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 and 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 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 depreciation based on the estimated useful lives are as follows:

| Class of asset | Period |
|---|---|
| Buildings | 30 - 35 years |
| Furniture and fittings | 8 years |
| Office equipment | 8 years |
| Motor vehicles | 5 years |
| Computers & accessories | 5 years |
| Telephone system | 4 years |
| Electrical equipment | 8 years |
| Sign boards | 8 years |
| Fixtures and fittings | 8 years |

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

### 3.7.8 Changes in estimates

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

## 3.8 Intangible assets

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

### 3.8.1 Basis of recognition

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

### 3.8.2 Computer software

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

### 3.8.3 Subsequent expenditure

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

### 3.8.4 Derecognition of intangible assets

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

### 3.8.5 Amortisation of intangible assets

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

| Class of asset | Period |
|---|---|
| Computer software | 10 years |

### 3.8.6 Lease

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

**i. As a lessee**

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

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

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

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

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

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

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

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

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

The Company presents right-of-use assets that do not meet the definition of investment property in "Right-of-use assets" and lease liability in the Statement of Financial Position.

**Short-term leases and leases of low-value assets**

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

**ii. As a lessor**

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

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

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

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

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

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

## 3.9 Impairment of non–financial assets

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

## 3.10 Share capital

### 3.10.1 Ordinary shares

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

### 3.10.2 Dividends payable

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

Dividends for the period that are declared after the reporting date are disclosed in Notes to the Financial Statements as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 (Events after the Reporting Period).

## 3.11 Employee benefits

### 3.11.1 Defined benefit plans

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

#### 3.11.1.1 Defined benefit plan – gratuity

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

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

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

The assumptions based on which the results of actuarial valuation was determined, are included in Note 29.1.2 to the Financial Statements.

#### 3.11.1.2 Recognition of actuarial gains or losses

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

#### 3.11.1.3 Funding arrangements

The Gratuity liability is not externally funded.

### 3.11.2 Defined contribution plans

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

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

#### 3.11.2.1 Employees' Provident Fund

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

#### 3.11.2.2 Employees' Trust Fund

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

## 3.12 Provisions

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

## 3.13 Commitments and contingencies

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

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

## 3.14 Earnings per Share (EPS)

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

## 3.15 Segment reporting

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

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Company basis and are not allocated to operating segments

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in December 31, 2023 or December 31, 2022.

# 4 Recognition of Income and Expenses

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

## 4.1 Interest income and interest expenses

### Effective interest rate

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

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

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

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

### Amortised cost and gross carrying amount

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

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

**Calculation of interest income and expense**

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

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

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

**Presentation**

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

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

Other interest income presented in the Statement of Profit or Loss and OCI includes interest income on finance leases.

Interest expense presented in the Statement of Profit or Loss and OCI include financial liabilities measured at amortised cost.

### 4.2 Fee and commission

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

Other fee and commission income – including sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's Financial Statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### 4.3 Dividend income

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

### 4.4 Expenditure recognition

Expenses are 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 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 1, 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 1,2022. 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 1, 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.

### 5.4.3 Surcharge Tax

As per provisions of the Government Bill issued on February 7, 2022 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 Mn. (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 Statement of Cash Flows

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

## 7 Fair Value Measurement

### 7.1 Fair value measurement

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

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

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

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

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

### 7.2 Fair value hierarchy

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

**Level 1**

Inputs that are unadjusted quoted market prices in an active market for identical instruments.

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

**Level 2**

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

This category includes instruments valued using;

(a) Quoted market prices in active markets for similar instruments,

(b) Quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) Other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

**Level 3**

**Inputs that are unobservable**

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exists and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect spread for bid and ask prices to reflect cost to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 "profit or loss") is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

## 8 New Accounting Standards issued but not Effective as at Reporting Date

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted. However, the Company has not early adopted the new and amended accounting standards in preparing these Financial Statements.

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

- Classification of Liabilities as Current or Non-Current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Lack of Exchangeability (Amendments to IAS 21)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

### 8.1 Changes in material accounting policies

Deferred tax related to assets and liabilities arising from a single transaction.

The Company has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) from January 1, 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g., leases. For leases, an entity is required to recognise the associated deferred tax assets and liabilities 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, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The Company previously accounted for deferred tax on leases by applying the "integrally linked" approach, resulting in a similar outcome as under the amendments, expect that the deferred tax assets or liability was recognised on a net basis. Following the amendments, the Company has recognised a separate deferred tax assets in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use-assets. However, there was no impact on the Statement of Financial Position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at January 1, 2022 as a result of the change.

**Material accounting policy information**

The Company also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policies information disclosed in the Financial Statements.

The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the Financial Statements.

## 9 Gross Income

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Interest income | | 1,767,177,189 | 1,523,736,327 |
| Fee and commission income | 10.1 | 149,882,005 | 51,187,547 |
| Other operating income | 11.1 | 74,410,986 | 61,237,307 |
| **Total income** | 12 | 1,991,470,180 | 1,636,161,181 |

## 10 Net Interest Income

### 10.1 Interest income

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Cash and cash equivalents | 6,543,366 | 6,424,821 |
| Financial investments measured at FVOCI | 162,034,558 | 271,538,724 |
| Financial investments at amortised cost | – | 4,524,735 |
| Loans and advances | 1,598,599,265 | 1,241,248,047 |
| **Total interest income** | 1,767,177,189 | 1,523,736,327 |

### 10.2 Interest expenses

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Interest on deposit liabilities | 1,006,504,346 | 687,927,923 |
| Interest on bank borrowings | 257,294,112 | 292,065,615 |
| Interest expense on lease liabilities | 6,900,334 | 6,336,098 |
| **Total interest expenses** | 1,270,698,792 | 986,329,636 |
| **Net interest income** | 496,478,397 | 537,406,691 |

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.

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Financial Assets | | |
| Financial assets measured at amortised cost | 1,605,142,631 | 1,252,197,603 |
| Financial assets measured at FVOCI | 162,034,558 | 271,538,724 |
| **Total** | 1,767,177,189 | 1,523,736,327 |
| **Financial liabilities measured at amortised cost** | 1,270,698,792 | 986,329,636 |

# 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.

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Fee and commission income** | | |
| Loans and advances related services | 54,456,298 | 33,823,981 |
| Other financial services | 95,425,707 | 17,363,566 |
| **Total fee and commission income** | 149,882,005 | 51,187,547 |
| **Fee and commission expenses** | | |
| Loans and advances related services | 31,773,717 | 9,283,122 |
| Other financial services | 714,936 | 648,287 |
| **Total fee and commission expenses** | 32,488,653 | 9,931,409 |
| **Net fee and commission income** | 117,393,352 | 41,256,138 |

The fees and commission presented in this note include income of LKR 149.9 Mn. (December 31, 2022: LKR 51.1 Mn.) and expense of LKR 32.4 Mn. (December 31, 2022: LKR 9.9 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

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Dividend income | 179,520 | 240,000 |
| Recoveries of loans written-off | 59,145,820 | 56,707,005 |
| Profit on disposal of property, plant and equipment | 380 | 84,386 |
| Rental and other income | 1,105,266 | 3,005,916 |
| Fair value gain on investment properties | 13,980,000 | 1,200,000 |
| **Total** | 74,410,986 | 61,237,307 |

# Notes to the Financial Statements

## 13 Impairment Charges and Other Losses

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Loans and advances** | | | |
| Individual impairment | 21.1 | – | (355,901,641) |
| Collective impairment | 21.1 | 527,449,709 | 625,734,432 |
| **Total impairment charges – Loans and advances** | | 527,449,709 | 269,832,791 |
| **Other financial assets** | | 1,802,364 | (256,680) |
| Interest unwinding on stage three contracts | | (47,636,547) | (20,414,601) |
| **Total impairment charges** | | 481,615,526 | 249,161,510 |

## 14 Personnel Expenses

| For the year ended December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Salaries and other related expenses | | 147,587,006 | 91,776,647 |
| Employer's contribution to Employees' Provident Fund | | 14,966,005 | 9,052,299 |
| Employer's contribution to Employees' Trust Fund | | 3,741,501 | 2,265,024 |
| Gratuity charge for the year | 29.1 | 4,690,036 | 4,501,065 |
| Other staff related expenses | | 82,194,326 | 57,217,656 |
| **Total** | | 253,178,874 | 164,812,691 |

## 15 Other Operating Expenses

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Directors' emoluments | 4,360,000 | 4,040,000 |
| Auditors' remuneration – Audit and audit related services | 3,300,000 | 3,000,000 |
| Professional and legal expenses | 5,543,428 | 8,673,840 |
| General insurance expenses | 2,731,120 | 964,394 |
| Office administration and establishment expenses | 180,223,226 | 118,501,953 |
| Sales, marketing and business promotional expenses | 16,132,479 | 4,657,304 |
| **Total** | 212,290,253 | 139,837,491 |

## 16 Income Tax Reversal

### 16.1 Amounts recognised in profit or loss

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Current tax expense** | | |
| Provision for the year | – | 44,163,766 |
| Under provision in relation to prior years (2019/20) | 3,152,833 | 16,453,661 |
| Over provision in relation to prior years (2022/23) | (6,519,836) | – |
| | (3,367,003) | 60,617,427 |
| **Deferred tax expense** | | |
| Origination of deferred tax assets | (92,060,014) | (28,762,107) |
| Effect on change in tax rate | – | (61,712,009) |
| | (92,060,014) | (90,474,116) |
| Total | (95,427,017) | (29,856,689) |

### 16.2 Amount recognised in OCI

| For the year ended December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Income that will not be reclassified to profit or loss** | | |
| Revaluation surplus of capital assets | (8,150,803) | – |
| Remeasurement of defined benefit liability | 130,927 | (2,335,577) |
| Net change in fair value of unquoted equity securities | (19,444) | (5,821) |
| Effect of change in tax rate | – | (6,337,898) |
| | (8,039,320) | (8,679,296) |
| **Items that are or may be reclassified subsequently to profit or loss** | | |
| Movement in fair value reserve (debt instruments) | (2,693,021) | 2,548,174 |
| Effect of change in tax rate | – | 9,687 |
| | (10,732,341) | (6,121,435) |

## 16.3 Reconciliation of effective tax rate

| For the year ended December 31, | Effective Tax Rate % 2023 | 2023 LKR | Effective Tax Rate % 2022 | 2022 LKR |
|---|---|---|---|---|
| (Loss)/profit for the year | | (225,177,522) | | 39,582,923 |
| Income tax charge | | (95,427,017) | | (29,856,689) |
| (Loss)/profit before taxation | | (320,604,539) | | 9,726,234 |
| Tax using the domestic corporation tax rates of 30% (2022 – 24% and 30%) | 30 | (96,181,362) | 27 | 2,626,083 |
| Tax effect of aggregate disallowed items | -52 | 166,577,369 | 1,005 | 97,774,691 |
| Tax effect of aggregate allowable expenses | 47 | (149,873,313) | -888 | (86,401,944) |
| Tax effect of capital portion of rentals | -2 | 7,502,915 | 310 | 30,164,936 |
| Tax effect on tax losses during the year | -22 | 71,974,391 | 0 | – |
| Adjustment for prior years | 1 | (3,367,003) | 169 | 16,453,661 |
| Deferred tax effect on change in tax rate | | – | | (61,712,009) |
| Deferred tax reversal due to temporary difference | 29 | (92,060,014) | -296 | (28,762,107) |
| | 30 | (95,427,017) | -307 | (29,856,689) |

## 16.4 Amounts recognised directly in equity

There were no items recognised directly in equity during the year ended December 31, 2022 except the following item disclosed in the Note 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 1, 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.

**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 1, 2022), in accordance with the Inland Revenue Act No. 24 of 2017 and amendments thereto.

# 17 Basic Earnings/(Loss) Per Share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year.

| For the year ended December 31, | 2023 | 2022 |
|---|---|---|
| Profit/(loss) attributable to ordinary shareholders (LKR) | (225,177,522) | 39,582,923 |
| Weighted average number of ordinary shares in issue | 221,793,474 | 221,793,474 |
| **Basic earnings/(loss) per ordinary share (LKR)** | (1.02) | 0.18 |

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

## 18 Analysis of Financial Instruments by Measurement Basis

| As at December 31, 2023 | Note | At amortised cost LKR | Fair value through OCI LKR | Other financial liabilities at amortised cost LKR | Total LKR |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | | 154,177,733 | – | – | 154,177,733 |
| Financial investments | | – | 712,023,869 | – | 712,023,869 |
| Loans and advances | | 10,142,399,731 | – | – | 10,142,399,731 |
| Other assets | 26 | 23,836,965 | – | – | 23,836,965 |
| **Total financial assets** | | 10,320,414,429 | 712,023,869 | – | 11,032,438,298 |
| **Liabilities** | | | | | |
| Deposit liabilities | | – | – | 6,534,180,634 | 6,534,180,634 |
| Due to banks | | – | – | 2,758,596,459 | 2,758,596,459 |
| Lease liabilities | | – | – | 64,874,901 | 64,874,901 |
| Other liabilities | 33 | – | – | 23,807,707 | 23,807,707 |
| **Total financial liabilities** | | – | – | 9,381,459,701 | 9,381,459,701 |

| 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 | 26 | 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 | 33 | – | – | 14,655,117 | 14,655,117 |
| **Total financial liabilities** | | – | – | 7,664,960,365 | 7,664,960,365 |

## 19 Cash and Cash Equivalents

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Cash in hand held in local currency | 50,616,608 | 15,153,730 |
| Balances with licensed commercial banks | 103,561,125 | 81,152,825 |
| **Total** | 154,177,733 | 96,306,555 |

## 20 Financial Investments at Fair Value Through Other Comprehensive Income

| As at December 31, | | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Investments in unquoted equities | 20.1 | 2,185,042 | 2,120,228 |
| Investments in government securities | | 709,838,827 | 1,595,893,051 |
| **Total** | | 712,023,869 | 1,598,013,279 |

### 20.1 Unquoted equities

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 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 | 2,185,042 | 100 | 123,700 | 2,120,228 |
| **Total** | | 123,700 | 2,185,042 | | 123,700 | 2,120,228 |

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 Loans and Advances

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Loans and advances | | 14,912,738,244 | 12,057,422,676 |
| Less: Unearned income | | (3,275,102,148) | (2,378,034,947) |
| **Gross loans and advances** | | 11,637,636,096 | 9,679,372,765 |
| Less: Allowance for impairment losses | 21.1 | (1,495,236,365) | (1,174,337,114) |
| **Net loans and advances** | | 10,142,399,731 | 8,505,035,651 |

## 21.1 Allowance for impairment losses

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| As at January 01, | 1,174,337,114 | 1,174,127,183 |
| Charge for the period – individual impairment | – | (355,901,641) |
| Charge for the period – collective impairment | 527,449,709 | 625,734,432 |
| Write off for the year | (206,550,458) | (269,622,860) |
| **As at December 31,** | 1,495,236,365 | 1,174,337,114 |

Loans and advances with the contractual amount of LKR 206,530,100 has written down during the 2023 are still subject to enforcement activity.

### 21.1.1 Analysis of allowance for impairment losses by product

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Leases | 21.2.1 | 344,175,051 | 151,006,238 |
| Hire purchase | 21.2.2 | 120 | 123 |
| Mortgage loans | 21.2.3 | 503,797,976 | 455,695,487 |
| Other loans | 21.2.4 | 647,263,218 | 567,635,266 |
| | | 1,495,236,365 | 1,174,337,114 |

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 years ended December 31, 2023 and since lack of information to perform to back-testing to ensure the model accuracy due to unavailability of sufficient past data due to moratorium/concessions granted during the year based on the circular's issued from the Central Bank of Sri Lanka and limitations to re-assess 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, impairment charge of LKR 527,449,709 recorded during the year over the total portfolio considered for impairment under collective approach.

## 21.2 Analysis by product

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Leases | 21.2.1 | 3,086,508,365 | 1,978,163,272 |
| Hire purchase | 21.2.2 | – | – |
| Mortgage loans | 21.2.3 | 3,413,855,414 | 3,987,219,037 |
| Other loans | 21.2.4 | 3,642,035,952 | 2,539,653,342 |
| | | 10,142,399,731 | 8,505,035,651 |

## 21.2.1 Leases

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Gross lease receivable** | | | |
| Within one year | 21.2.1 (a) | 1,502,128,103 | 1,348,955,413 |
| One to five years | 21.2.1 (b) | 1,928,555,313 | 779,895,282 |
| Over five years | 21.2.1 (c) | – | 318,815 |
| | | 3,430,683,416 | 2,129,169,510 |
| Less: Allowance for impairment losses | | (344,175,051) | (151,006,238) |
| **Net lease receivable** | | 3,086,508,365 | 1,978,163,272 |

## 21.2.1 (a) Gross lease receivable within one year

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total lease receivable within one year | 2,119,861,784 | 1,612,998,599 |
| Less: Unearned income | (617,733,681) | (264,043,186) |
| | 1,502,128,103 | 1,348,955,413 |

## 21.2.1 (b) Gross lease receivable within one to five years

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total lease receivable within one to five years | 2,699,991,501 | 1,030,896,117 |
| Less: Unearned income | (771,436,188) | (251,000,835) |
| | 1,928,555,313 | 779,895,282 |

## 21.2.1 (c) Gross lease receivable over five years

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total lease receivable over five years | – | 326,297 |
| Less: Unearned income | – | 7,482 |
| | – | 318,815 |

## 21.2.2 Hire purchase

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Gross hire purchase receivable** | | | |
| Within one year | 21.2.2 (a) | 120 | 123 |
| | | 120 | 123 |
| Less: Allowance for impairment losses | | (120) | (123) |
| **Net hire purchase receivable** | | – | – |

## 21.2.2 (a) Gross hire purchase receivable within one year

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total hire purchase rentals receivable | 120 | 123 |
| Less: Unearned income | – | – |
| | 120 | 123 |

## 21.2.3 Mortgage loans

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Gross mortgage loans receivable** | | | |
| Within one year | 21.2.3 (a) | 1,361,319,810 | 1,811,945,747 |
| One to five years | 21.2.3 (b) | 2,274,099,562 | 2,387,979,447 |
| Over five years | 21.2.3 (c) | 282,234,018 | 242,989,331 |
| | | 3,917,653,390 | 4,442,914,524 |
| Less: Allowance for impairment losses | | (503,797,976) | (455,695,487) |
| **Net mortgage loans receivable** | | 3,413,855,414 | 3,987,219,037 |

## 21.2.3 (a) Gross mortgage loans receivable within one year

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total mortgage loans receivable | 1,852,839,582 | 2,333,592,022 |
| Less: Unearned income | (491,519,772) | (521,646,275) |
| | 1,361,319,810 | 1,811,945,747 |

### 21.2.3 (b) Gross mortgage loans receivable within one to five years

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total mortgage loans receivable | 3,068,627,375 | 3,256,808,166 |
| Less: Unearned income | (794,527,813) | (868,828,719) |
| | 2,274,099,562 | 2,387,979,447 |

### 21.2.3 (c) Gross mortgage loans receivable over five years

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total mortgage loans receivable | 329,848,721 | 272,726,205 |
| Less: Unearned income | (47,614,703) | (29,736,874) |
| | 282,234,018 | 242,989,331 |

### 21.2.4 Other loans

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Gross other loans receivable | | | |
| Within one year | 21.2.4 (a) | 3,872,005,612 | 2,430,533,707 |
| One to five years | 21.2.4 (b) | 388,831,609 | 676,556,121 |
| Over five years | 21.2.4 (c) | 28,461,949 | 198,780 |
| | | 4,289,299,170 | 3,107,288,608 |
| Less: Allowance for impairment losses | | (647,263,218) | (567,635,266) |
| **Net other loans receivable** | | 3,642,035,952 | 2,539,653,342 |

### 21.2.4 (a) Gross other loans receivable within one year

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total other loans receivable | 4,331,459,000 | 2,773,876,008 |
| Less: Unearned income | (459,453,388) | (343,342,301) |
| | 3,872,005,612 | 2,430,533,707 |

### 21.2.4 (b) Gross other loans receivable within one to five years

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total other loans receivable | 475,674,759 | 775,993,283 |
| Less: Unearned income | (86,843,150) | (99,437,162) |
| | 388,831,609 | 676,556,121 |

### 21.2.4 (c) Gross other loans receivable over five years

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Total other loans receivable | 34,435,402 | 205,857 |
| Less: Unearned income | (5,973,453) | (7,077) |
| | 28,461,949 | 198,780 |

**21.2.4.(d)** Other loans includes personal loans, business loans, gold loans and other unsecured loans.

## 22 Investment Properties

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Cost/Valuation | | |
| As at January 1, | 26,350,000 | 25,150,000 |
| Additions during the year | 498,545,000 | – |
| Fair value gain | 13,980,000 | 1,200,000 |
| **As at December 31,** | 538,875,000 | 26,350,000 |

## 22.1 Details of investment properties

| Location | Date of valuation | Number of Buildings | Extent Land (Perches) | Extent Buildings (Square feet) |
|---|---|---|---|---|
| Lot 04, Plan No: 1652, Bulumulla, Kiribathkumbura. | 31.12.2023 | – | 18.70 | – |
| Lot 01, Plan No: 1366, Boyagama, Pilimathalawa. | 31.12.2023 | – | 312.00 | – |
| Lot 8247, Plan No: 7790 C, Suranimala Place, Pamankada, Thimbirigasyaya. | 31.12.2023 | 1 | – | 4,890 |
| Lots 5112 and 5113, Plan No: 224, No 122/37, High level road, Kirulapone. | 31.12.2023 | – | 22.81 | – |
| Lots 01, Plan No: 1073, Yatiwawala, Kulugammana, Kandy. | 31.12.2023 | – | 262.00 | – |
| Lot 01, Plan No: 496, Polwatta, Mawanella. | 31.12.2023 | 1 | 98.50 | 12,550 |
| Lot 02, Plan No: 2648, Ballapana Pathabage, Galigamuwa. | 31.12.2023 | – | 105.30 | – |
| Lot 02, Plan No: 678, Iriyagama, Gangapalatha, Yatinuwara, Kandy. | 31.12.2023 | – | 12.00 | – |
| Lot 01, Plan No: 869B, Embilmeegama, Pilimathalawa. | 31.12.2023 | 1 | 28.00 | 1,740 |
| Lot No B, Plan No: 1085, No 30, Akkarahena Road, Thiranagama, Hikkaduwa. | 31.12.2023 | 1 | 49.00 | 1,080 |

## 22.2 Measurement of fair value

The fair value measurement for the investment properties 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 | Method of valuation and significant unobservable inputs |
|---|---|---|
| K M U Dissanayake<br>Chartered Valuer<br>B. Sc. Estate Management and Valuation (SP), USJP (SL)<br>F.I.V. (Sri Lanka) R.N: F/ 306 | Lot 04, Plan No: 1652, Bulumulla, Kiribathkumbura. | Market comparable method – price per perch |
| | Lot 01, Plan No: 1366, Boyagama, Pilimathalawa. | Market comparable method – price per perch |
| | Lot 01, Plan No: 869B, Embilmeegama, Pilimathalawa | Market comparable method – price per perch – price per Sq.Ft |
| L Dasanayake<br>Chartered Valuer, Court Commissioner and Valuer<br>B. Sc. Estate Management and Valuation<br>F.I.V. (Sri Lanka) R.N – F/ 191 | Lot 8247, Plan No: 7790 C, Suranimala Place, Pamankada ,Thimbirigasyaya | Investment method – Gross monthly rental – Years purchase |
| | Lots 5112 and 5113, Plan No: 224, No 122/37, High level road ,Kirulapone | Market comparable method – price per perch |
| D K S Premasiri<br>Associate Incorporated Valuer<br>B. Sc. Estate Management and Valuation (SP), USJP, Dip in EBM (USJP)<br>Professional Associate Member of Institute of Valuers (SL)|Membership No: A/750 | Lot 01, Plan No: 496, Polwatta, Mawanella. | Market comparable method – price per perch – price per Sq.Ft – Depreciation rate |
| | Lot 02, Plan No: 2648, Ballapana Pathabage, Galigamuwa. | Market comparable method – price per perch |
| | Lot 02, Plan No: 678, Iriyagama, Gangapalatha, Yatinuwara, Kandy. | Market comparable method – price per perch |
| Sarath G Fernando<br>Chartered Valuer,<br>Fellow Member – Institute of Valuers of Sri Lanka<br>Associate Member – Professional Valuers Association<br>R.N – F/189 | Lot No B, Plan No: 1085, No 30, Akkarahena Road, Thiranagama, Hikkaduwa | Market comparable method – price per perch – price per Sq.Ft |
| | Lots 01, Plan No: 1073, Yatiwawala, Kulugammana, Kandy | Market comparable method – price per perch – Depreciation rate |

| Price | | Fair value of the investment property | | Carrying value of investment property before fair valuation | | Fair value gain/(losses) recognised in income statement | |
|---|---|---|---|---|---|---|---|
| Land (Perches) LKR | Buildings (Square feet) LKR | Land LKR | Building LKR | Land LKR | Building LKR | Land LKR | Building LKR |
| 340,000 | – | 6,350,000 | – | 6,075,000 | – | 275,000 | – |
| 65,000 | – | 21,850,000 | – | 20,275,000 | – | 1,575,000 | – |
| – | 100 | – | 109,000,000 | – | 109,000,000 | – | – |
| 6,300,000 | – | 144,000,000 | – | 137,000,000 | – | 7,000,000 | – |
| 586,000 | – | 98,250,000 | – | 98,200,000 | – | 50,000 | – |
| 75,000 | 1,700 | 7,387,500 | 21,612,500 | 7,000,000 | 19,500,000 | 387,500 | 2,112,500 |
| 900,000 | – | 94,800,000 | – | 94,800,000 | – | – | – |
| 600,000 | – | 7,200,000 | – | 6,000,000 | – | 1,200,000 | – |
| 250,000 | 3,000 | 7,000,000 | 5,225,000 | 9,100,000 | 3,245,000 | (2,100,000) | 1,980,000 |
| 325,000 | 250 | 15,925,000 | 275,000 | 14,700,000 | – | 1,225,000 | 275,000 |
| | | 402,762,500 | 136,112,500 | 393,150,000 | 131,745,000 | 9,612,500 | 4,367,500 |

| Range of estimate for significant unobservable inputs | Fair value of the investment property | | Carrying value of investment property before fair valuation | | Fair value gain/(losses) recognised in income statement | |
|---|---|---|---|---|---|---|
| | Land LKR | Building LKR | Land LKR | Building LKR | Land LKR | Building LKR |
| LKR 340,000 p.p. | 6,350,000 | - | 6,075,000 | - | 275,000 | - |
| LKR 65,000 p.p. | 21,850,000 | - | 20,275,000 | - | 1,575,000 | - |
| LKR 250,000 p.p.<br>LKR 3000 p.sq.ft | 7,000,000 | 5,225,000 | 9,100,000 | 3,245,000 | (2,100,000) | 1,980,000 |
| LKR 162,000<br>23.52pm | - | 109,000,000 | - | 109,000,000 | - | - |
| LKR 6,300,000 p.p | 144,000,000 | - | 137,000,000 | - | 7,000,000 | - |
| LKR 75,000 p.p.<br>LKR 1700 p.sq.ft 26% | 7,387,500 | 21,612,500 | 7,000,000 | 19,500,000 | 387,500 | 2,112,500 |
| LKR 900,000 p.p. | 94,800,000 | - | 94,800,000 | - | - | - |
| LKR 600,000 p.p. | 7,200,000 | - | 6,000,000 | - | 1,200,000 | - |
| LKR 325,000 p.p.<br>LKR 250 p.sq.ft | 15,925,000 | 275,000 | 14,700,000 | - | 1,225,000 | 275,000 |
| LKR 580,000 p.p. | 98,250,000 | - | 98,200,000 | - | 50,000 | - |
| | 402,762,500 | 136,112,500 | 393,150,000 | 131,745,000 | 9,612,500 | 4,367,500 |

### 22.2.1 Valuation techniques and sensitivity of the fair value measurement

| Valuation technique | Significant unobservable valuation inputs | Sensitivity of the fair value measurement to input |
|---|---|---|
| Market comparable method<br>This method to property valuation is an approach which uses the value of recently sold comparable assets to determine the value of a property. | Price per perch for land<br>Price per square foot for building<br>Depreciation rate for building | The estimated fair value would increase/(decrease) if price per perch/Sq.ft./ Depreciation rate would higher/(lesser) |
| Investment method<br>This method consider the current market rent by an independent valuer to value the specific property. | Gross monthly rental<br>Years purchase<br>Void period | The estimated fair value would increase/(decrease) if monthly rental would higher/(lesser) |

## 23 Property, Plant and Equipment

| | Land<br>LKR | Buildings<br>LKR | Furniture and fittings<br>LKR | Office equipment<br>LKR | Computers and accessories<br>LKR |
|---|---|---|---|---|---|
| **At cost/valuation** | | | | | |
| Balance as at January 1, 2022 | 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, 2022** | 83,730,000 | 115,689,635 | 13,967,685 | 24,312,260 | 83,648,755 |
| **At cost/valuation** | | | | | |
| Balance as at January 1, 2023 | 83,730,000 | 115,689,635 | 13,967,685 | 24,312,260 | 83,648,755 |
| Additions | – | 33,419,661 | 6,129,598 | 15,250,567 | 50,148,062 |
| Revaluation surplus | 9,170,000 | 17,999,343 | – | – | – |
| Disposals | – | – | – | – | (692,692) |
| Transfers | – | (10,408,639) | – | – | – |
| **Balance as at December 31, 2023** | 92,900,000 | 156,700,000 | 20,097,283 | 39,562,827 | 133,104,125 |
| **Accumulated Depreciation** | | | | | |
| Balance as at January 1, 2022 | – | 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, 2022** | – | 7,262,509 | 8,241,033 | 11,246,793 | 38,583,899 |
| **Accumulated Depreciation** | | | | | |
| Balance as at January 1, 2023 | – | 7,262,509 | 8,241,033 | 11,246,793 | 38,583,899 |
| Charge for the year | – | 3,146,131 | 1,345,436 | 3,176,779 | 18,859,686 |
| Disposals | – | – | – | – | (604,053) |
| On revaluation | – | (10,408,640) | – | – | – |
| **Balance as at December 31, 2023** | – | – | 9,586,469 | 14,423,572 | 56,839,532 |
| **As at December 31, 2023** | 92,900,000 | 156,700,000 | 10,510,814 | 25,139,255 | 76,264,593 |
| **As at December 31, 2022** | 83,730,000 | 108,427,126 | 5,726,652 | 13,065,467 | 45,064,856 |

The Property, plant and equipment do not include any assets subject to operating lease where the Company is the lessor.

| Sign boards LKR | Telephone system LKR | Electrical equipment LKR | Motor vehicles LKR | Fixtures and fittings LKR | Capital Work-In-Progress LKR | Total LKR |
|---|---|---|---|---|---|---|
| 4,016,481 | 1,234,045 | 10,382,020 | 21,883,498 | 8,628,201 | 22,054,698 | 350,154,405 |
| 1,665,432 | 520,000 | 5,921,272 | – | 5,929,923 | 8,688,008 | 63,953,734 |
| – | (11,930) | – | – | – | – | (1,848,156) |
| 5,681,913 | 1,742,115 | 16,303,292 | 21,883,498 | 14,558,124 | 30,742,706 | 412,259,983 |
| | | | | | | |
| 5,681,913 | 1,742,115 | 16,303,292 | 21,883,498 | 14,558,124 | 30,742,706 | 412,259,983 |
| 1,068,979 | 3,092,540 | 9,925,328 | 1,466,052 | 9,574,263 | 2,676,955 | 132,752,005 |
| – | – | – | – | – | – | 27,169,343 |
| – | – | – | – | – | – | (692,692) |
| – | – | – | – | – | (33,419,661) | (43,828,300) |
| **6,750,892** | **4,834,655** | **26,228,620** | **23,349,550** | **24,132,387** | **–** | **527,660,339** |
| | | | | | | |
| 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 |
| | | | | | | |
| 2,029,238 | 1,133,393 | 4,856,661 | 17,936,095 | 4,076,356 | – | 95,365,977 |
| 722,439 | 540,001 | 2,532,826 | 2,022,479 | 2,400,392 | – | 34,746,169 |
| – | – | – | – | – | – | (604,053) |
| – | – | – | – | – | – | (10,408,640) |
| **2,751,677** | **1,673,394** | **7,389,487** | **19,958,574** | **6,476,748** | **–** | **119,099,453** |
| **3,999,215** | **3,161,261** | **18,839,133** | **3,390,976** | **17,655,639** | **–** | **408,560,886** |
| 3,652,675 | 608,722 | 11,446,631 | 3,947,403 | 10,481,768 | 30,742,706 | 316,894,006 |

### 23.1 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment including transfer from the capital work in progress to the aggregate value of LKR 132,752,005 (Year ended December 31, 2022 – LKR 63,953,734).

### 23.2 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.

### 23.3 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, 2023 (Year ended December 31, 2022-Nil).

### 23.4 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, 2022-Nil).

**23.5** Property, plant and equipment included fully depreciated assets amounting to LKR 54,414,510 as at December 31, 2023 (as at December 31, 2022 – LKR 39,562,235).

### 23.6 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.

### 23.7 Information on valuation of freehold land and buildings of the company

*Date of valuation: December 31, 2023*

| Name of the professional valuer/ Location and Address | Location of the property | Extent | | Method of valuation and significant unobservable inputs | Range of estimation for unobservable inputs |
|---|---|---|---|---|---|
| | | Land (Perches) | Buildings (Square feet) | | |
| Sarath G. Fernando. F.I.V. Chartered Valuer, Wattegama, Sri Lanka. | No. 187, Katugastota Road, Kandy. | 11.93 | 10,892 | • Valuation on Comparative Method.<br>• Useful life period of the Building.<br>• Price per perch for land<br>• Price per square foot for building<br>• Depreciation rate (Note – 23.11) | • Useful life period of the Building is 30 years<br>• Price per perch LKR 6,000,000<br>• Price per sq.foot LKR 13,700<br>• Depreciation rate – 15% |
| | No. 182, Katugastota Road, Kandy. | 3.29 | 3,714 | | • Useful life period of the Building is 25 years<br>• Price per perch LKR 6,500,000<br>• Price per sq.foot LKR 10,000<br>• Depreciation rate – 20% |

| Carrying value before valuation of | | Revaluation amount of | | Revaluation gain Recognised on | |
|---|---|---|---|---|---|
| Land LKR | Buildings LKR | Land LKR | Buildings LKR | Land LKR | Buildings LKR |
| 65,630,000 | 106,726,655 | 71,600,000 | 127,000,000 | 5,970,000 | 20,273,345 |
| 18,100,000 | 31,974,002 | 21,300,000 | 29,700,000 | 3,200,000 | (2,274,002) |
| 83,730,000 | 138,700,657 | 92,900,000 | 156,700,000 | 9,170,000 | 17,999,343 |

**23.7.1** 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:

| For the year ended December 31, | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 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 |
| Building | 82,904,684 | 12,640,494 | 70,264,190 | 49,485,023 | 11,488,687 | 37,996,336 |
| **Total** | 123,218,552 | 12,640,494 | 110,578,058 | 89,798,891 | 11,488,687 | 78,310,204 |

**23.8** 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.

### 23.9 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, 2023 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.

### 23.10 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 28.4.

### 23.11 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 Intangible Assets

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Computer software** | | |
| **Cost** | | |
| As at January 1, | 50,653,614 | 44,713,678 |
| Additions during the year | 5,613,385 | 5,939,936 |
| **As at December 31,** | 56,266,999 | 50,653,614 |
| **Amortisation** | | |
| As at January 1, | 20,045,243 | 15,320,620 |
| Additions for the year | 4,494,016 | 4,724,623 |
| **As at December 31,** | 24,539,259 | 20,045,243 |
| **Carrying value as at December 31,** | 31,727,740 | 30,608,371 |

## 25 Right-Of-Use Assets

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| As at January 1, | 67,406,857 | 53,319,549 |
| Adjustments | – | 361,933 |
| Additions during the year | 17,852,275 | 33,082,978 |
| Amortisation for the year | (22,562,437) | (19,357,603) |
| **As at December 31,** | 62,696,695 | 67,406,857 |

## 26 Other Assets

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| **Financial** | | | |
| Refundable deposits | | 8,146,600 | 7,401,600 |
| Debtors | | 1,783,178 | 1,783,178 |
| Insurance premium receivables | | 19,947,446 | 13,836,874 |
| | | 29,877,224 | 23,021,652 |
| Allowance for impairment losses – Debtors and Insurance premium receivables | 26.1 | (6,040,259) | (4,237,895) |
| | | 23,836,965 | 18,783,757 |
| **Non-financial** | | | |
| Prepayments | | 15,685,198 | 14,479,077 |
| Other receivables | 26.2 | 9,189,915 | 3,325,975 |
| WHT receivable | | 327,069 | – |
| | | 25,202,182 | 17,805,052 |
| **Total** | | 49,039,147 | 36,588,809 |

### 26.1 Allowance for impairment losses – Debtors and Insurance premium receivables

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Debtors | (1,783,178) | (1,783,178) |
| Insurance premium receivables | (4,257,081) | (2,454,717) |
| | (6,040,259) | (4,237,895) |

### 26.2 Other receivables

Other receivables includes receivable from taxes on financial services and temporary advances made for day to day operational activities.

## 27 Deposit Liabilities

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Savings deposits | 334,386,247 | 50,606,635 |
| Fixed deposits | 6,199,794,387 | 5,065,598,775 |
| | 6,534,180,634 | 5,116,205,410 |

## 28 Due to Banks

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Bank overdrafts | | 25,729,480 | 53,650,332 |
| Securitised borrowings | 28.1 | 2,170,195,258 | 2,280,285,530 |
| Unsecuritised borrowings | 28.2 | 562,671,721 | 133,608,903 |
| **Total** | | 2,758,596,459 | 2,467,544,765 |

### 28.1 Securitised borrowings

| | As at January 1, 2023 LKR | Loans obtained during the year LKR | Interest expense for the year LKR | Repayments during the year LKR | As at December 31, 2023 LKR |
|---|---|---|---|---|---|
| Direct bank borrowings | | | | | |
| Term loans | | | | | |
| Commercial Bank of Ceylon PLC | 2,280,285,530 | 3,100,000,000 | 193,292,899 | (3,403,383,171) | 2,170,195,258 |
| **Total** | 2,280,285,530 | 3,100,000,000 | 193,292,899 | (3,403,383,171) | 2,170,195,258 |

| | As at January 1, 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 |

## 28.2 Unsecuritised borrowings

| | As at January 1, 2023 LKR | Loans obtained during the year LKR | Interest expense for the year LKR | Repayments during the year LKR | As at December 31, 2023 LKR |
|---|---|---|---|---|---|
| **Direct bank borrowings** | | | | | |
| Sampath Bank PLC | – | 890,000,000 | 40,946,619 | (439,895,468) | 491,051,151 |
| DFCC Bank PLC | 133,608,903 | – | 23,039,300 | (85,027,633) | 71,620,570 |
| **Total** | 133,608,903 | 890,000,000 | 63,985,919 | (524,923,101) | 562,671,721 |

| | As at January 1, 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 |

## 28.3 Institutional borrowings

| For the year ended December 31, | As at January 1, 2023 LKR | Loan obtained during the year LKR | Interest expense for the year LKR | Repayments Capital LKR | Repayments Interest LKR | As at December 31, 2023 LKR | Tenure of loan LKR | Security offered LKR | Interest rates (%) December 31, 2023 |
|---|---|---|---|---|---|---|---|---|---|
| Commercial Bank of Ceylon PLC | 2,280,285,530 | 3,100,000,000 | 193,292,899 | 3,208,335,999 | 195,047,172 | 2,170,195,258 | 5 Years/ revolving | Primary property mortgage and mortgage over lease and loan receivables | 13.27 |
| Sampath Bank PLC | – | 890,000,000 | 40,946,619 | 400,000,000 | 39,895,468 | 491,051,151 | Revolving | Commercial Bank letter of Comfort | 13.58 |
| DFCC Bank PLC | 133,608,903 | – | 23,039,300 | 61,016,952 | 24,010,681 | 71,620,570 | 5 Years | Commercial Bank letter of Comfort | 14.84 |
| | 2,413,894,433 | 3,990,000,000 | 257,278,818 | 3,669,352,951 | 258,953,321 | 2,732,866,979 | | | |

## 28.4 Assets pledged

The following assets have been pledged as security for liabilities.

| Nature of assets | Facility | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Lease and loan receivable | Commercial Bank of Ceylon PLC – loans and bank overdraft | 3,630,638,526 | 2,897,275,043 |
| Property at No. 182 and 187, Katugastota Road, Kandy | Commercial Bank of Ceylon PLC – loan and bank overdraft | 75,000,000 | 75,000,000 |
| | | 3,705,638,526 | 2,972,275,043 |

# 29 Employee Benefits

## 29.1 Defined benefit plans

| As at December 31, | Note | 2023<br>LKR | 2022<br>LKR |
|---|---|---|---|
| **Movement in the present value of the defined benefit obligations** | | | |
| As at January 1, | | 11,330,128 | 14,972,957 |
| **Included in profit or loss** | | | |
| Current service cost | | 2,650,613 | 2,883,986 |
| Interest cost | | 2,039,423 | 1,617,079 |
| | | 4,690,036 | 4,501,065 |
| **Included in other comprehensive income** | | | |
| Actuarial (gain)/losses during the year | 29.1.1 | 436,423 | (7,785,255) |
| Payments made during the year | | (761,673) | (358,639) |
| **As at December 31,** | | 15,694,914 | 11,330,128 |

### 29.1.1 Amount recognised for defined benefit obligation in other comprehensive income

| As at December 31, | 2023<br>LKR | 2022<br>LKR |
|---|---|---|
| Cumulative (gain)/losses as at January 1, | (3,132,887) | 4,652,368 |
| Actuarial (gain)/losses recognised during the year | 436,423 | (7,785,255) |
| Cumulative (gain) as at December 31, | (2,696,464) | (3,132,887) |

### 29.1.2 Actuarial assumptions

| As at December 31, | 2023 | 2022 |
|---|---|---|
| **Financial assumptions** | | |
| Discount rate | 12.5% p.a. | 18% p.a. |
| Salary increment rate | 9% p.a. | 15% p.a. |
| **Demographic assumptions** | | |
| Staff turnover | 13% | 15% |
| 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 6.9 years for the Company (2022 – 6.05 years).

In determining the appropriate discount rate, Management considers the interest rates of Government of Sri Lanka Treasury Bonds with maturities corresponding to the expected duration of defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates, expected future salary increment rates and expected future pension increases.

An actuarial valuation of the gratuity was carried out as at December 31, 2023 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.

### 29.1.3 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.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Increase LKR | Decrease LKR | Increase LKR | Decrease LKR |
| Discount rate (1% movement) | (781,466) | 865,757 | (501,968) | 550,266 |
| Salary increment rate (1% movement) | 905,427 | (829,192) | 573,258 | (530,571) |

## 30 Lease Liabilities

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| As at January 1, | | 66,555,073 | 58,005,421 |
| Adjustments | | – | (4,775,972) |
| Additions during the year | | 17,852,275 | 33,082,978 |
| Accrual of interest for the year | | 6,900,334 | 6,336,098 |
| Payments made during the year | 30.1.2 | (26,432,781) | (26,093,452) |
| **Balance as at December 31,** | | 64,874,901 | 66,555,073 |

### 30.1 Amounts recognised in Financial Statements

### 30.1.1 Amounts recognised in profit or loss under SLFRS 16

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Interest on lease liabilities | 6,900,334 | 6,336,098 |
| Right-of-use asset amortisation | 22,562,437 | 19,357,603 |
| Expenses relating to short-term leases | 4,242,520 | 1,190,450 |

### 30.1.2 Amounts recognised in statement of cash flows under SLFRS 16

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Lease interest paid | (6,900,334) | (6,336,098) |
| Capital payment of lease liabilities | (19,532,447) | (19,757,354) |
| | (26,432,781) | (26,093,452) |

### 30.1.3 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.

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Less than one year | 32,265,487 | 25,147,783 |
| One to two years | 26,436,935 | 26,193,687 |
| Two to three years | 17,585,930 | 20,123,935 |
| Three to four years | 7,776,731 | 12,671,630 |
| Four to five years | 2,646,150 | 2,641,001 |
| | 86,711,233 | 86,778,036 |

## 31 Deferred Tax Assets

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| As at January 1, | | (277,932,277) | (193,579,595) |
| **Origination/(reversal) of temporary differences** | | | |
| – Recognised in profit or loss | 31.2 | (92,060,013) | (90,474,116) |
| – Recognised in other comprehensive income | 31.2 | 10,732,341 | (6,121,434) |
| As at December 31, | | (359,259,949) | (277,932,277) |

## 31.1 Summary of net deferred tax

| As at December 31, | Note | 2023 Temporary difference LKR | 2023 Tax effect LKR | 2022 Temporary difference LKR | 2022 Tax effect LKR |
|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | |
| Accelerated depreciation for tax purposes – Lease assets | 31.4 | 3,232,349 | 969,705 | 28,242,065 | 8,472,620 |
| Accelerated depreciation for tax purposes – Own assets | | 72,165,178 | 21,649,553 | 58,222,317 | 17,466,695 |
| Accelerated depreciation for tax purposes – Right-of-use assets | | 62,696,695 | 18,809,009 | 67,406,857 | 20,222,057 |
| Revaluation surplus on buildings | | 82,676,293 | 24,802,888 | 66,412,909 | 19,923,873 |
| Tax on capital assets (lands) | 31.3 | 52,586,132 | 15,775,840 | 43,416,132 | 13,024,840 |
| Fair value gain on investment properties | | 7,468,367 | 2,240,510 | – | – |
| Unrealised gain on FVOCI | | 2,382,713 | 714,814 | – | – |
| | | 283,207,727 | 84,962,319 | 263,700,280 | 79,110,085 |
| **Deferred tax assets** | | | | | |
| Defined benefit plans | | 15,694,914 | 4,708,474 | 11,330,128 | 3,399,038 |
| Carried forward tax losses | 31.5 | 239,914,637 | 71,974,391 | – | – |
| Carried forward unclaimed impairment losses | | 1,160,256,443 | 348,076,933 | 1,099,085,535 | 329,725,661 |
| Amortisation of lease liabilities | | 64,874,901 | 19,462,470 | 66,555,073 | 19,966,522 |
| Unrealised losses on FVOCI | | – | – | 6,658,837 | 1,997,651 |
| Fair value losses on investment properties | | – | – | 6,511,634 | 1,953,490 |
| | | 1,480,740,895 | 444,222,268 | 1,190,141,207 | 357,042,362 |
| **Net deferred tax assets as at December 31,** | | (1,197,533,168) | (359,259,949) | (926,440,927) | (277,932,277) |

## 31.2 Deferred tax assets and liabilities are attributable to the following:

| | Note | Recognised in Profit or Loss | | Recognised in Other Comprehensive Income | | Statement of Financial Position | |
|---|---|---|---|---|---|---|---|
| | | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR | As at December 31, 2023 LKR | As at December 31, 2022 LKR |
| **Deferred tax liabilities** | | | | | | | |
| Accelerated depreciation for tax purposes – Lease assets | 31.4 | (7,502,915) | (25,118,752) | – | – | 969,705 | 8,472,620 |
| Accelerated depreciation for tax purposes – Own assets | | 4,182,858 | 5,619,885 | – | – | 21,649,553 | 17,466,695 |
| Amortisation of right of use assets | | (1,413,048) | 7,425,365 | – | – | 18,809,009 | 20,222,057 |
| Revaluation surplus on buildings | | (520,788) | (398,027) | 5,399,803 | 4,010,818 | 24,802,888 | 19,923,873 |
| Revaluation surplus on lands | 31.3 | – | – | 2,751,000 | 2,604,961 | 15,775,840 | 13,024,840 |
| Fair value gain on investment properties | | 2,240,510 | – | – | – | 2,240,510 | – |
| Unrealised gain on FVOCI | | – | – | 714,814 | (16,697) | 714,814 | – |
| | | (3,013,383) | (12,471,529) | 8,865,617 | 6,599,082 | 84,962,319 | 79,110,085 |
| **Deferred tax assets** | | | | | | | |
| Defined benefit plans | | (1,178,509) | (1,606,401) | (130,927) | 1,939,067 | 4,708,474 | 3,399,038 |
| Carried forward tax losses | 31.5 | (71,974,391) | – | – | – | 71,974,391 | – |
| Carried forward unclaimed impairment losses | | (18,351,272) | (69,587,702) | – | – | 348,076,933 | 329,725,661 |
| Amortisation of right of use assets | | 504,052 | (6,045,221) | – | – | 19,462,470 | 19,966,522 |
| Unrealised loss on FVOCI | | – | 419,064 | 1,997,651 | (2,416,715) | – | 1,997,651 |
| Fair value losses on investment properties | | 1,953,490 | (1,182,327) | – | – | – | 1,953,490 |
| | | (89,046,630) | (78,002,587) | 1,866,724 | (477,648) | 444,222,268 | 357,042,362 |
| **Deferred tax effect on statement of profit or loss and other comprehensive income** | | (92,060,013) | (90,474,116) | 10,732,341 | 6,121,434 | | |
| **Net deferred tax assets as at December 31,** | | | | | | (359,259,949) | (277,932,277) |

**31.3** As per the Inland Revenue Act No. 24 of 2017, which is effective from April 1, 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% (2022 - 30%) on the revaluation surplus relating to freehold land in these Financial Statements.

**31.4** As per the Inland Revenue Act No. 24 of 2017, which is effective from April 1, 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 1, 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, 2023 which were entered into prior to April 1, 2018.

**31.5** Management have determined that the recoverability of cumulative tax losses is certain and its probable that future taxable profits will be available against which the Company can use the benefit

### 31.6 Effect of change in tax rate

| As at December 31, | 2023 | | 2022 | |
|---|---|---|---|---|
| | Temporary difference LKR | Tax effect LKR | Temporary difference LKR | Tax effect LKR |
| **Deferred tax liabilities** | | | | |
| Balance as at beginning of the year | 263,700,280 | – | 354,093,853 | 84,982,525 |
| 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 year | 19,507,447 | – | (90,393,573) | 3,075,652 |
| **Balance as at end of the year** | 283,207,727 | – | 263,700,280 | 79,110,085 |
| **Deferred tax assets** | | | | |
| Balance as at beginning of the year | 1,190,141,207 | – | 1,164,598,172 | 278,562,120 |
| 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 year | 290,599,688 | – | 25,543,035 | 1,491,929 |
| **Balance as at end of the year** | 1,480,740,895 | – | 1,190,141,207 | 357,042,362 |
| **Net deferred tax assets as at December 31,** | (1,197,533,168) | – | (926,440,927) | (277,932,277) |

## 32 Current Tax Liabilities

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| As at January 1, | 37,092,827 | 44,140,864 |
| Provision for the year | – | 44,163,766 |
| (Over)/under provision in relation to prior years | (3,367,003) | 16,453,661 |
| Payments made during year | (31,120,764) | (67,665,464) |
| **As at December 31,** | 2,605,060 | 37,092,827 |

## 33 Other Liabilities

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Financial** | | |
| Trade payables | 23,807,707 | 14,655,117 |
| | 23,807,707 | 14,655,117 |
| **Non-financial** | | |
| Accrued expenses | 72,994,332 | 62,417,003 |
| Stamp duty payable | 8,670,510 | 1,863,855 |
| **Total** | 105,472,549 | 78,935,975 |

## 34 Stated Capital

| As at December 31, | 2023 | | 2022 | |
|---|---|---|---|---|
| | Number of shares | Value of shares LKR | Number of shares | Value of shares LKR |
| **Fully paid ordinary shares** | | | | |
| As at January 1, | 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 |

### 34.1 Shareholders as at 31 December,

| As at December 31, | 2023 Holding (%) | 2023 No. of shares | 2022 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.

## 35 Accumulated Losses

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| As at January 1, | | (205,842,157) | (138,978,745) |
| (Loss)/profit for the year | | (225,177,522) | 39,582,923 |
| Actuarial (gain)/losses on defined benefits plans, after tax | | (305,496) | 5,846,188 |
| Transferred to statutory reserve fund | 36.1 | – | (1,979,146) |
| Surcharge levied under Surcharge Act | 16.4.1 | – | (110,313,377) |
| **As at December 31,** | | (431,325,175) | (205,842,157) |

## 36 Other Reserves

| As at December 31, | Note | 2023 LKR | 2022 LKR |
|---|---|---|---|
| Capital reserve | | 50,000 | 50,000 |
| Statutory reserve fund | 36.1 | 33,328,578 | 33,328,578 |
| Revaluation reserve | 36.2 | 98,517,078 | 79,498,538 |
| Fair value reserve | 36.3 | 1,667,900 | (4,661,184) |
| General reserve | 36.4 | 20,097,889 | 20,097,889 |
| **Total** | | 153,661,445 | 128,313,821 |

### 36.1 Statutory reserve fund

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| As at January 1, | 33,328,578 | 31,349,432 |
| Transferred from retained earnings | – | 1,979,146 |
| **As at December 31,** | 33,328,578 | 33,328,578 |

"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.

### 36.2 Revaluation reserve

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| As at January 1, | 79,498,538 | 86,114,318 |
| Revaluation surplus of property plant and equipment | 27,169,343 | – |
| Deferred tax charge on revaluation surplus | (8,150,803) | – |
| Effect of change in tax rate | – | (6,615,780) |
| **As at December 31,** | 98,517,078 | 79,498,538 |

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.

### 36.3 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.

### 36.4 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.

## 37 Fair Value of Financial Instruments

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

- Verification of observable pricing;
- Re-performance of model valuations;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and

Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 as explained below.

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

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

| December 31, 2023 | Note | Classification | Carrying amount | Fair value | | | |
|---|---|---|---|---|---|---|---|
| | | | LKR | Level 1<br>LKR | Level 2<br>LKR | Level 3<br>LKR | Total<br>LKR |
| **Financial assets measured at fair value** | | | | | | | |
| Investment in unquoted shares | | Fair value through OCI | 2,185,042 | – | – | 2,185,042 | 2,185,042 |
| Investments in government securities | | Fair value through OCI | 709,838,827 | – | 709,838,827 | – | 709,838,827 |
| | | | 712,023,869 | | | | |
| **Financial assets not measured at fair value** | | | | | | | |
| Cash and cash equivalents | | Amortised cost | 154,177,733 | – | – | – | – |
| Loans and advances | | Amortised cost | 10,142,399,731 | – | – | – | – |
| Other assets | 26 | Amortised cost | 29,877,224 | – | – | – | – |
| | | | 10,326,454,688 | – | – | – | – |
| **Financial liabilities not measured at fair value** | | | | | | | |
| Deposit liabilities | | Amortised cost | 6,534,180,634 | – | – | – | – |
| Due to banks | | Amortised cost | 2,758,596,459 | – | – | – | – |
| Lease liabilities | | Amortised cost | 64,874,901 | – | – | – | – |
| Other liabilities | 33 | Amortised cost | 23,807,707 | – | – | – | – |
| | | | 9,381,459,701 | | | | |

| December 31, 2022 | Note | Classification | Carrying amount | Fair value | | | |
|---|---|---|---|---|---|---|---|
| | | | | Level 1 | Level 2 | Level 3 | Total |
| | | | LKR | LKR | LKR | LKR | 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 | – | – | – | – |
| Loans and advances | | Amortised cost | 8,505,035,651 | – | – | – | – |
| Other assets | 26 | Amortised cost | 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 | 33 | Amortised cost | 14,655,117 | – | – | – | – |
| | | | 7,664,960,365 | | | | |

## 37.1 Financial assets measured at fair value

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

### a. Investments in government securities

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

### b. Unquoted shares

The unquoted shares, which are held for regulatory purposes, are valued based on internal management information derived from the Audited Financial Statements based on the net asset value of the investee, which is a significant unobservable input in measuring the fair value and hence it is 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 form the opening balances to the closing balances for Level 3 fair values.

| | Note | Unquoted equity securities LKR |
|---|---|---|
| Balance as at January 1, 2022 | | 2,100,826 |
| – Net change in fair value (unrealised) | | 19,402 |
| **Balance as at December 31, 2022** | 20.1 | 2,120,228 |
| Balance as at January 1, 2023 | | 2,120,228 |
| – Net change in fair value (unrealised) | | 64,814 |
| **Balance as at December 31, 2023** | 20.1 | 2,185,042 |

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

| Significant unobservable input | Value of the inputs LKR |
|---|---|
| Net assets value per share | 21,850 |

## 37.2 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.

## 37.3 Transfers between Level 1 and Level 2

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2023.

## 38 Maturity Analysis of Assets and Liabilities

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Within 12 months LKR | After 12 months LKR | Total as at December 31, 2023 LKR | Within 12 months LKR | After 12 months LKR | Total as at December 31, 2022 LKR |
| **Assets** | | | | | | |
| Cash and cash equivalents | 154,177,733 | – | 154,177,733 | 96,306,555 | – | – |
| Financial investments – FVOCI | 709,838,827 | 2,185,042 | 712,023,869 | 1,595,893,051 | 2,120,228 | – |
| Loans and advances | 5,870,063,533 | 4,272,336,198 | 10,142,399,731 | 4,913,061,526 | 3,591,974,125 | 8,505,035,651 |
| Investment property | – | 538,875,000 | 538,875,000 | – | 26,350,000 | 26,350,000 |
| Property, plant and equipment | 42,245,339 | 366,315,547 | 408,560,886 | 57,109,339 | 259,784,667 | 316,894,006 |
| Intangible assets | 4,659,430 | 27,068,310 | 31,727,740 | 4,321,636 | 26,286,735 | 30,608,371 |
| Right of use assets | 24,338,480 | 38,358,215 | 62,696,695 | 20,439,739 | 46,967,118 | 67,406,857 |
| Deferred tax assets | – | 359,259,949 | 359,259,949 | – | 277,932,277 | 277,932,277 |
| Other assets | 40,672,981 | 8,366,166 | 49,039,147 | 26,237,471 | 10,351,338 | 36,588,809 |
| **Total assets** | 6,845,996,323 | 5,612,764,427 | 12,458,760,750 | 6,713,369,317 | 4,241,766,488 | 9,260,815,971 |
| Percentage (%) | 55 | 45 | 100 | 72 | 46 | 118 |
| **Liabilities** | | | | | | |
| Deposit liabilities | 5,417,337,419 | 1,116,843,215 | 6,534,180,634 | 3,675,701,128 | 1,440,504,282 | 5,116,205,410 |
| Due to banks | 2,428,346,980 | 330,249,479 | 2,758,596,459 | 2,023,100,321 | 444,444,444 | 2,467,544,765 |
| Employee benefits | – | 15,694,914 | 15,694,914 | – | 11,330,128 | 11,330,128 |
| Lease liabilities | 22,373,834 | 42,501,067 | 64,874,901 | 17,913,752 | 48,641,321 | 66,555,073 |
| Income tax liabilities | 2,605,060 | – | 2,605,060 | 37,092,827 | – | 37,092,827 |
| Other liabilities | 86,214,930 | 19,257,619 | 105,472,549 | 59,395,801 | 19,540,174 | 78,935,975 |
| **Total liabilities** | 7,956,878,223 | 1,524,546,294 | 9,481,424,517 | 5,813,203,829 | 1,964,460,349 | 7,777,664,178 |
| **Equity** | | | | | | |
| Stated capital | – | 3,254,999,963 | 3,254,999,963 | – | 3,254,999,963 | 3,254,999,963 |
| Retained earnings | – | (431,325,175) | (431,325,175) | – | (205,842,157) | (205,842,157) |
| Other reserves | – | 153,661,445 | 153,661,445 | – | 128,313,821 | 128,313,821 |
| **Total equity** | – | 2,977,336,233 | 2,977,336,233 | – | 3,177,471,627 | 3,177,471,627 |
| **Total equity and liabilities** | 7,956,878,223 | 4,501,882,527 | 12,458,760,750 | 5,813,203,829 | 5,141,931,976 | 10,955,135,805 |
| Percentage (%) | 64 | 36 | 100 | 53 | 47 | 100 |

## 39 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.

### 39.1 Parent and ultimate controlling party

On September 1, 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 1, 2014 to as of date.

### 39.2 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.

#### 39.2.1 Compensation of Key Management Personnel

| | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR |
|---|---|---|
| Short-term employee benefits | 11,666,615 | 6,200,000 |

#### 39.2.2 Transactions with KMP

##### 39.2.2.1 Statement of financial position

| | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR |
|---|---|---|
| Deposit Liabilities | 30,184,893 | 45,351,050 |

##### 39.2.2.2 Statement of profit or loss and other comprehensive income

| | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR |
|---|---|---|
| Interest on deposits | 6,352,302 | 7,205,274 |

#### 39.2.3 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.

## 39.2.3.1 Statement of financial position

| | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR |
|---|---|---|
| Deposit Liabilities | 13,893,142 | 16,242,838 |

## 39.2.3.2 Statement of profit or loss and other comprehensive income

| | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR |
|---|---|---|
| Interest on deposits | 2,701,137 | 2,570,243 |

## 39.2.4 Transactions with the parent and related entities

| Name of the Company | Nature of transactions | Value of transactions | | Balance as at December 31, | |
|---|---|---|---|---|---|
| | | Year ended December 31, 2023 LKR | Year ended December 31, 2022 LKR | 2023 LKR | 2022 LKR |
| Commercial Bank of Ceylon PLC (Parent) | Overdraft balance | – | – | 25,729,480 | 53,650,332 |
| | OD interest | 7,847 | 36,573 | – | – |
| | Loan balance | – | – | 2,170,195,258 | 2,280,285,530 |
| | Loan interest expense | 193,292,899 | 258,167,947 | – | – |
| | Loan interest paid | 195,047,172 | 247,724,295 | – | – |
| | Loans obtained | 3,100,000,000 | 2,575,000,000 | – | – |
| | Loan repayment | 3,208,335,999 | 1,858,336,000 | – | – |
| | Deposits/advances | – | – | 84,522,606 | 71,705,169 |
| | Interest on deposits/advances | 6,543,366 | 10,949,556 | – | – |
| | Building rent received | 968,628 | 903,750 | – | – |
| | Commission for deposits | 37,000 | 41,250 | – | – |
| Commercial Development Company PLC (Affiliate) | Deposits | – | – | 645,000,000 | 500,000,000 |
| | New deposits, net of withdrawals | 145,000,000 | 33,000,000 | | |
| | Interest on deposits | 106,006,849 | 60,956,690 | 55,321,918 | 49,315,068 |
| CBC Tech Solutions Ltd (Affiliate) | Deposits | – | – | 213,366,531 | 131,477,476 |
| | New deposits, net of withdrawals | 81,889,055 | 6,227,476 | | |
| | Interest on deposits | 37,295,186 | 16,063,076 | 24,964,623 | 13,308,378 |
| | Software development | 802,119 | 956,197 | 2,999,258 | – |
| Commercial Insurance Brokers (Affiliate) | Corporate agent fee | 460,456 | 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 3.5 Bn., LKR 0.6 Bn. and LKR 0.5 Bn. respectively.

## 40 Risk Management

### Introduction

Risk is inherent in the Company's activities but it 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 their 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 economic downturn prevailing in the country has resulted in significant erosion of purchasing power of households and led to decline in disposable income of the customers which had considerable impact on increase in default risk. The Company has offered various forms of assistants to make sure that customer's ability to service contractual obligations do not deteriorate due to the prevailing economic crisis in the country. Significant increase in credit risk (SICR) has been evaluated based on the numerous measures like present financial position of the customer, future earning capacity and the sector in which they operates and facilities stress tested and required overlays reviewed considering the latest economic revival & reforms take place in the latter part of the financial year.

Maintaining a liquidity position during this uncertain period remains a key priority for the Company. The Management has assessed the impact of the economic uncertainty 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 Department, Collection and 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 the 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 to monitor compliance with the Company's risk management policies and procedures.

## 40.1 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** is 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.

### 40.1.1 Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Company's Executive Credit Committee, Board Credit Committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: the Company's Executive Credit Committee and Board Credit Committee assess all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities)
- Developing and maintaining the Company's processes for measuring ECL: This includes processes for:
  - Initial approval, regular validation and back-testing of the models used;
  - Determining and monitoring significant increase in credit risk; and
  - Incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of portfolios are provided to Board Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

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

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

### 40.1.2 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, | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | Stage 1 LKR | Stage 2 LKR | Stage 3 LKR | Total LKR | Total LKR |
| **Loans and advances at amortised cost** | | | | | |
| Current | 4,384,976,136 | – | – | 4,384,976,136 | 3,055,985,776 |
| Overdue less than 30 days | 1,670,391,108 | – | – | 1,670,391,108 | 1,012,129,673 |
| Overdue 30 to 120 days | – | 2,158,672,244 | – | 2,158,672,244 | 2,972,667,622 |
| Overdue more than 120 days | – | – | 3,423,596,608 | 3,423,596,608 | 2,638,589,694 |
| **Gross Carrying amount** | 6,055,367,244 | 2,158,672,244 | 3,423,596,608 | 11,637,636,096 | 9,679,372,765 |
| Loss allowance | (141,840,917) | (187,587,251) | (1,165,808,197) | (1,495,236,365) | (1,174,337,114) |
| **Carrying amount** | 5,913,526,327 | 1,971,084,993 | 2,257,788,411 | 10,142,399,731 | 8,505,035,651 |
| **Debt investment securities at FVOCI** | | | | | |
| Low-fair risk | 709,838,827 | – | – | 709,838,827 | 1,595,893,051 |
| **Carrying amount - fair value** | 709,838,827 | – | – | 709,838,827 | 1,595,893,051 |
| **Cash and cash equivalents at amortised cost** | | | | | |
| Low-fair risk | 154,177,733 | – | – | 154,177,733 | 96,306,555 |
| **Carrying amount** | 154,177,733 | – | – | 154,177,733 | 96,306,555 |
| **Other assets at amortised cost** | | | | | |
| Current | 9,908,536 | – | – | 9,908,536 | 9,958,515 |
| Overdue more than 30 days | – | 2,030,318 | 17,938,370 | 19,968,688 | 13,063,137 |
| **Gross Carrying amount** | 9,908,536 | 2,030,318 | 17,938,370 | 29,877,224 | 23,021,652 |
| Loss allowance | (284,406) | (237,283) | (5,518,570) | (6,040,259) | (4,237,895) |
| **Carrying amount** | 9,624,130 | 1,793,035 | 12,419,800 | 23,836,965 | 18,783,757 |

## 40.1.3 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

| As at December 31, | Gross receivable | | Percentage of exposure that is subject to collateral requirements | | Principal type of collateral |
|---|---|---|---|---|---|
| | 2023 LKR | 2022 LKR | 2023 % | 2022 % | |
| **Loans and advances at amortised cost** | | | | | |
| Mortgage lending | 3,917,653,390 | 4,442,914,524 | 87.58 | 95.47 | Residential and commercial properties, movable assets. |
| Other loans | 4,289,299,170 | 3,107,288,608 | 67.80 | 42.78 | Motor vehicles and equipment |
| Finance leases | 3,430,683,416 | 2,129,169,510 | 99.07 | 98.66 | Motor vehicles and equipment |
| Hire purchase | 120 | 123 | 0.00 | 0.00 | Motor vehicles and equipment |
| | 11,637,636,096 | 9,679,372,765 | | | |
| **Other assets at amortised cost** | | | | | |
| Refundable deposits | 8,146,600 | 7,401,600 | – | – | None |
| Debtors | 1,783,178 | 1,783,178 | – | – | None |
| Insurance premium receivable | 19,947,446 | 13,836,874 | – | – | None |
| | 29,877,224 | 23,021,652 | | | |

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

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

### Loan-to-value analysis of loans and advances

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

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **LTV Ratio** | | |
| Less than 50% | 1,703,412,266 | 1,951,208,840 |
| 51% – 70% | 2,237,314,316 | 1,940,568,433 |
| 71% – 90% | 4,741,444,013 | 2,490,463,764 |
| 91% – 100% | 364,055,594 | 404,755,218 |
| More than 100% | 1,383,606,111 | 1,154,045,381 |
| Unsecured | 1,207,803,796 | 1,738,331,129 |
| | 11,637,636,096 | 9,679,372,765 |

**Credit impaired loans**

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **LTV Ratio** | | |
| Less than 50% | 548,904,263 | 498,081,115 |
| 51% – 70% | 274,590,954 | 383,717,785 |
| 71% – 90% | 721,513,426 | 343,238,674 |
| 91% – 100% | 275,729,772 | 222,998,661 |
| More than 100% | 922,588,907 | 612,502,750 |
| Unsecured | 680,269,286 | 578,050,709 |
| | 3,423,596,608 | 2,638,589,694 |

**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.

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| Motor vehicles | 57,260,081 | 1,490,054 |
| Other | – | 37,480,363 |
| | 57,260,081 | 38,970,417 |

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.

## 40.1.4 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-economic 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;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- The average time between the identification of a significant increase in credit risk and default appears reasonable;
- 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 120 days past due on any material credit obligation to the Company; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

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

It is the Company's policy to consider a financial instrument as 'cured' and therefore re- classified out of stage 3 when none of the material default criteria have been presented and the borrower is no longer considered as non-performing in accordance with the Directives of the Central Bank. The corresponding reduction in ECL due to the number of financial assets re- classified out of stage 3 is recognised under "Impairment charge/reversal" in Note 13 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 45% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 5% and 50% 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 – 35%, best case – 60% and worst case – 5% in 2022 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.

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, | 2023 | | | |
|---|---|---|---|---|
| | Stage 1 LKR | Stage 2 LKR | Stage 3 LKR | Total LKR |
| Balance as at January 1, | 39,085,575 | 274,647,056 | 860,604,483 | 1,174,337,114 |
| Transfer to Stage 1 | 61,762,144 | (53,642,667) | (8,119,477) | – |
| Transfer to Stage 2 | (6,277,719) | 8,895,040 | (2,617,321) | – |
| Transfer to Stage 3 | (6,697,580) | (86,123,813) | 92,821,393 | – |
| Net remeasurement of loss allowance | (39,082,136) | (7,757,678) | 380,161,415 | 333,321,601 |
| New financial assets originated or purchased | 109,293,217 | 99,951,847 | 137,540,304 | 346,785,368 |
| Financial assets that have been derecognised | (16,242,584) | (48,382,534) | (88,032,142) | (152,657,260) |
| Write-offs | – | – | (206,550,458) | (206,550,458) |
| **Balance as at December 31,** | 141,840,917 | 187,587,251 | 1,165,808,197 | 1,495,236,365 |

| As at December 31, | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 LKR | Stage 2 LKR | Stage 3 LKR | Total LKR |
| Balance as at January 1, | 88,946,359 | 188,514,047 | 896,666,776 | 1,174,127,183 |
| 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 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 132 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 9.8 Mn. (approx.). Further, the additional management overlay adjusted when assessing the futuristic PDs which based on the rapid fluctuations on future macro-economic indicators during 2022 has terminated as the macro economic conditions are gradually being improved as end of the reporting period.(ECL provisions of LKR 16 Mn. approx., and management overlays a range of 5% to 2% on all indicators for next 05 years in 2022)

**Modified Financial Assets**

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

The Company upgrades rescheduled/restructured loans from life time expected credit losses (Stage 3/Stage 2) to 12 months expected credit losses (Stage 1) as per the upgrading policy described in Note 3.2.2 of the Financial Statements. During the year the Company upgraded LKR 163.24 Mn. (2022: LKR 193.84 Mn.) worth of rescheduled/restructured loans to Stage 1. Due to this upgrade, the impairment provision against these loans decreased by LKR 44.10 Mn. from LKR 47.95 Mn. as at December 31, 2022 to LKR 3.85 Mn. as at December 31, 2023.

**Purchased or originated credit impaired financial assets**

The Company did not have originated credit impaired assets as at December 31, 2023 and 2022. 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 judgement may not change. The impact of an economic downturn resulted in applying further judgement 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 and 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 and 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.

## 40.1.5 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, | 2023 | | | | |
|---|---|---|---|---|---|
| | Cash and bank balances LKR | Financial investments FVOCI LKR | Loans and advances LKR | Other assets LKR | Total financial assets LKR |
| Agriculture | – | – | 335,010,404 | – | 335,010,404 |
| Manufacturing | – | – | 237,886,165 | – | 237,886,165 |
| Tourism | – | – | 469,114,852 | – | 469,114,852 |
| Transport | – | – | 258,738,479 | – | 258,738,479 |
| Construction | – | – | 792,481,763 | – | 792,481,763 |
| Trading | – | – | 2,502,111,392 | – | 2,502,111,392 |
| Financial services | 154,177,733 | – | – | – | 154,177,733 |
| Government | – | 709,838,827 | – | – | 709,838,827 |
| Other | – | – | 5,547,056,676 | 29,877,224 | 5,576,933,900 |
| **Total** | 154,177,733 | 709,838,827 | 10,142,399,731 | 29,877,224 | 11,036,293,515 |

| As at December 31, | 2022 | | | | |
|---|---|---|---|---|---|
| | Cash and bank balances LKR | Financial investments FVOCI 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 | – | 1,595,893,051 | – | – | 1,595,893,051 |
| Other | – | – | 2,387,806,363 | 23,021,652 | 2,410,828,015 |
| **Total** | 96,306,555 | 1,595,893,051 | 8,505,035,651 | 23,021,652 | 10,220,256,909 |

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

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Province** | | |
| Central | 2,081,881,088 | 2,184,726,887 |
| North Central | 1,339,091,347 | 1,150,364,725 |
| North Western | 793,216,879 | 582,879,552 |
| Sabaragamuwa | 1,326,485,405 | 1,506,736,122 |
| Southern | 489,716,510 | 407,031,859 |
| Western | 3,060,941,120 | 2,377,876,507 |
| Eastern | 693,878,366 | 211,723,917 |
| Northern | 357,189,016 | 83,696,082 |
| Total | 10,142,399,731 | 8,505,035,651 |

### 40.1.6 Cash and cash equivalents

The Company held Cash and cash equivalents, net of bank overdraft of LKR 128 Mn. as at December 31, 2023 (December 31, 2022 – LKR 43 Mn.) which represents its maximum credit exposure on these assets.

Commercial Bank of Ceylon PLC – A (lka)
Bank of Ceylon – A (lka)
People's Bank – A (lka)
Sampath Bank PLC – A (lka)
DFCC Bank PLC – A (lka)
Seylan Bank PLC – A (lka)

## 40.2 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.

# Notes to the Financial Statements

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always has 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.

## 40.2.1 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, 2023 | 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 | 50,616,608 | 103,561,125 | – | – | – | 154,177,733 |
| Financial investments – FVOCI | – | 659,585,449 | 50,253,378 | – | 2,185,042 | 712,023,869 |
| Loans and advances | 1,903,033,127 | 664,997,587 | 3,302,032,819 | 4,001,559,329 | 270,776,869 | 10,142,399,731 |
| Other assets | 8,776,404 | 2,371,685 | 4,343,711 | 8,045,165 | 300,000 | 23,836,965 |
| **Total financial assets** | 1,962,426,139 | 1,430,515,846 | 3,356,629,908 | 4,009,604,494 | 273,261,911 | 11,032,438,298 |
| **Financial Liabilities** | | | | | | |
| Deposit liabilities | 383,385,377 | 837,500,084 | 4,196,451,958 | 1,116,843,215 | – | 6,534,180,634 |
| Due to banks | 32,388,268 | 218,039,998 | 2,177,918,714 | 330,249,479 | – | 2,758,596,459 |
| Lease liabilities | – | 5,207,879 | 17,165,955 | 42,501,067 | – | 64,874,901 |
| Other liabilities | – | 23,807,707 | – | – | – | 23,807,707 |
| **Total financial liabilities** | 415,773,645 | 1,084,555,668 | 6,391,536,627 | 1,489,593,761 | – | 9,381,459,701 |
| **Total net financial assets/(liabilities)** | 1,546,652,494 | 345,960,178 | (3,034,906,719) | 2,520,010,733 | 273,261,911 | 1,650,978,597 |

| 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 |
| Other liabilities | – | – | – | – | – | – |
| **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)** | 1,891,878,227 | 1,383,568,696 | (2,377,024,465) | 1,451,835,438 | 217,576,098 | 2,567,833,994 |

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 154,177,733 | 96,306,555 |
| Financial investments - FVOCI | 709,838,827 | 1,595,893,051 |
| Loans and advances | 5,870,063,533 | 4,913,061,526 |
| Other assets | 15,491,800 | 9,876,527 |
| | 6,749,571,893 | 6,615,137,659 |
| **Financial liabilities** | | |
| Deposit liabilities | 5,417,337,419 | 3,675,701,128 |
| Due to banks | 2,428,346,980 | 2,023,100,321 |
| Lease liabilities | 22,373,834 | 17,913,752 |
| Other liabilities | 23,807,707 | – |
| | 7,891,865,940 | 5,716,715,201 |

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

| As at December 31, | 2023 LKR | 2022 LKR |
|---|---|---|
| **Financial assets** | | |
| Financial investments - FVOCI | 2,185,042 | 2,120,228 |
| Loans and advances | 4,272,336,198 | 3,591,974,125 |
| Other assets | 8,345,165 | 8,907,230 |
| | 4,282,866,405 | 3,603,001,583 |
| **Financial liabilities** | | |
| Deposit liabilities | 1,116,843,215 | 1,440,504,282 |
| Due to banks | 330,249,479 | 444,444,444 |
| Lease liabilities | 42,501,067 | 48,641,321 |
| | 1,489,593,761 | 1,933,590,047 |

## 40.2.2 Liquidity reserves

The following table sets out the components of the Company's liquidity reserves.

| As at December 31, | 2023 | | 2022 | |
|---|---|---|---|---|
| | Carrying value LKR | Fair value LKR | Carrying value LKR | Fair value LKR |
| Cash and cash equivalents | 154,177,733 | 154,177,733 | 96,306,555 | 96,306,555 |
| Investment in government securities | 709,838,827 | 709,838,827 | 1,595,893,051 | 1,595,893,051 |
| **Total liquidity reserves** | 864,016,560 | 864,016,560 | 1,692,199,606 | 1,692,199,606 |

## 40.2.3 Financial assets available to support future funding

The following table sets out the availability of the Company's financial assets to support future funding.

| | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|
| | Pledged as collateral LKR | Other * LKR | Available as collateral LKR | Other ** LKR | Total LKR |
| **December 31, 2023** | | | | | |
| Cash and cash equivalents | – | – | 154,177,733 | – | 154,177,733 |
| Financial investments – FVOCI | – | – | 709,838,827 | 2,185,042 | 712,023,869 |
| Loans and advances | 3,630,638,526 | – | 6,511,761,205 | – | 10,142,399,731 |
| Other assets | – | – | 23,836,965 | – | 23,836,965 |
| | 3,630,638,526 | – | 7,399,614,730 | 2,185,042 | 11,032,438,298 |

| | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|
| | Pledged as collateral LKR | Other * LKR | Available as collateral LKR | Other ** LKR | Total LKR |
| **December 31, 2022** | | | | | |
| Cash and cash equivalents | – | – | 96,306,555 | – | 96,306,555 |
| Financial investments – FVOCI | – | – | 1,595,893,051 | 2,120,228 | 1,598,013,279 |
| Loans and advances | 2,897,275,043 | – | 5,607,760,608 | – | 8,505,035,651 |
| Other assets | – | – | 18,783,757 | – | – |
| | 2,897,275,043 | – | 7,318,743,971 | 2,120,228 | 10,103,048,930 |

** 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.*

## 40.3 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.

### 40.3.1 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.

### 40.3.1.1. 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.

| Net Interest Income | 2023 Increase in 100 bp LKR | 2023 Decrease in 100 bp LKR | 2022 Increase in 100 bp LKR | 2022 Decrease in 100 bp LKR |
|---|---|---|---|---|
| As at December 31, | 4,982,951 | (4,983,948) | 2,586,161 | (2,586,678) |
| Average for the year | 4,046,501 | (4,047,311) | 4,663,513 | (4,664,446) |
| Maximum for the year | 5,132,849 | (5,133,875) | 6,290,109 | (6,291,367) |
| Minimum for the year | 3,162,849 | (3,163,482) | 2,586,161 | (2,586,678) |

### 40.3.1.2 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 categorised by the earlier of contractual repricing or maturity dates.

| As at December 31, 2023 | 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, 2023 LKR |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 154,177,733 | – | – | – | – | – | 154,177,733 |
| Financial investments – FVOCI | 659,585,449 | 50,253,378 | – | – | 2,185,042 | – | 712,023,869 |
| Loans and advances | 2,568,030,714 | 3,302,032,819 | 2,820,445,831 | 1,181,113,498 | 270,776,869 | – | 10,142,399,731 |
| Other assets | 11,148,089 | 4,343,711 | 6,291,784 | 1,753,381 | 300,000 | – | 23,836,965 |
| **Total financial assets** | 3,392,941,985 | 3,356,629,908 | 2,826,737,615 | 1,182,866,879 | 273,261,911 | – | 11,032,438,298 |
| Percentage (%) | 31 | 30 | 26 | 11 | 2 | 0 | 100 |
| **Financial liabilities** | | | | | | | |
| Deposit liabilities | 1,220,885,461 | 4,196,451,958 | 196,554,049 | 920,289,166 | – | – | 6,534,180,634 |
| Due to banks | 250,428,266 | 2,177,918,714 | 170,009,492 | 160,239,987 | – | – | 2,758,596,459 |
| Lease liabilities | 5,207,879 | 17,165,955 | 33,589,412 | 8,911,655 | – | – | 64,874,901 |
| Other liabilities | 23,807,707 | – | – | – | – | – | 23,807,707 |
| **Total financial liabilities** | 1,500,329,313 | 6,391,536,627 | 400,152,953 | 1,089,440,808 | – | – | 9,381,459,701 |
| Percentage (%) | 16 | 68 | 4 | 12 | 0 | 0 | 100 |
| **INTEREST SENSITIVITY GAP** | 1,892,612,672 | (3,034,906,719) | 2,426,584,662 | 93,426,071 | 273,261,911 | – | 1,650,978,597 |
| Percentage (%) | 115 | -184 | 147 | 6 | 17 | 0 | 100 |

| 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 |
| 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 |

## 40.4 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.

## 40.5 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 maximise shareholder's value.

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

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

**Capital Adequacy**

Capital adequacy measures the Company's aggregate capital in relation to the risk, which may arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. The Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital with effect from July 1, 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 | |
|---|---|---|---|---|
| | 2023 % | 2022 % | 2023 % | 2022 % |
| **Capital to risk weighted asset ratio** | | | | |
| Tier I Capital | 8.50 | 8.50 | 19.57 | 24.89 |
| Total Capital | 12.50 | 12.50 | 19.57 | 24.89 |

## 41 Segmental Information

### 41.1 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.

### 41.2 Information about reportable segments

| As at December 31, | Leasing and Hire Purchase | | Mortgage Loans | | Other loans | | Investments and others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 LKR | 2022 LKR | 2023 LKR | 2022 LKR | 2023 LKR | 2022 LKR | 2023 LKR | 2022 LKR | 2023 LKR | 2022 LKR |
| External Revenue | | | | | | | | | | |
| Interest | 475,555,866 | 272,451,806 | 562,988,124 | 611,055,072 | 560,055,275 | 357,741,170 | 168,577,924 | 282,488,279 | 1,767,177,189 | 1,523,736,327 |
| Fees and commissions | 69,751,022 | 21,490,488 | 40,417,759 | 11,330,500 | 34,937,395 | 15,953,332 | 4,775,829 | 2,413,227 | 149,882,005 | 51,187,547 |
| Dividends | – | – | – | – | – | – | 179,520 | 240,000 | 179,520 | 240,000 |
| Other income | – | – | – | – | – | – | 74,231,466 | 60,997,307 | 74,231,466 | 60,997,307 |
| **Total external revenue** | 545,306,888 | 293,942,294 | 603,405,883 | 622,385,572 | 594,992,670 | 373,694,502 | 247,764,739 | 346,138,813 | 1,991,470,180 | 1,636,161,181 |
| Inter-segment revenue | – | – | – | – | – | – | – | – | – | – |
| **Total revenue before impairment** | 545,306,888 | 293,942,294 | 603,405,883 | 622,385,572 | 594,992,670 | 373,694,502 | 247,764,739 | 346,138,813 | 1,991,470,180 | 1,636,161,181 |
| **Impairment (charges)/ reversal** | (215,509,276) | (45,066,079) | (29,835,245) | (175,044,381) | (234,468,642) | (29,307,730) | (1,802,364) | 256,680 | (481,615,526) | (249,161,510) |
| **Net revenue** | 329,797,612 | 248,876,215 | 573,570,638 | 447,341,191 | 360,524,028 | 344,386,772 | 245,962,375 | 346,395,493 | 1,509,854,654 | 1,386,999,671 |
| (Loss)/profit before tax | | | | | | | | | (320,604,539) | 9,726,234 |
| Income tax expenses | | | | | | | | | 95,427,017 | 29,856,689 |
| **(Loss)/profit after tax** | | | | | | | | | (225,177,522) | 39,582,923 |
| **Segment assets** | 2,063,234,283 | 1,666,383,951 | 3,774,944,565 | 4,167,265,758 | 3,722,310,983 | 2,502,121,470 | 1,550,031,548 | 2,317,618,672 | 12,458,760,750 | 10,955,135,805 |
| **Segment liabilities** | 2,596,215,675 | 1,397,285,596 | 2,872,826,011 | 2,958,575,246 | 2,832,770,556 | 1,776,396,101 | 1,179,612,276 | 1,645,407,236 | 9,481,424,517 | 7,777,664,178 |

## 42 Contingencies

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

### 42.1 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.

## 43 Commitments

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

## 44 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.

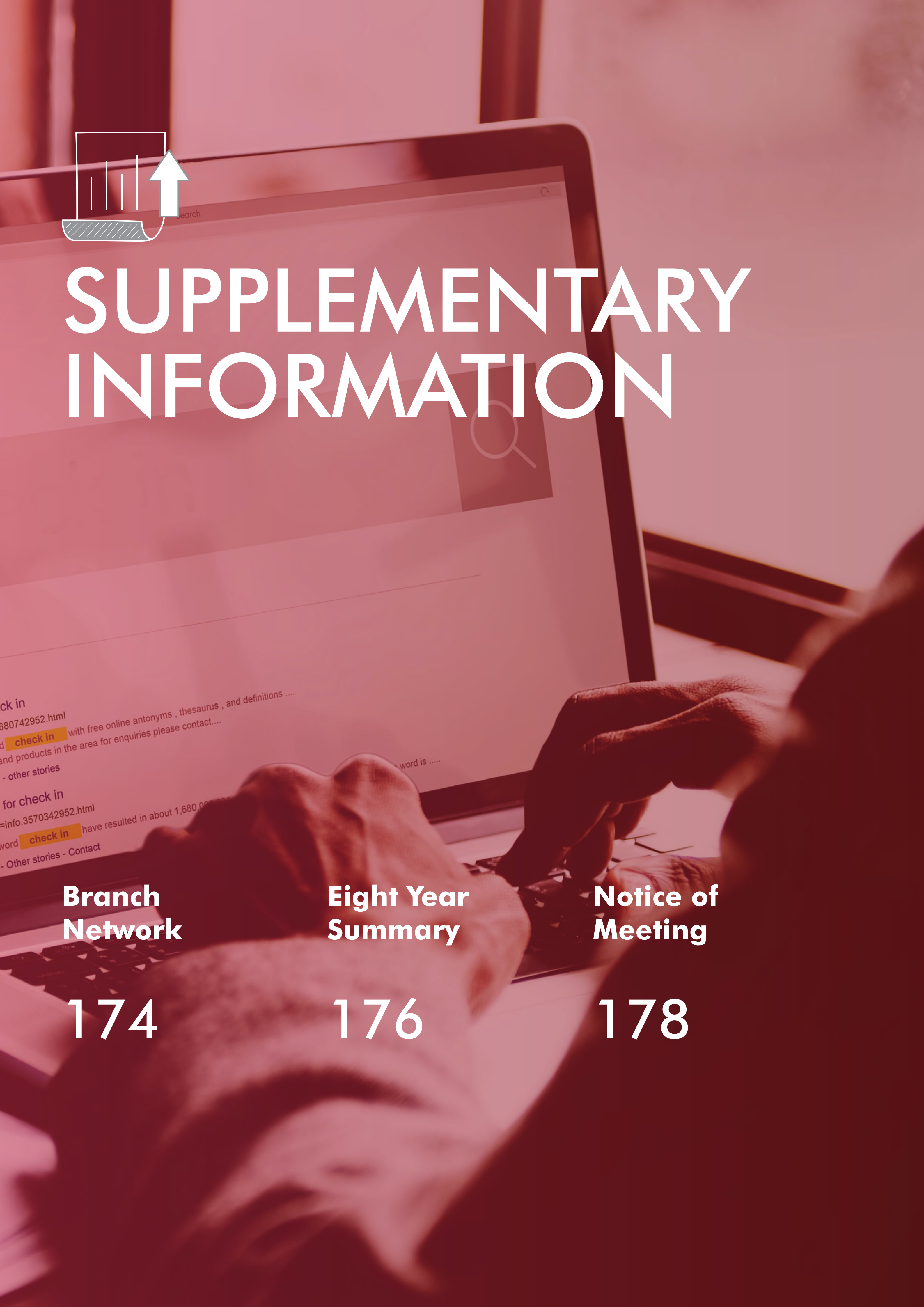
## 45 Comparative Information

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

## 46 Responsibility for Financial Statements

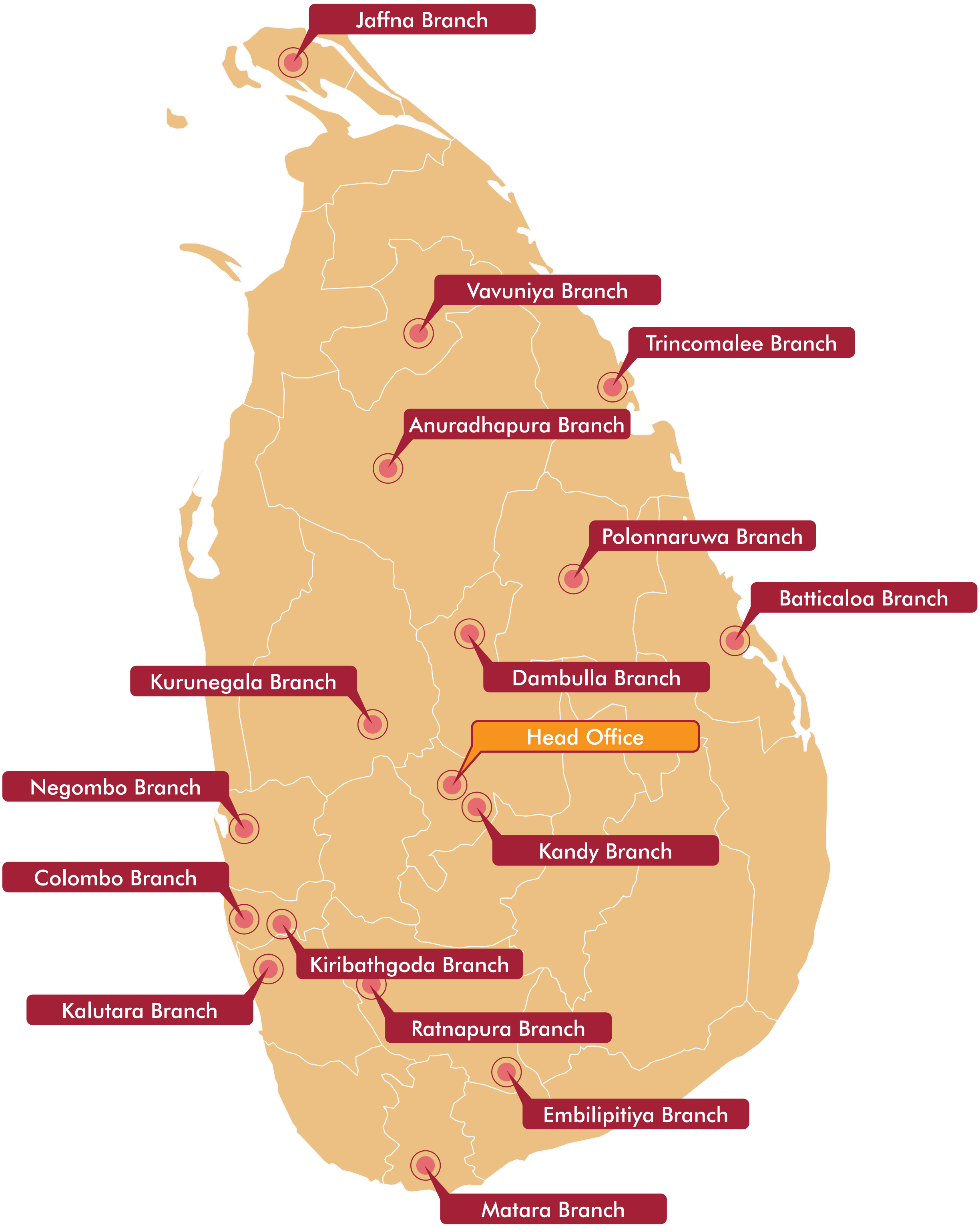
The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards.


Web
Images
Videos



# SUPPLEMENTARY INFORMATION

# Head Office and Branch Network



# Head Office and Branch Network

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No.187, Katugastota Road, Kandy.
Phone : +94 81 220 0272, +94 81 221 3495
+94 81 221 3496, +94 81 221 3498
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## Anuradhapura branch
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Fax : +94 25 222 6073
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## Colombo branch
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## Dambulla branch
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## Embilipitiya branch
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## Kandy branch
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## Kalutara branch
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## Ratnapura branch
No.62, Bandaranayake Mawatha, Ratnapura.
Phone : +94 45 212 1706
Email : ratnapura@cbcfinance.lk

# Eight Year Summary

| Results for the year | 2023 LKR Mn. | 2022 LKR Mn. | 2021 – December (9 Months) LKR Mn. | 2020/21 LKR Mn. | 2019/20 LKR Mn. | 2018/19 LKR Mn. | 2017/18 LKR Mn. | 2016/17 LKR Mn. |
|---|---|---|---|---|---|---|---|---|
| Income | 1,991.47 | 1,636.16 | 944.67 | 1,058.00 | 1,211.00 | 871.80 | 981.65 | 811.29 |
| Interest income | 1,767.18 | 1,523.74 | 867.33 | 963.00 | 1,131.11 | 816.79 | 911.21 | 748.51 |
| Interest expenses | 1,270.70 | 986.33 | 334.44 | 480.98 | 572.37 | 470.46 | 572.63 | 438.87 |
| Net interest income | 496.48 | 537.41 | 532.89 | 482.02 | 558.74 | 346.33 | 338.58 | 309.64 |
| Non-interest income | 191.80 | 102.49 | 74.61 | 93.56 | 78.30 | 55.01 | 70.44 | 62.78 |
| Total operating income | 688.28 | 639.90 | 607.50 | 575.59 | 637.04 | 401.33 | 409.02 | 372.42 |
| Personal cost | 253.18 | 164.81 | 89.54 | 104.42 | 92.16 | 74.83 | 73.69 | 72.11 |
| Administrative and other cost | 212.29 | 139.84 | 68.43 | 82.34 | 69.99 | 75.74 | 76.68 | 60.44 |
| Depreciation | 61.80 | 47.20 | 27.28 | 29.80 | 20.72 | 10.34 | 11.34 | 10.29 |
| Total operational expenses | 527.27 | 351.85 | 185.25 | 216.57 | 182.86 | 160.91 | 161.71 | 142.84 |
| Provision for bad debts/impairment | 481.62 | 249.16 | 308.80 | 196.48 | 276.36 | 205.71 | 403.07 | 17.45 |
| VAT on financial services | – | 29.17 | 25.34 | 33.10 | 49.77 | 14.63 | – | 28.06 |
| Profit/(loss) before tax | (320.60) | 9.73 | 88.11 | 129.44 | 128.04 | 20.08 | (155.76) | 184.06 |
| Taxation | (95.43) | (29.86) | 54.87 | 64.95 | 59.07 | 0.38 | (33.85) | 56.62 |
| Profit/(loss) after tax | (225.18) | 39.58 | 33.24 | 64.49 | 68.98 | 19.70 | (121.91) | 127.45 |

| Position as at | 2023 LKR Mn. | 2022 LKR Mn. | 2021 LKR Mn. | 2020/21 LKR Mn. | 2019/20 LKR Mn. | 2018/19 LKR Mn. | 2017/18 LKR Mn. | 2016/17 LKR Mn. |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 154.18 | 96.31 | 154.60 | 324.31 | 56.38 | 60.92 | 227.00 | 19.29 |
| Financial investments | 712.02 | 1,598.01 | 838.54 | 739.31 | 274.84 | 332.08 | 275.92 | 154.02 |
| Loans and advances (Net) | 10,142.40 | 8,505.04 | 8,712.64 | 8,070.14 | 6,810.62 | 5,626.46 | 4,204.78 | 5,431.04 |
| PPE and intangible assets | 440.29 | 347.50 | 305.65 | 280.14 | 246.23 | 207.03 | 206.16 | 212.20 |
| Other assets | 1,009.87 | 408.28 | 301.62 | 287.00 | 187.45 | 179.11 | 18.04 | 9.62 |
| Total assets | 12,458.76 | 10,955.14 | 10,313.05 | 9,700.90 | 7,575.52 | 6,405.61 | 4,931.89 | 5,826.17 |
| Deposit liability | 6,534.18 | 5,116.21 | 5,068.85 | 4,838.98 | 222.66 | – | – | – |
| Due to banks | 2,758.60 | 2,467.54 | 1,769.50 | 1,411.12 | 5,085.41 | 4,426.03 | 3,668.03 | 4,863.28 |
| Other liabilities | 188.65 | 193.91 | 219.68 | 227.84 | 113.24 | 85.21 | 100.11 | 151.03 |
| Total liabilities | 9,481.42 | 7,777.66 | 7,058.04 | 6,477.94 | 5,421.31 | 4,511.24 | 3,768.14 | 5,014.31 |
| Total equity | 2,977.34 | 3,177.47 | 3,255.01 | 3,222.96 | 2,154.21 | 1,894.37 | 1,163.76 | 811.87 |
| Total liabilities and equity | 12,458.76 | 10,955.14 | 10,313.05 | 9,700.90 | 7,575.52 | 6,405.61 | 4,931.89 | 5,826.17 |

# Eight Year Summary

| Ratios | 2023 | 2022 | 2021 | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|---|---|---|---|
| **Regulatory capital adequacy** | | | | | | | | |
| Core capital (Tier 1 capital) (LKR Mn.) | **2,472.18** | 3,102.63 | 3,167.52 | 3,135.62 | 2,071.83 | 1,661.32 | 1,099.13 | 736.77 |
| Total capital base (LKR Mn.) | **2,472.18** | 3,102.63 | 3,167.52 | 3,135.62 | 2,071.83 | 1,661.32 | 1,099.13 | 736.77 |
| Core capital adequacy ratio; core capital as % of risk weighted assets | **19.57** | 24.89 | 25.49 | 26.57 | 21.82 | 23.34 | 24.48 | 13.03 |
| Total capital adequacy ratio; total capital as % of risk weighted assets | **19.57** | 24.89 | 25.49 | 26.57 | 21.82 | 23.34 | 24.48 | 13.03 |
| Capital funds to total deposit liabilities ratio* | **43.52** | 59.99 | 62.49 | 64.80 | 967.49 | – | – | – |
| **Assets quality (Quality of loan portfolio)** | | | | | | | | |
| Gross non performing accommodation ratio (%) | **21.04** | 16.98 | 13.14 | 14.08 | 22.56 | 22.33 | 26.86 | 7.72 |
| Net non performing accommodation ratio (%) | **8.19** | 8.10 | 1.30 | 3.48 | 9.07 | 3.71 | 7.46 | 0.00 |
| **Profitability (%)** | | | | | | | | |
| Return on assets (before tax) | **(2.57)** | 0.09 | 0.88 | 1.50 | 1.83 | 0.35 | (2.94) | 4.01 |
| Return on equity (after tax) | **(6.72)** | 1.25 | 1.03 | 2.40 | 3.41 | 1.29 | (13.41) | 17.96 |
| Earnings per share (LKR) | **(1.02)** | 0.18 | 0.15 | 0.35 | 0.48 | 0.24 | (3.36) | 4.15 |
| Net assets per share (LKR) | **13.42** | 14.33 | 14.68 | 14.53 | 14.22 | 13.63 | 21.81 | 26.42 |
| **Memorandum Information** | | | | | | | | |
| Number of employees | **271** | 176 | 145 | 145 | 131 | 120 | 111 | 114 |
| Number of branches | **15** | 13 | 10 | 10 | 10 | 4 | 5 | 5 |
| Number of service centers | **–** | – | – | – | – | 6 | 6 | 6 |
| Fitch rating | **BBB+(lka)/ Stable** | A(lka)/ Negative | A(lka)/ Stable | A(lka)/ Stable | A+(lka)/ Negative | A+(lka)/ Stable | N/A | N/A |

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

# Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the ANNUAL GENERAL MEETING of C B C Finance Ltd. will be held on Tuesday, June 25, 2024, at 12.30pm at the Conference Room of Commercial Bank of Ceylon PLC of No. 21, Sir Razik Fareed Mawatha, Colombo 01 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 Audited Financial Statements of the Company for the year ended December 31, 2023 together with the Report of the Auditors thereon.

2. (i) To appoint Messrs Ernst and Young, Chartered Accountants, as recommended by the Board of Directors, as the Company's Auditors for the financial year ending December 31, 2024. and,

   (ii) To authorize the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2024.

**By Order of the Board of CBC Finance Ltd.**

**H D U Oshadi Gunasekara**
Company Secretary
June 18, 2024
Colombo

**Note:**

(1) A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to participate in his/her stead and 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 proxy holder (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 ..........................................................................................................................................................................

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 |
| Mrs Sharmini Cynthia De Sayrah Wickremasekera | whom failing |
| Mr Gardiyawasan Albratulage Jagath Chamilantha Sampath Fernando | |

As my/our proxy holder 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 Tuesday, June 25, 2024, 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, 2023 together with the Report of the Auditors thereon. | ☐ | ☐ |
| 2. (i) To appoint Messrs. Ernst and Young, Chartered Accountants, as recommended by the Board of Directors, as Auditors to the Company for the financial year ending December 31, 2024. | ☐ | ☐ |
| (ii) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2024. | ☐ | ☐ |

Signed on this ..................................................day of ..........................................................Two Thousand and Twenty-Four

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

**Notes:**

(1) Please indicate with an "X" in the space provided how your Proxy is to vote. If there is doubt in the view of the proxy holder (by reason of how the instructions contained in the Proxy have been completed) as to how the proxy holder should vote, the proxy holder shall vote as he thinks fit.

(2) A proxy holder need not be a Member of the Company.

(3) Instructions as to completion appear below.

## 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 appointer 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.

# 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
"BBB+(lka)/Stable" by Fitch Ratings Lanka Limited.

## 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 S Muhseen – Chairman
*(Appointed on March 03, 2023)*
*(Non-Independent/Non-Executive Director)*

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

Mr M P Dharmasiri
*(Non-Independent/Non-Executive Director)*

Mrs S C De S Wickremasekera
*(Appointed on March 22, 2024)*
*(Independent/Non-Executive Director)*

Mr D M U N Dissanayake
*(Resigned on October 12, 2023)*
*(Managing Director/Chief Executive Officer)*

Mr G A J C S Fernando
*(Appointed on October 13, 2023)*
*(Managing Director/Chief Executive Officer)*

## Board subcommittees

### Board Credit Committee
Mr L H Munasinghe – Chairman
Mr S M S C Jayasuriya
Mr D M D S S Bandara
Mrs S C De S Wickemasekera (Appointed on April 26, 2024)

### Board Integrated Risk Management Committee
Mr S M S C Jayasuriya – Chairman
Mr D M D S S Bandara
Mr M P Dharmasiri
Mr G A J C S Fernando
Mrs S C De S Wickremasekera
(Appointed on April 26, 2024)

### Board Audit Committee
Mr S M S C Jayasuriya – Chairman
Mr D M D S S Bandara
Mr M P Dharmasiri
Mrs S C De S Wickremasekera
(Appointed on April 26, 2024)

### Board Nomination Committee
Mr S M S C Jayasuriya – Chairman
Mr S Muhseen
Mr D M D S S Bandara

### Board Human Resources and Remuneration Committee
Mr S Muhseen – Chairman
Mr D M D S S Bandara
Mr L H Munasinghe

### Board Information Technology Committee
Mr S Muhseen – Chairman
Mr D M D S S Bandara
Mr L H Munasinghe
Mr G A J C S Fernando

## 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

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