SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2022

Ernst & Young
Chartered Accountants
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HMAJ/WDPL/TNH/DM

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the 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 issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

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Key audit matter	How our audit addressed the key audit matter
Provision for credit impairment on financial assets carried at amortised cost Provision for credit impairment on financial assets carried at amortised cost as stated in Note 40.4.1 is determined by management in accordance with the accounting policies described in Note 3.1.8 This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex calculations; and • degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; - management overlays to incorporate the current economic condition. - the incorporation of forward-looking information to reflect current and anticipated future external factors, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios.	In addressing the adequacy of the provision for credit impairment on financial assets carried at amortized cost, our audit procedures included the following key procedures, we assessed the alignment of the company's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report. • We evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management. • We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the company. • In addition to the above, the following procedures were performed: • **For loans and advances assessed on an individual basis for impairment:** - We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances. - We checked the arithmetical accuracy of the underlying individual impairment calculations. - We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on current economic conditions. Such evaluations were carried out considering value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals. • **For financial assets assessed on a collective basis for impairment:** • We tested the key calculations used in the provision for credit impairment. • We assessed whether judgements, assumptions and estimates used by the Management in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. • We assessed the adequacy of the related financial statement disclosures set out in notes 40.4.1

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Information Technology (IT) systems and controls over financial reporting	Our audit procedures included the following:
A significant part of the client's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting was considered a key audit matter.	- We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. - We identified and test checked relevant controls of key IT systems related to the company's financial reporting process. - We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT controls, including those related to user access and change management. - We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks. - We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations.

Other information included in the 2022 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2022 annual report is expected to be made available to us after the date of this auditor's report.
Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.

08 February 2023
Colombo

INCOME STATEMENT

Year ended 31 December 2022

	Note	2022 Rs.'000	2021 Rs.'000
Interest income		8,269,789	6,786,436
Less: Interest expenses		(5,788,151)	(2,813,728)
Net interest income	6	2,481,638	3,972,708
Fee and commission income		313,898	281,024
Less: Fee and commission expenses		(3,713)	-
Net fee and commission income	7	310,185	281,024
Other operating income	8	715,359	1,079,871
Total operating income		3,507,182	5,333,603
Less: Credit loss expense on financial assets and other losses	9	(131,671)	(1,618,176)
Net operating income		3,375,511	3,715,427
Less: Operating expenses			
Personnel expenses	10	(1,192,451)	(1,172,042)
Other operating expenses	11	(718,515)	(617,056)
Operating profit before taxes on financial services		1,464,545	1,925,429
Less: Taxes on financial services	12	(400,808)	(399,355)
Profit before income tax		1,063,737	1,526,074
Less: Income tax expense	13	(308,768)	(431,531)
Profit for the year		754,969	1,094,543
Basic/Diluted earnings per share (Rs.)	14	7.77	11.67
Dividend per share (Rs.)	15	3.57	1.37

The Accounting policies and Notes to the Financial Statements from pages 11 to 89 form an integral part of these Financial Statements.

ERNST & YOUNG
Chartered Accountants
COLOMBO

Siyapatha Finance PLC

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	Note	2022 Rs.'000	2021 Rs.'000
Profit for the year		754,969	1,094,543
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	34.3	10,374	(123)
Deferred tax effect including the effect of tax rate change on the opening balance	28	(1,989)	(843)
		8,385	(966)
Surplus from revaluation of property, plant & equipment		56,600	-
Deferred tax effect including the effect of tax rate change on the opening balance		(26,809)	6,553
	37	29,791	6,553
Other comprehensive income for the year, net of tax		38,176	5,587
Total comprehensive income for the year, net of tax		793,145	1,100,130
Attributable to :			
Equity holders of the parent company		793,145	1,100,130
		793,145	1,100,130

The Accounting policies and Notes to the Financial Statements from pages 11 to 89 form an integral part of these Financial Statements.

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Chartered Accountants
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STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

Assets	Note	2022 Rs. '000	2021 Rs. '000
Cash and bank balances	17	221,187	250,277
Securities purchased under repurchase agreements		-	1,839,911
Factoring receivables	18	112,793	153,483
Gold loan receivables	19	8,666,076	5,781,780
Loan receivables	20	993,460	1,643,806
Lease receivables	21	24,862,538	29,088,209
Hire purchase receivables	22	1,247	934
Other assets	23	624,838	637,127
Equity instruments at fair value through other comprehensive income	24	56	56
Debt instruments at amortised cost	25	5,461,866	900,241
Property, plant & equipment	26	2,537,582	1,992,215
Right-of-use assets	27	371,844	362,870
Deferred tax assets	28	225,785	8,492
Intangible assets	29	15,291	20,847
Total Assets		44,094,563	42,750,248
Liabilities			
Bank overdraft		826,180	191,266
Due to other customers	30	19,342,046	17,114,923
Debt issued and other borrowed funds	31	15,585,788	17,077,514
Other payables	32	1,304,342	1,267,671
Current tax liabilities	33	352,180	768,927
Retirement benefit obligations	34	116,852	103,853
Total Liabilities		37,527,388	36,524,154
Equity			
Stated capital	35	2,674,439	2,346,095
Statutory reserve fund	36	278,000	240,000
Revaluation reserve	37	154,295	124,504
Retained earnings	38	3,460,441	3,515,495
Total Equity		6,567,175	6,226,094
Total Liabilities and Equity		44,094,563	42,750,248
Net asset value per share (Rs.)		67.59	67.69
Commitments and contingencies	42	15,187	432,361

We certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No.7 of 2007.

Managing Director

Chief Financial Officer

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board by,

Chairman

Director

The Accounting policies and Notes to the Financial Statements from pages 11 to 89 form an integral part of these Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO
08 February 2023
Colombo

Siyapatha Finance PLC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Note	Stated Capital Rs'000	Share Application Money Pending Allotment Rs'000	Statutory Reserve Fund Rs'000	Revaluation Reserve Rs'000	Retained Earnings Rs'000	Total Rs'000
Balance as at 01 January 2021		1,522,881	700,000	185,000	117,951	2,600,132	5,125,964
Profit for the year		-	-	-	-	1,094,543	1,094,543
Other comprehensive income, net of tax		-	-	-	6,553	(966)	5,587
Transfer to Statutory Reserve Fund	36	-	-	55,000	-	(55,000)	-
Scrip dividend paid		123,214	-	-	-	(123,214)	-
Rights issue of shares	35.1	700,000	(700,000)	-	-	-	-
Balance as at 31 December 2021		2,346,095	-	240,000	124,504	3,515,495	6,226,094
Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 (Note 13.5)		-	-	-	-	(452,063)	(452,063)
Adjusted balance as at 01 January 2022		2,346,095	-	240,000	124,504	3,063,432	5,774,031
Profit for the year		-	-	-	-	754,969	754,969
Other comprehensive income, net of tax		-	-	-	29,791	8,385	38,176
Transfer to Statutory Reserve Fund	36	-	-	38,000	-	(38,000)	-
Scrip dividend paid		328,344	-	-	-	(328,344)	-
Balance as at 31 December 2022		2,674,439	-	278,000	154,295	3,460,442	6,567,176

The Accounting policies and notes to the Financial Statements from pages 11 to 89 form an integral part of these Financial Statements.

ERNST & YOUNG
Chartered Accountants
COLOMBO

Siyapatha Finance PLC

STATEMENT OF CASH FLOWS

Year ended 31 December 2022

Cash flows from operating activities	Note	2022 Rs. '000	2021 Rs. '000
Profit before taxation from operations		1,063,737	1,526,074
Interest expenses	6.2	5,788,151	2,813,728
Fee & commission expenses	7	3,713	-
Credit loss expense on financial assets	9	131,671	1,618,176
Provision for staff gratuity	34.2	31,978	22,247
Provision for depreciation	26.1	156,651	62,182
Amortisation of software	29	17,064	23,993
Amortisation expenses on right-of-use assets	27	80,696	117,083
(Profit)/Loss on sale of motor vehicles		633	(1,452)
		6,210,557	4,655,957
Operating profit before working capital changes		7,274,294	6,182,031
(Increase)/Decrease in lease receivables		4,067,869	(1,137,250)
(Increase)/Decrease in hire purchase receivables		(68)	1,045
(Increase)/Decrease in factoring receivables		137,488	86,682
(Increase)/Decrease in gold loan receivables		(2,899,391)	(1,026,590)
(Increase)/Decrease in loan receivables		641,634	(310,483)
Increase/(Decrease) in due to other customers		1,790,458	62,776
(Increase)/Decrease in other assets		(127,079)	(35,220)
Increase/(Decrease) in other payables		155,564	184,022
		3,766,475	(2,175,018)
Cash generated from operating activities		11,040,769	4,007,013
Interest expense paid		(5,112,623)	(3,026,325)
Gratuity paid	34.1	(8,605)	(5,777)
Income tax paid	33	(901,606)	(181,885)
Surcharge tax paid paid		(452,063)	-
Net cash inflow from operating activities		4,565,872	793,026
Cash flow from investing activities			
Net investments in government bonds & government securities		46,016	(924,961)
Purchase of property, plant and equipment and intangible assets		(657,979)	(711,109)
Proceeds from sale of property, plant and equipment		420	1,761
Net cash inflow/(outflow) from investing activities		(611,543)	(1,634,309)
Net cash inflow/(outflow) before financing activities		3,954,329	(841,283)
Cash flow from financing activities			
Proceeds from long term loans & securitizations	31.1	3,173,000	1,000,000
Repayments of long long term loans & securitizations	31.1	(2,557,303)	(4,459,052)
Proceeds from debentures	31.4	-	1,500,000
Debentures redeemed	31.4	(1,000,000)	(1,078,010)
Net proceeds from short term borrowings	31.1	(1,350,000)	3,050,000
Repayment of principal portion of lease liabilities	32.1	(116,279)	(154,255)
Net cash outflow from financing activities		(1,850,582)	(141,317)
Net increase/(decrease) in cash and cash equivalents		2,103,747	(982,600)
Cash & cash equivalents at the beginning of the year		59,031	1,041,631
Cash and cash equivalents at end of the year		2,162,778	59,031

Analysis of the cash and cash equivalents at the end of the year

		2022	2021
Cash and bank balances (Note 17)		221,228	250,297
Investment in Government securities less than three months		2,767,730	-
Bank overdraft		(826,180)	(191,266)
		2,162,778	59,031

The Accounting policies and Notes to the Financial Statements from pages 11 to 89 form an integral part of these Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC ("The Company"), formerly known as Siyapatha Finance Limited is a domiciled, public limited liability company incorporated in Sri Lanka on 03 March 2005 under the Companies Act No. 17 of 1982. The Company was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The registered office of the Company is located at No.110, Sir James Pieris Mawatha, Colombo 02. The principal place of business is located at. No. 111, Dudley Senanayake Mawatha, Colombo 08.

The debentures of the Company were initially listed on the Colombo Stock Exchange on 02 January 2015.

The staff strength of the Company as at 31 December 2022 was 789 (2021:804).

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking /ultimate parent and the controlling party is Sampath Bank PLC, which is incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the Financial Statements as per Sri Lanka Accounting Standards and the provisions of the Companies Act No.7 of 2007.

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Company as at and for the year ended 31 December 2022 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 08 February 2023.

2.4 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Financial Assets at fair value through other comprehensive income at fair value (Note 24)

- Land and buildings, which are measured at cost at the time of acquisition subsequently, measured at revalued amounts, which are the fair values at the date of revaluation (Note 26)

- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation less the fair value of the plan assets (Note 34)

2.5 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (Rs), which is the currency of the primary economic environment in which Siyapatha Finance PLC operates. The Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise. There was no change in the Company's presentation and functional currency during the year under review.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 41 to the financial statements.

2.7 Materiality, Aggregation and Offsetting

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the 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 income statement unless required or permitted by an Accounting Standard.

2.8 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's classification in order to provide a better presentation.

2.9 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), money at call and short notice, net of unfavourable bank balances, securities purchased under repurchase agreement (less than three months) and investments in treasury bills (less than three months).

2.10 Significant Accounting Judgements, Estimates and Assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

2.10.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The Directors have considered the impact of the current adverse macro-economic conditions on the business operations of the Company including a possible restructuring and hair-cuts on government debts, in making this assessment . Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2. 10.2 Impairment losses on loans and receivables

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

The Company reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, the management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively by categorising them, into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

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

- The Company's criteria for assessing if there has been a significant increase in credit risk upon which allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), exposure at default (EADs) and loss given default (LGDs).

It has been the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary. The above assumptions and judgements are discussed in detail under Note 3.1.8 to the Financial Statements.

Impact of the recent macro-economic conditions on the provision for impairment on loans and receivables

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures during the year 2022. High and rising energy prices are having a negative impact on the cost of other goods and services, resulting in significant consumer-price increases in the country. Inflation is increasingly weighing on real incomes, resulting in demand deterioration and a reduction in the ability of entities to protect their margins. In addition, high inflation and rising interest rates are major concerns affecting individuals and businesses, thereby posing a challenge on the recovery of loans and advances in the short to medium term. Considering the severity of the macro-economic outlook, key assumptions used in the Company's calculation of ECL have been revised. The economic scenarios and forward-looking macro-economic assumptions underpinning the collective impairment calculation are outlined in Note 3.1.8.8, while the impact on changing the weightages of different macro-economic scenarios during the year are given in Note 40.4.1(f).As at the reporting date, the expected impacts of the adverse macro-economic conditions have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome. Although the credit model inputs and assumptions, including forward-looking macro-economic assumptions were revised in response to the current economic crisis, the fundamental credit model mechanics and methodology underpinning the Company's calculation of ECL have remained consistent with prior periods.

The Company continued to extend the moratorium for eligible borrowers as directed by the Central Bank of Sri Lanka during the year 2022.All customers who were under moratorium for a prolonged period of time have been classified at least under stage 2 on a prudent basis even though such customers no longer enjoyed the moratorium as at 31 December 2022. A case-by-case analysis has been conducted on the individually significant customers and classified as stage 3 when the circumstances demand so. Collateral values were appropriately discounted to reflect the current market value. The exposures which are not individually significant have been moved to stage 2 based on the industry risk of the underlying borrowers.

The assumptions used to calculate the allowance for overlay for moratorium loans and advances as at 31 December 2021 were further fine-tuned during the year based on the post moratorium movements of the customers' arrears buckets. Accordingly, the allowance for overlay was further increased for the customers who continued to enjoy further concessions as at 31 December 2022.Further, additional allowance for overlay has been recognised on personal customers considering the possible decrease in repayment capacity due to the additional taxes and market stress.

A breakdown of the loans and advances of the Company classified under stage 2 is given in Note 40.4.1(h) while an analysis of loans and advances under the COVID-19 debt moratorium is given in Note 40.4.1(k). Further, the sensitivity of the impairment provision of the Company to a feasible change in property realisation period, PDs, LGDs and forward looking macro-economic information is also given in Note 40.4.1(f).

2.10.3 Impairment of Other Financial Assets

The Company reviews its debt securities classified as amortised cost, at each reporting date to assess whether they are impaired. Objective evidence that a debt security held at amortised cost is impaired includes among other things significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payments etc. Management judgement has been involved in determining whether there is significant increase in credit risk of these instruments or these instruments are impaired as at the reporting date.

Equity instruments classified as FVOCI are not subjective for impairment assessment.

2.10.4 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded in the Statement of Financial Position for which there is no observable market price on using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in Note 39 to the Financial Statements.

The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 39 to the Financial Statements.

2.10.5 Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instruments is given in Note 16 "Analysis of Financial Instruments by Measurement Basis". The COVID-19 pandemic and the recent macro-economic uncertainties resulted in significant volatility in the financial markets. However, the Company did not require to reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

2.10.6 Taxation

The Company is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.
The details of the deferred tax computation are given in Note 28 to the Financial Statements.

2.10.7 Defined Benefit Plans

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

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables**.** Future salary increases are based on expected future inflation rate and expected future salary increase rate of the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 34 to the Financial Statements.

2.10.8 Fair Value of Property, Plant & Equipment

The freehold land and building of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages an independent valuation specialist to determine the fair value of freehold land and building in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). The details of freehold land and buildings including methods of valuation are given in Note 26 to the Financial Statements.

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

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

2.10.10 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 42 to the Financial Statements.

2.10.11 Classification of Investment Properties

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Company are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Company assesses on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties. Currently the Company does not have any investment property.

2.10.12 SLFRS 16 - Leases

The Company uses its judgment to determine whether an operating lease contract qualifies for recognition of right of- use assets. It also uses judgement in the determination of the discount rate in the calculation 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. As the Company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the rate of interest that the Company would have to pay, to borrow an amount similar to the value of the lease asset, over a similar term and with similar security in similar economic environment. Further, the Company applies judgement in evaluating whether it is reasonably certain to renew or terminate the lease at the end of the lease term. That is, it considers all relevant factors that create an economic benefit for it to exercise, either the renewal or termination option.

3. GENERAL ACCOUNTING POLICIES

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

3.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

3.1.1 Date of Recognition

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

3.1.2 Initial measurement of Financial Instruments

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

3.1.2.1 ‘Day 1’ profit or loss

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

3.1.3 Measurement categories of Financial Assets and Financial Liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms, measured at either:

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

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

3.1.3.1 Financial Assets at Amortised cost:

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

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

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold loan receivables and other assets.

The details of the above conditions are outlined below.

3.1.3.1(a) Business model assessment

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

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

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

The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

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

3.1.3.1 (b) The SPPI test

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.
In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash

flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.1.3.2 Equity instruments at FVOCI

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

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

Currently, the Company has recorded its non- quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 24 to the Financial Statements.

3.1.3.3 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. The company does not have compound financial instruments which contains both a liability and an equity component and require separation as at the date of the issue.

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

3.1.3.4 Financial guarantees and undrawn loan commitments

The Company issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and ECL Provision under SLFRS 9.

The premium received is recognised in the Income Statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. These contracts are in within the scope of the ECL requirements.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded - in the Statement of Financial Position. The nominal values of these instruments are disclosed in Note 42.

3.1.4 Classification and Subsequent Measurement of Financial Liabilities

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

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

ii. Financial Liabilities at Amortised Cost

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

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

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

3.1.5 Reclassifications of Financial assets and Financial Liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2022.

3.1.6 Derecognition of Financial Assets and Financial Liabilities

3.1.6.1 Derecognition due to substantial modification of terms and conditions

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans and advances are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of inception.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors.

- Change in counterparty

- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.1.6.2 Derecognition other than for substantial modification

3.1.6.2(a) Derecognition of Financial Assets

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.
When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company’s continuing involvement, in which case, the Company also recognises as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

3.1.6.2(b) Derecognition - Financial Liabilities

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

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

3.1.7 Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

3.1.8 Impairment of Financial Assets

3.1.8.1 Overview of the expected credit loss (ECL) principles

The Company calculates impairment allowances on financial assets in line with Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) and as per the CBSL Directive No. 01 of 2020 on Classification and Measurement of Credit Facilities in Licensed Finance Companies (LFCs).Accordingly, the Company has been recording impairment (expected credit losses) for all loans and advances, debt & other financial instruments not held at FVPL, together with loan commitments, financial guarantee contracts, letter of credit and acceptances. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 40.4.1(b).

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

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

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

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

Stage 1: When loans and advances are first recognised, the Company recognises an allowance based on 12mECLs.Stage 1 loans and advances also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans and advances also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

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

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently 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.

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

3.1.8.2 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans and advances are expected to be recovered, including the probability that the loans and advances will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below.

PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PD is further explained in Note 3.1.8.4 (a).

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 3.1.8.4 (b).

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 3.1.8.4 (c).

With the exception of debt factoring and other revolving facilities, for which the treatment is separately set out in Note 3.1.8.7 the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

3.1.8.3 Calculation of ECLs for individually significant loans and advances

The Company first assesses ECLs individually for financial assets that are individually significant to the Company. In the event the Company determines that such assets are not impaired, moves in to a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 40.4.1(a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. In determining the expected future cash flows, the Company takes in to account the base case, the best case and the worst case scenarios considering various modes of settlement of the impaired credit facilities. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on individually impaired assets continues to be recognised through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realizable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The likely dividend available on liquidation or bankruptcy

3.1.8.4 Grouping financial assets measured on a collective basis

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

All customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be not impaired such customers are moved back to collective ECL calculation.

For all other asset classes, the Company calculates ECL on a collective basis. The Company categorises these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans and advances, as described below:

- Product type
- Type of collateral
- Industry of the borrower
- Whether the facility is restructured/ rescheduled

3.1.8.4(a) The internal rating and PD estimation process

The Company has its own internal rating models. These models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Although these PDs are used for regulatory purposes, the same is not used for PD estimation under SLFRS 9.

PD estimation for loans and advances under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Banks and Non-Bank Financial Institutions in the country at present.

Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- Zero days past due
- 1 - 30 days past due
- 31 - 60 days past due
- 61 - 90 days past due
- Above 90 days past due

The movement of the customers into bad DPD categories are tracked at each account level over the periods and it is used to estimate the amount of loans and advances that will eventually be written off.

However, for loans granted to banks, debt & other financial instruments classified as amortised cost/FVOCI, the Company relies on external credit ratings in determining their respective PDs. Due to limited stage movements in loan portfolios under moratorium schemes, the Company has used additional assessments of SICR as explained in Note 40.4.1(b) to build an allowance of overlay to better reflect the portfolio position.

3.1.8.4(b) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are considered. For Stage 2 and Stage 3 financial assets and credit impaired financial assets at origination, events over the lifetime of the instruments are considered. The Company determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Company's models.

3.1.8.4(c) Loss given default

LGD values are assessed at least annually for each material collateral type. The Company segregates its customer loan book based on following major types of collaterals when calculating the LGD.

- Secured against cash/deposits held within the Company
- Secured against immovable property
- Secured against motor vehicles and other movable properties
- Secured against gold
- Secured against lease receivables

These LGD rates consider the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics (e.g. product type, collateral type) as well as borrower characteristics. Further, recent data and forward-looking economic scenarios are used in order to determine the LGD for each collateral type. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

3.1.8.5 Financial Guarantee contracts:

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

3.1.8.6 Debt instruments measured at fair value through OCI

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

3.1.8.7 Debt factoring and revolving loans

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

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

3.1.8.8 Forward looking information

The Sri Lankan economy faced extreme headwinds and heightened uncertainties during the year 2022.The future impairment charges may be subject to further volatility depending on the longevity of the adverse macroeconomic conditions. The Company revisited the weightages assigned for multiple economic scenarios under the Economic Factor Adjustment (EFA) and increased the weightage for the worst-case scenario by considering the severity of the current economic crisis. Further, macro-economic variables such as GDP growth, inflation rate, interest rate, exchange rate etc., used in the EFA model were also revised to reflect the most recent economic data, available as at the reporting date.

	2022	2021
Base Case	10%	30%
Best Case	5%	10%
Worst Case	85%	60%

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

To ensure completeness and accuracy, the Company obtains the above data primarily from the Central Bank of Sri Lanka. Other third party sources such as World Bank and International Monetary Fund etc. are also used when CBSL data is not available.

3.1.8.9 Reversals of impairment

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

3.1.8.10 Rescheduled and restructured loans and advances

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

When the loan has been rescheduled/restructured or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 40.4.1(b). The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised as explained in Note 3.1.8.10.

3.1.8.11 Relief Measures to assist COVID-19 affected businesses and individuals by the Central Bank of Sri Lanka (CBSL)

Central Bank of Sri Lanka provided financial assistance to disrupted industry sectors and the affected businesses/individuals in the form of a debt moratorium through financial institutions, since the inception of the pandemic. The Company actively involved in providing assistance to affected customers under these moratorium schemes. Accordingly, moratorium was extended for the customers who continued to experience cash flow difficulties up to 31 March 2022. As per the Directives and Circulars issued by the CBSL, the Finance Companies were required to offer different concession options for eligible borrowers.

An analysis of the loans and advances eligible under CBSL Directives and Circulars is presented in Note 40.4.1(k) to the Financial Statements.

The granting of the moratorium is directly related to the cash flow difficulties generated by the occurrence of the COVID-19 pandemic. However, it did not lead to an automatic transfer of these credit facilities into stage 2 or stage 3. A case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stage 2 and stage 3. Further, the real impact of the pandemic on ECL allowance is expected upon the cessation of the moratorium.

3.1.8.12 Write-off of Financial Assets at Amortised Cost

Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the Income Statement. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

3.1.8.13 Collateral Valuation

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

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists, Audited Financial Statements and other independent sources.

3.1.8.14 Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. The company did not transfer any repossessed assets to its property, plant and equipment during the years ended 31 December 2022 and 2021.

3.1.9 Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position. Income and expenses are presented on a net basis only when permitted under LKAS/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

3.1.10 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2 Leases

At inception of a contract, the Company assesses whether the 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 a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company considers whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has right to obtain substantially all of the economic benefits from use of asset throughout the period of use; and
- The Company has right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either;
- The Company has the right to operate the asset; or
- The Company designed the asset in a way that predetermines how and for what purpose it will be used.

3.2.1 Company as the Lessee

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 on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets 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 straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property plant and equipment and are in the range of 1 to 10 years.
In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements 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' incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments such as company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured 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 under Note 27 to the financial statements while the corresponding lease liability is presented in Note 32, 'Other Liabilities'.

3.2.1(a) Short term leases and leases of low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short term leases (that have a lease term of 12 months or less) and leases of low value assets. The Company recognises lease payments associated with these leases as an expense on a straight line basis over the lease term.

3.2.2 Company as the Lessor

When the Company acts as a lessor, it determines at least 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 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 assets.

When the Company is the lessor under a finance lease contract, the amounts due under the leases, after deduction of unearned interest income, are included in Note 21, 'Lease receivables'. Interest income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The Company recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of other income.

3.3 Provisions

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

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.
Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.4 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Company which do not relate directly to the amounts of principal outstanding for loans and advances. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

3.5 Impairment of Non-Financial Assets

The carrying amounts of the Company's nonfinancial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

3.6 Recognition of Income

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. Specific recognition criteria that must be met before revenue is recognized is discussed under Note 6- Net Interest Income, Note 7- Net Fee and Commission Income, Note 8 - Other Operating Income.

3.7 Other Taxes

3.7.1 Value Added Tax (VAT)

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits & provisions relating to terminal benefits.

3.7.2 Social Security Contribution Levy (SSCL)

Social Security Contribution Levy (SSCL) shall be paid by any person carrying on the business of supplying financial services, on the liable turnover specified in the Second Schedule of the Social Security Contribution Levy Act No.25 of 2022 (SSCL Act), at the rate of 2.5%, with effect from 01 October 2022.SSCL is payable on 100% of the Value Addition attributable to financial services.

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

3.7.3 Surcharge Tax

The Government of Sri Lanka imposed a one-time tax, referred to as a Surcharge Tax in 2022, as the rate of 25% on group of companies that have earned a taxable income in excess of Rs.2,000 Million for the year of assessment 2020/2021.According to the Surcharge Tax Act No. 14 of 2022,the Surcharge Tax shall be deemed to be an expenditure in the financial statements commenced on 1 January 2020.Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the Surcharge Tax expense has been accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka. Accordingly, the Company has recognized the total liability to the Surcharge Tax as an adjustment to the opening retained earnings as at 01 January 2022.

3.8 Regulatory provisions

3.8.1 Deposit Insurance and Liquidity Support Scheme

In terms of the "Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 02 of 2021" issued on 06 August 2021, all Finance Companies are required to insure their deposit liabilities in the "Sri Lanka Deposit Insurance and Liquidity Support Scheme".

The deposits to be insured shall include demand, time and savings and certificates of deposit liabilities inclusive of any interest accrued and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities maintained individually or jointly with any other party, by Directors, Key Management Personnel, other related parties, excluding shareholders as defined in the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Licensed Finance Companies
- Deposit liabilities maintained either individually or jointly with any other party, by former Directors or Key Management Personnel
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

3.8.2 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

4. NEW ACCOUNTING STANDARDS ISSUED DURING THE YEAR/CHANGES TO ALREADY EXISTING ACCOUNTING STANDARDS

The Company applied for the first-time certain standards and amendments, if applicable, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The amendments to the following Accounting Standards, did not have a material impact on the Financial Statements of the Company.

- **Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework**

The amendment intends to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

- **Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts – Costs of Fulfilling a Contract**

The amendment specifies the costs that an entity needs to include when assessing whether a contract is onerous or loss-making.

- **Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use**

The amendment prohibits entities from deducting any proceeds from selling items produced, while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management, from the cost of an item of property, plant and equipment.

The Company has applied all relevant accounting standards which have been issued up to 31 December 2022 in the preparation of the Financial Statements for the year ended 31 December 2022.

5. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 DECEMBER 2022

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- **SLFRS 17 Insurance Contracts**

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

- **Definition of Accounting Estimates - Amendments to LKAS 8**

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The Company is currently assessing the impact the amendments will have on current practice.

- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12**

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

The Company is currently assessing the impact the amendments will have on current practice.

- **Disclosure of Accounting Policies - Amendments to LKAS 1 and IFRS Practice Statement 2**

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

The Company is currently assessing the impact the amendments will have on current practice.

6. NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income

The Company recognises interest income for all financial instruments measured at amortised cost, financial instruments designated at FVPL and interest-bearing financial assets measured at FVOCI using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the income statement.

When a financial asset becomes credit-impaired (as set out in Note 40.4.1. (a)) and is, therefore, regarded as ‘Stage 3’, the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis. Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

	2022 Rs. '000	2021 Rs. '000
6.1 Interest income		
Interest income on lease receivables	4,781,565	4,924,340
Interest income on hire purchase receivables	136	488
Interest income on factoring receivables	41,724	33,141
Interest income accrued on impaired financial assets (Note 18.5 & 18.6)	2,544	17,441
Interest income on loan receivables	150,711	198,896
Interest income on gold loan receivables	1,744,275	948,639
Interest income on government securities	794,330	116,884
Interest income on overdue rentals	722,564	513,901
Interest income on staff loans	29,984	31,321
Interest income on placements with banks	1,956	1,385
Total interest income	8,269,789	6,786,436
6.2 Interest expenses		
Bank overdraft	78,465	3,320
Short term borrowings	1,073,748	144,317
Lease liabilities	51,322	50,219
Customer deposits	2,541,489	1,366,686
Long term borrowings	1,106,648	534,029
Securitization loans	272,371	9,513
Redeemable debentures	664,108	705,644
Total interest expenses	5,788,151	2,813,728
Net interest income	2,481,638	3,972,708

7. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Fee Income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, commission income and asset management fees etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate of the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Fee Income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of an acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Other fee and commission expense

Other fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

	2022 Rs. '000	2021 Rs. '000
Documentation charges	39,001	81,453
Insurance commission	130,451	95,185
Service charges-Gold loan	141,575	99,656
Processing fees	445	417
Fee based income-Savings	17	19
Other fee & commission income	2,409	4,294
Total fee and commission income	313,898	281,024
Fee and commission expenses		
Processing fees - Bank loans	3,713	-
Total fee and commission expenses	3,713	-
Net fee and commission income	310,185	281,024

8. OTHER OPERATING INCOME

ACCOUNTING POLICY

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 net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised when received.

Other Income

Other Income is recognised on an accrual basis.

	2022 Rs. '000	2021 Rs. '000
Profit on early terminations	568,055	840,461
Profit on disposal of motor vehicles	420	1,452
Recovery of bad debts written off	39,564	61,295
Recovery of charges	17,916	40,924
Sundry income	89,404	135,739
Total other operating income	715,359	1,079,871

9. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

ACCOUNTING POLICY

The accounting policies adopted in determining the impairment allowance for financial assets including loans and advances are given in Note 3.1.8. to the Financial Statements.

	2022 Rs. '000	2021 Rs. '000
Bank balances (Note 17.1)		
Stage 1	20	5
Stage 2	-	-
Stage 3	-	-
	20	5
Factoring receivables (Note 18.5 & 18.6)		
Stage 1	17,020	8,680
Stage 2	-	(9,401)
Stage 3	(113,818)	22,501
	(96,798)	21,780
Gold loan receivables (Note 19.4 & 19.5)		
Stage 1	6,402	4,013
Stage 2	2,799	6,954
Stage 3	5,894	3,560
	15,095	14,527
Loan receivables (Note 20.5 & 20.6)		
Stage 1	(1,027)	(18,161)
Stage 2	11,970	42,385
Stage 3	(2,231)	392,569
	8,712	416,793
Lease receivables (Note 21.6 & 21.7)		
Stage 1	(20,409)	26,004
Stage 2	134,961	415,885
Stage 3	43,250	624,824
	157,802	1,066,713
Hire purchase receivables (Note 22.6 & 22.7)		
Stage 1	-	-
Stage 2	(23)	(1,827)
Stage 3	(222)	1,973
	(245)	146
Repossessed stock (Note 23.1 & 23.2)		
Stage 1	-	-
Stage 2	-	-
Stage 3	31,743	68,780
	31,743	68,780
Other receivables (Note 23.3)		
Stage 1	-	-
Stage 2	-	-
Stage 3	17,956	25,118
	17,956	25,118
Credit related commitments & contingencies (Note 42.2)		
Stage 1	(2,614)	4,679
Stage 2	-	(365)
Stage 3	-	-
	(2,614)	4,314
	131,671	1,618,176

10. PERSONNEL EXPENSES

ACCOUNTING POLICY

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

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 by the employer 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 under 'Other liabilities' .

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund. Further, the Company also contributes 12% on the salary of each employee to the Employees' Provident Fund. The above expenses are identified as contributions to "Defined Contribution Plans" as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

Defined Benefit Plan - Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Basic Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

An actuarial valuation is carried out at every year end to ascertain the full liability under gratuity.

Funding Arrangements

The gratuity liability is not externally funded.

The Company determines the interest expense on this defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the defined benefit liability at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds (15 years) that have maturity dates approximating to the terms of the Company's obligations.The treasury bond rates increased significantly during the year and was around 30% range during the latter part of 2022. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has proposed to consider an adjusted treasury bond rate as the discount rate for the purpose of the actuarial valuations as at 31st December 2022, on the basis that the current treasury bond rates do not reflect only the time value of money. Accordingly, an adjusted discount rate was derived by removing a credit spread from the current treasury bond rate, as per the guidance issued by CA Sri Lanka.

The increase in gratuity liabilities attributable to the services provided by employees during the year ended 31 December 2022 (current service cost) has been recognised in the Income Statement under 'Personnel expenses' together with the net interest expense. The Company recognises the total actuarial gain/loss that arises in calculating the Company's obligation in respect of gratuity in other comprehensive income during the period in which it occurs. There were no plan amendments or curtailments affecting the Company's gratuity liabilities during the year ended 31 December 2022 other than those disclosed in Note 34.4 to the Financial Statements.

The demographic assumptions underlying the valuation are retirement age (60 years), early withdrawals from service and retirement on medical grounds etc.

	2022 Rs. '000	2021 Rs. '000
Salaries and bonus	982,041	980,641
Contributions to EPF & ETF	89,544	82,643
Provision on gratuity (Note 34.2)	31,978	22,247
Others	88,888	87,411
	1,192,451	1,172,942

11. OTHER OPERATING EXPENSES

	2022 Rs. '000	2021 Rs. '000
Directors' emoluments	35,101	31,477
Auditors' remuneration (Note 11.1)	6,561	4,877
Professional & legal expenses	17,674	22,735
Depreciation & amortization expenses (Note 11.2)	254,411	203,258
Deposit insurance premium	26,214	24,455
Office administration & establishment expenses	316,084	258,327
Advertising expenses	20,135	24,638
Loss on sale of fixed assets	1,053	-
Other expenses	41,282	47,289
	718,515	617,056

11.1 Auditors' remuneration

	2022 Rs. '000	2021 Rs. '000
Audit fees	1,760	1,540
Audit related fees & expenses	1,426	1,426
Non - audit expenses	3,375	1,911
	6,561	4,877

11.2 Depreciation & amortization expenses

ACCOUNTING POLICY

Depreciation of Property, Plant and Equipment

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. Freehold land of the Company not depreciated.

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 asset becomes idle or is retired from active use unless the asset is fully

Asset Category	**Depreciation Rate per Annum (%)**	
	2022	**2021**
Freehold buildings	2.50	N/A
Office equipment	*5.00-15.00	15.00
Computer equipment	16.67	16.67
Office furniture	15.00	15.00
Motor vehicles (except Motor Bicycles)	12.50	12.50
Motor bicycles	20.00	20.00
Fixtures	**4.00-20.00	20.00

*Transformers, generator and mechanical ventilation & air conditioning system are depreciated at 5% per annum.
**Fire protection system, elevators, and puzzle parking system depreciated at 4%, 5% and 6.67% per annum respectively.

11. OTHER OPERATING EXPENSES (Contd…)

11.2 Depreciation & amortization expenses (Contd…)

Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight-line basis in the Income Statement 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. The Company assumes that there is no residual value for its intangible assets.

Asset Category	Amortisation Rate per Annum (%)	
	2022	2021
Computer software & Licenses	25.00	25.00

Amortisation of Right-of-Use Assets

The right of use assets are depreciated using a straight-line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property plant and equipment and are in the range of 1 to 10 years.

Changes in Estimates

Depreciation/amortization methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. During the year ended 31 December 2022, the Company conducted an operational efficiency review and estimates were revised accordingly.

	2022 Rs. '000	2021 Rs. '000
Depreciation on property, plant & equipment (Note 26.1)	156,651	62,182
Amortization of intangible assets (Note 29)	17,064	23,993
Amortisation expenses on right-of-use assets (Note 27)	80,696	117,083
	254,411	203,258

12. TAXES ON FINANCIAL SERVICES

ACCOUNTING POLICY

Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

As per the Value Added Tax (Amendment) Act No.13 of 2022, the VAT rate has been increased from 15% to 18% on supply of financial services on financial institutions with effect from 1 January 2022 (2021-15%).

12. TAXES ON FINANCIAL SERVICES (Contd…)

Social Security Contribution Levy (SSCL)

Social Security Contribution Levy (SSCL) shall be paid by any person carrying on the business of supplying financial services, on the liable turnover specified in the Second Schedule of the Social Security Contribution Levy Act No.25 of 2022 (SSCL Act), at the rate of 2.5%, with effect from 01 October 2022. SSCL is payable on 100% of the Value Addition attributable to financial services.

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

	2022 Rs. '000	2021 Rs. '000
Value added tax on financial services	386,540	399,355
Social security contribution levy	14,268	-
	400,808	399,355

13. INCOME TAX EXPENSE

ACCOUNTING POLICY

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 the Income Statement, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income. The Company applied IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment” in the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over the income tax treatment. However, the application of IFRIC 23 did not have any significant impact on the financial statements of the Company to provide additional disclosures in the financial statements.

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 year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 13.3 to the Financial Statements.

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.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 33 and Note 28 to the Financial Statements respectively.

13. INCOME TAX EXPENSE (Contd…)

13.1 The major components of income tax expense for the year ended 31 December are as follows.

	2022 Rs. '000	2021 Rs. '000
13.1.1 Current tax expense		
Current tax based on profit for the year (Note 13.2)	445,238	876,882
(Over)/Under provision of current taxes in respect of previous years (Note 13.2)		
- Due to rate revision	-	(56,646)
- Other (reversal)/charge including settlements	39,621	12,426
Total current tax expense	484,859	832,662
13.1.2 Deferred tax expense		
- Due to rate revision (Note 28)	(28,330)	(41,394)
- Due to change in temporary differences (Note 28)	(147,761)	(359,737)
Total deferred taxation reversal (Note 28)	(176,091)	(401,131)
Income tax expense (Note 13.2)	308,768	431,531
Effective tax rate	29.0%	28.3%

13.2 Reconciliation of the accounting profit to current tax expense

	2022 %	2022 Rs. '000	2021 %	2021 Rs. '000
Profit before tax		1,063,737		1,526,074
Tax effect on accounting profit before tax	25.5%	271,373	24.0%	366,258
Tax effect of non deductible expenses	29.1%	309,545	44.5%	679,653
Tax effect of other allowable credits	-12.8%	(135,680)	-11.1%	(169,029)
	41.9%	445,238	57.5%	876,882
(Over)/ Under provision of current taxes in respect of previous years				
- Due to rate revision	0.0%	-	-3.7%	(56,646)
- Other (reversal)/charge including settlements	3.7%	39,621	0.8%	12,426
Deferred tax charge/(reversal)				
- Due to rate revision (Note 28)	-2.7%	(28,330)	-2.7%	(41,394)
- Due to change in temporary differences	-13.9%	(147,761)	-23.6%	(359,737)
	29.0%	308,768	28.3%	431,531

13. INCOME TAX EXPENSE (Contd…)

		2022		2021
13.3	**Applicable Income Tax Rates**	**1st Six months**	**2nd Six months**	
	Applicable Income Tax Rate	24%	30%	24%

The Company was liable for income tax on local dividend received for first six month of the year of assessment 2022/2023 at 14% and second six month of the year of assessment at 15% (2021: 24%).

13.4 Change in Income Tax Rate

13.4.1 For the year ended 31 December 2021

The Company applied the revised rate of 24% and other amendments in line with the Inland Revenue Amendment Act No. 10 of 2021 to calculate the income tax and deferred tax assets/liabilities as at 31 December 2021 (2020: 28%).

13.4.2 For the year ended 31 December 2022

The Company computed the income tax liability for the first six month of the year of assessment 2022/2023 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the Company for second six month of the year of assessment 2022/2023. The deferred tax assets/liabilities of the Company as at 31 December 2022 were computed using the revised income tax rate of 30%.

13.5 Surcharge Tax at the rate of 25%

As per the Surcharge Tax Act No. 14 of 2022, the Company is liable for the surcharge tax of Rs.452.06 Million out of the taxable income of Rs.1,808.25 Million pertaining to the year of assessment 2020/21. According to the said Act, the surcharge tax shall be deemed to be an expenditure in the financial statements commenced on 01 January 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the surcharge tax expense has been accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka. Accordingly, during the year ended 31 December 2022, the Company has recognised the total liability to the Surcharge Tax as an adjustment to the opening retained earnings as at 01 January 2022.

14. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED

ACCOUNTING POLICY

The Company presents basic /diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit attributable to the ordinary equity shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

	2022 Rs. '000	**2021 Rs. '000**
Profit attributable to ordinary shareholders (Rs.)	754,969	1,094,543
Weighted average number of ordinary shares during the year (14.1)	97,166,011	93,819,248
Basic/Diluted earnings per ordinary share (Rs.)	7.77	11.67

14. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED (Contd…)

14.1 Weighted average number of ordinary shares (basic)

	Outstanding No: of Shares		Weighted Average No: of Shares	
	2022	**2021**	**2022**	**2021**
Number of shares in issue as at 01 January	91,973,156	76,212,072	91,973,156	76,212,072
Add:				
Number of shares issued due to scrip dividend 2020	-	2,035,594	-	2,035,594
Number of shares issued under rights issue 2021	-	13,725,490	-	10,378,727
Number of shares issued due to scrip dividend 2021	5,192,855	-	5,192,855	5,192,855
Number of shares in issue/weighted average number of ordinary shares at 31 December	97,166,011	91,973,156	97,166,011	93,819,248

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements, which would require the restatement of EPS.

15. DIVIDEND PAID

ACCOUNTING POLICY

Dividends on ordinary shares are recognised as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the reporting period'.

	2022	**2021**
Scrip dividends paid (Rs. 000)	328,344	123,214
Number of Ordinary Shares	91,973,156	89,937,562
Dividends per Ordinary Share (Rs.)	3.57	1.37

A scrip dividend of Rs. 3.57 per share for the year 2021 was paid in March 2022. (A scrip dividend of Rs. 1.37 per share for the year 2020 was paid in May 2021).

16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The Accounting Policies describe how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) under headings of the Statement of Financial Position.

As at 31 December 2022	Amortised Cost Rs'000	Fair value through Other Comprehensive Income Rs'000	Total Rs'000
Financial Assets			
Cash and bank balances	221,187	-	221,187
Securities purchased under repurchase agreements	-	-	-
Factoring receivables	112,793	-	112,793
Gold loan receivables	8,666,076	-	8,666,076
Loan Receivables	993,460	-	993,460
Lease receivables	24,862,538	-	24,862,538
Hire purchase receivables	1,247	-	1,247
Other assets	512,671	-	512,671
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	5,461,866	-	5,461,866
Total Financial Assets	40,831,838	56	40,831,894
Financial Liabilities			
Bank overdraft	826,180	-	826,180
Due to other customers	19,342,046	-	19,342,046
Debt issued and other borrowed funds	15,585,788	-	15,585,788
Other payables	1,183,488	-	1,183,488
Total Financial Liabilities	36,937,502	-	36,937,502

As at 31 December 2021	Amortised Cost Rs'000	Fair value through Other Comprehensive Income Rs'000	Total Rs'000
Financial Assets			
Cash and bank balances	250,277	-	250,277
Securities purchased under repurchase agreements	1,839,911	-	1,839,911
Factoring receivables	153,483	-	153,483
Gold loan receivables	5,781,780	-	5,781,780
Loan Receivables	1,643,806	-	1,643,806
Lease receivables	29,088,209	-	29,088,209
Hire purchase receivables	934	-	934
Other assets	487,930	-	487,930
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	900,241	-	900,241
Total Financial Assets	40,146,571	56	40,146,627
Financial Liabilities			
Bank overdraft	191,266	-	191,266
Due to other customers	17,114,923	-	17,114,923
Debt issued and other borrowed funds	17,077,514	-	17,077,514
Other payables	1,049,054	-	1,049,054
Total Financial Liabilities	35,432,757	-	35,432,757

17. CASH AND BANK BALANCES

ACCOUNTING POLICY

Cash and bank balances comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and bank balances are carried at amortised cost in the Statement of Financial Position.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short term deposits as defined above, placements with banks (less than 3 months) net of unfavourable balances with local banks, securities purchased under repurchase agreement (less than three months) and investments in treasury bills (less than three months).

	2022 Rs. '000	2021 Rs. '000
Cash in hand	151,335	134,617
Balances with local banks	69,892	115,680
Less: Allowance for expected credit losses(Note 17.1)	(40)	(20)
	221,187	250,277

17.1 The movement in provision for expected credit losses is as follows.

	2022 Rs. '000	2021 Rs. '000
Stage 1		
Balance as at 01 January	20	15
Charge/(Reversal) for the year (Note 9)	20	5
Balance as at 31 December	40	20

18. FACTORING RECEIVABLES

	2022 Rs. '000	2021 Rs. '000
Factoring receivables	369,561	506,840
Less: VAT suspense	(293)	(293)
Gross factoring receivable	369,268	506,547
Less : Allowance for expected credit losses/ individual impairment(Note 18.3)	(231,834)	(344,224)
Allowance for expected credit losses/ collective impairment(Note 18.4)	(24,641)	(8,840)
	112,793	153,483

18.1 Analysis of factoring receivables on maximum exposure to credit risk
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	13,322	-	240,075	253,397
Factoring receivables subject to collective impairment	115,871	-	-	115,871
Gross factoring receivables	129,193	-	240,075	369,268
Allowance for expected credit losses(ECL) (Note 18.5)	(25,860)	-	(230,615)	(256,475)
	103,333	-	9,460	112,793

18.2 Analysis of factoring receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	-	-	358,533	358,533
Factoring receivables subject to collective impairment	148,014	-	-	148,014
Gross factoring receivables	148,014	-	358,533	506,547
Allowance for expected credit losses(ECL) (Note 18.6)	(8,840)	-	(344,224)	(353,064)
	139,174	-	14,309	153,483

18. FACTORING RECEIVABLES (Contd..)

18.3 Allowance for expected credit losses/Impairment
Individually impaired loans

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	344,224	333,028
Charge/ (Reversal) to income statement	(112,599)	22,500
Write-off during the year	-	-
Interest income accrued on impaired loans(Note 6.1)	(2,544)	(17,441)
Other movements	2,753	6,137
Balance as at 31 December	231,834	344,224

18.4 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	8,840	9,560
Charge/ (Reversal) to income statement	15,801	(720)
Balance as at 31 December	24,641	8,840

18.5 Movement in allowance for expected credit losses
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2022	8,840	-	344,224	353,064
Charge/ (Reversal) to income statement (Note 9)	17,020	-	(113,818)	(96,798)
Interest income accrued on impaired loans(Note 6.1)	-	-	(2,544)	(2,544)
Other movements	-	-	2,753	2,753
Balance as at 31 December 2022	25,860	-	230,615	256,475

18.6 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	160	9,401	333,027	342,588
Charge/ (Reversal) to income statement (Note 9)	8,680	(9,401)	22,501	21,780
Interest income accrued on impaired loans(Note 6.1)	-	-	(17,441)	(17,441)
Other movements	-	-	6,137	6,137
Balance as at 31 December 2021	8,840	-	344,224	353,064

19. GOLD LOAN RECEIVABLES

	2022 Rs. '000	2021 Rs. '000
Gold loan receivables	8,706,458	5,807,067
Less : Allowance for expected credit losses/ collective impairment(Note 19.3)	(40,382)	(25,287)
	8,666,076	5,781,780

19.1 Analysis of gold loan receivables on maximum exposure to credit risk
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gold loan receivables- subject to collective impairment	4,897,107	2,026,868	1,782,483	8,706,458
Allowance for expected credit losses(ECL) (Note 19.4)	(14,001)	(12,740)	(13,641)	(40,382)
	4,883,106	2,014,128	1,768,842	8,666,076

19. GOLD LOAN RECEIVABLES (Contd..)

19.2 Analysis of gold loan receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gold loan receivables- subject to collective impairment	3,257,576	1,518,376	1,031,115	5,807,067
Allowance for expected credit losses(ECL) (Note 19.5)	(7,599)	(9,941)	(7,747)	(25,287)
	3,249,977	1,508,435	1,023,368	5,781,780

19.3 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	25,287	10,760
Charge/ (Reversal) to income statement	15,095	14,527
Balance as at 31 December	40,382	25,287

19.4 Movement in allowance for expected credit losses
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2022	7,599	9,941	7,747	25,287
Charge/ (Reversal) to income statement (Note 9)	6,402	2,799	5,894	15,095
Balance as at 31 December 2022	14,001	12,740	13,641	40,382

19.5 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	3,586	2,987	4,187	10,760
Charge/ (Reversal) to income statement (Note 9)	4,013	6,954	3,560	14,527
Balance as at 31 December 2021	7,599	9,941	7,747	25,287

20. LOAN RECEIVABLES

	2022 Rs. '000	2021 Rs. '000
Revolving loan receivables	73,753	85,481
Personal/Business loan receivables	2,229,691	2,859,597
Gross loan receivables	2,303,444	2,945,078
Less : Allowance for expected credit losses/ individual impairment(Note 20.3)	(954,569)	(947,444)
Less : Allowance for expected credit losses/ collective impairment(Note 20.4)	(355,415)	(353,828)
	993,460	1,643,806

20.1 Analysis of loan receivables on maximum exposure to credit risk
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired loan receivables	-	108,405	1,124,660	1,233,065
Loan receivables subject to collective impairment	403,522	95,803	571,054	1,070,379
Allowance for expected credit losses(ECL) (Note 20.5)	(1,022)	(77,804)	(1,231,158)	(1,309,984)
	402,500	126,404	464,556	993,460

20. LOAN RECEIVABLES (Contd..)

20.2 Analysis of loan receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired loan receivables	-	129,203	1,157,635	1,286,838
Loan receivables subject to collective impairment	447,328	267,364	943,548	1,658,240
Allowance for expected credit losses(ECL) (Note 20.6)	(2,049)	(65,834)	(1,233,389)	(1,301,272)
	445,279	330,733	867,794	1,643,806

20.3 Allowance for expected credit losses/Impairment
Individually impaired loans

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	947,444	538,525
Charge/ (Reversal) to income statement	7,125	408,919
Balance as at 31 December	954,569	947,444

20.4 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	353,828	345,954
Charge/ (Reversal) to income statement	1,587	7,874
Balance as at 31 December	355,415	353,828

20.5 Movement in allowance for expected credit losses
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2022	2,049	65,834	1,233,389	1,301,272
Charge/ (Reversal) to income statement (Note 9)	(1,027)	11,970	(2,231)	8,712
Balance as at 31 December 2022	1,022	77,804	1,231,158	1,309,984

20.6 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	20,210	23,449	840,820	884,479
Charge/ (Reversal) to income statement (Note 9)	(18,161)	42,385	392,569	416,793
Balance as at 31 December 2021	2,049	65,834	1,233,389	1,301,272

21. LEASE RECEIVABLES
At Amortized cost

	2022 Rs. '000	2021 Rs. '000
Total lease rentals receivable	34,583,634	40,237,489
Less: Unearned lease interest income	(7,157,071)	(8,567,560)
Gross lease receivable	27,426,563	31,669,929
Less: Allowance for expected credit losses/ collective impairment(Note 21.5)	(2,564,025)	(2,581,720)
Net lease receivable (Note 21.1 & 21.2)	24,862,538	29,088,209

Lease receivables include receivables amounting to Rs.12,656,571,458/- (2021- Rs.12,654,759,247/) that have been assigned under term loan funding arrangement.

21. LEASE RECEIVABLES (Contd..)

21.1 Maturity analysis of net lease receivable As at 31 December 2022

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	15,661,658	18,891,019	30,957	34,583,634
Less: Unearned lease interest income	(3,575,630)	(3,580,370)	(1,071)	(7,157,071)
Gross lease receivable	12,086,028	15,310,649	29,886	27,426,563
Less: Allowance for expected credit losses	(1,142,403)	(1,418,859)	(2,763)	(2,564,025)
Net lease receivable	10,943,625	13,891,790	27,123	24,862,538

21.2 Maturity analysis of net lease receivable As at 31 December 2021

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	16,449,751	23,682,021	105,717	40,237,489
Less: Unearned lease interest income	(3,968,093)	(4,592,412)	(7,055)	(8,567,560)
Gross lease receivable	12,481,658	19,089,609	98,662	31,669,929
Less: Provision for collective impairment	(1,025,453)	(1,548,178)	(8,089)	(2,581,720)
Net lease receivable	11,456,205	17,541,431	90,573	29,088,209

21.3 Analysis of lease receivables on maximum exposure to credit risk As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	7,277,512	13,940,304	6,208,747	27,426,563
Allowance for expected credit losses(ECL) (Note 21.6)	(101,710)	(808,955)	(1,653,360)	(2,564,025)
	7,175,802	13,131,349	4,555,387	24,862,538

21.4 Analysis of lease receivables on maximum exposure to credit risk As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	10,177,965	14,215,847	7,276,117	31,669,929
Allowance for expected credit losses(ECL) (Note 21.7)	(122,119)	(673,994)	(1,785,607)	(2,581,720)
	10,055,846	13,541,853	5,490,510	29,088,209

21.5 Allowance for expected credit losses/Impairment Loans subject to collective impairment

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	2,581,720	1,515,007
Charge/ (Reversal) to income statement(Note 9)	157,802	1,066,713
Write-off during the year	(175,497)	-
Balance as at 31 December	2,564,025	2,581,720

21.6 Movement in allowance for expected credit losses As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2022	122,119	673,994	1,785,607	2,581,720
Charge/ (Reversal) to income statement (Note 9)	(20,409)	134,961	43,250	157,802
Write-off during the year	-	-	(175,497)	(175,497)
Balance as at 31 December 2022	101,710	808,955	1,653,360	2,564,025

21. LEASE RECEIVABLES (Contd..)

21.7 Movement in allowance for expected credit losses

As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	96,115	258,109	1,160,783	1,515,007
Charge/ (Reversal) to income statement (Note 9)	26,004	415,885	624,824	1,066,713
Write-off during the year	-	-	-	-
Balance as at 31 December 2021	122,119	673,994	1,785,607	2,581,720

22. HIRE PURCHASE RECEIVABLES

	2022 Rs. '000	2021 Rs. '000
Total hire purchase rentals receivable	2,857	3,432
Less: Unearned hire purchase interest income	(287)	(502)
Gross hire purchase receivable	2,570	2,930
Less: Allowance for expected credit losses/ collective impairment(Note 22.5)	(1,323)	(1,996)
Net hire purchase receivable (Note 22.1 & 22.2)	1,247	934

No hire purchase receivables have been assigned under term loan funding arrangements as at 31 December 2022.(2021-Nil).

22.1 Maturity analysis of net hire purchase receivable

As at 31 December 2022

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	1,994	863	-	2,857
Less: Unearned hire purchase interest income	(181)	(106)	-	(287)
Gross hire purchase receivable	1,813	757	-	2,570
Less: Allowance for expected credit losses	(979)	(344)	-	(1,323)
	834	413	-	1,247

22.2 Maturity analysis of net hire purchase receivable

As at 31 December 2021

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	2,134	1,298	-	3,432
Less: Unearned hire purchase interest income	(228)	(274)		(502)
Gross hire purchase receivable	1,906	1,024	-	2,930
Less: Allowance for expected credit losses	(1,354)	(642)	-	(1,996)
	552	382	-	934

22.3 Analysis of hire purchase receivables on maximum exposure to credit risk

As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross hire purchase receivables- subject to collective impairment	-	-	2,570	2,570
Allowance for expected credit losses(ECL) (Note 22.6)	-	-	(1,323)	(1,323)
	-	-	1,247	1,247

22.4 Analysis of hire purchase receivables on maximum exposure to credit risk

As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross hire purchase receivables- subject to collective impairment	-	1,331	1,599	2,930
Allowance for expected credit losses(ECL) (Note 22.7)	-	(23)	(1,973)	(1,996)
	-	1,308	(374)	934

22. HIRE PURCHASE RECEIVABLES (Contd..)

22.5 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	1,996	1,850
Charge/ (Reversal) to income statement (Note 9)	(245)	146
Write-off during the year	(428)	-
Balance as at 31 December	1,323	1,996

22.6 Movement in allowance for expected credit losses
As at 31 December 2022

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2022	-	23	1,973	1,996
Charge/ (Reversal) to income statement (Note 9)	-	(23)	(222)	(245)
Write-off during the year	-	-	(428)	(428)
Balance as at 31 December 2022	-	-	1,323	1,323

22.7 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	-	1,850	-	1,850
Charge/ (Reversal) to income statement (Note 9)	-	(1,827)	1,973	146
Write-off during the year	-	-	-	-
Balance as at 31 December 2021	-	23	1,973	1,996

23. OTHER ASSETS

	2022 Rs. '000	2021 Rs. '000
Financial Assets		
Repossessed stock	97,903	85,699
Less: Provision for repossessed stock (Note 23.1 & 23.2)	(97,903)	(85,699)
Insurance premium receivable	349,605	301,467
Less: Provision for insurance premium receivable	(4,802)	(4,901)
Staff loan	157,363	191,927
Less: Staff loan fair value adjustment	(18,939)	(23,225)
Insurance commission receivable	53,335	33,507
Less: Provision for insurance commission receivable	(38,272)	(20,217)
Other financial assets	14,381	9,372
	512,671	487,930
Non Financial Assets		
Pre paid expenses	59,706	37,870
Pre-paid staff cost (Note 23.4)	18,939	23,225
Advance payments	6,046	56,920
Inventories	6,308	3,838
Taxes receivable	250	250
Other non financial assets	20,918	27,094
	112,167	149,197
	624,838	637,127

23. OTHER ASSETS (Contd..)

23.1 Movement in provision for repossessed stock

As at 31 December 2022

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January 2022	79,440	2,321	2,730	1,208	85,699
Charge/ (Reversal) during the year (Note 9)	28,082	(245)	2,815	1,091	31,743
Write-off during the year	(18,729)	(810)	-	-	(19,539)
Other movements	84	(81)	(3)	-	-
Balance as at 31 December 2022	88,877	1,185	5,542	2,299	97,903

23.2 Movement in provision for repossessed stock

As at 31 December 2021

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January 2021	159,442	1,843	1,855	810	163,950
Charge/ (Reversal) during the year (Note 9)	67,029	478	875	398	68,780
Write-off during the year	(147,031)	-	-	-	(147,031)
Balance as at 31 December 2021	79,440	2,321	2,730	1,208	85,699

Repossessed stock of the Company and the corresponding ECL allowances are grouped under Stage 3.

23.3 Movement in provision for other receivables

	2022	2021
	Rs. '000	Rs. '000
Stage 3		
Balance as at 01 January	25,118	-
Charge/(Reversal) for the year (Note 9)	17,956	25,118
Balance as at 31 December	43,074	25,118

23.4 The movement in the pre-paid staff cost

	2022	2021
	Rs. '000	Rs. '000
Balance as at 1 January	23,225	16,417
Add:Adjustment for new grants (net of settlements)	9,716	20,259
Charge to personnel expenses	(14,002)	(13,451)
Balance as at 31 December	18,939	23,225

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	2021
	Rs. '000	Rs. '000
Equity instruments at fair value through other comprehensive income (FVOCI)	56	56
	56	56

Unquoted equity instruments at FVOCI are recorded at cost, since there is no market value for these investments and the company intends to hold them for the long run.

In 2022, the Company received dividends of Rs.240,000/-(2021-Rs.240,000/-) from these unquoted equity investments, recorded as other operating income.

25. DEBT INSTRUMENTS AT AMORTISED COST

	2022	2021
	Rs. '000	Rs. '000
Government debt securities - treasury bills	5,461,866	900,241
	5,461,866	900,241

25.1 Analysis of debt instruments at amortised cost

	2022	2021
	Rs. '000	Rs. '000
By collateralisation		
Pledged as collateral	-	-
Unencumbered	5,461,866	900,241
	5,461,866	900,241

26. PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

Recognition

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

Measurement

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

Cost Model

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

Revaluation Model

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company revalued its freehold land and buildings as at 31 December 2022,the details of which are given in Note 26.3.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income 'and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In these circumstances, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

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 the day to day servicing of property, plant and equipment are charged to the Income Statement as incurred.

Repairs and Maintenance

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

Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard - LKAS 23 (Borrowing Costs). A qualifying asset is an asset which takes substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The Company's Head Office building was under work-in-progress as at 31 December 2021.Accordingly, the Company capitalized Rs.53.34 Million as borrowing cost related to the construction of Head office building in year 2021. The capitalisation rates used to determine the amount of eligible borrowing costs for capitalisation was 5.0% - 8.6% in year 2021.

De-recognition

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. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Income Statement 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 inspection is derecognised.

Rates of depreciation for each category of property, plant and equipment are given in Note 11, 'Depreciation & amortization expenses'.

26. PROPERTY, PLANT & EQUIPMENT (Contd…)

26.1 Cost/Valuation

	Freehold Land & Buildings Rs. '000	Fixtures Rs. '000	Office furniture Rs. '000	Office equipment Rs. '000	Motor vehicles Rs. '000	Computer equipment Rs. '000	Capital work-in progress Rs. '000	Total Rs. '000
Balance as at 01 January 2021	367,900	219,322	46,468	104,748	5,798	124,577	818,358	1,687,171
Additions and improvements	-	11,570	2,362	3,791	-	74,222	608,946	700,891
Revaluation surplus	-	-	-	-	-	-	-	-
Disposals during the year	-	(364)	(132)	(4,694)	(3,077)	(6,029)	-	(14,296)
Balance as at 31 December 2021	367,900	230,528	48,698	103,845	2,721	192,770	1,427,304	2,373,766
Additions and improvements	-	22,261	1,080	9,330	-	9,708	610,570	652,949
Revaluation surplus	56,600	-	-	-	-	-	-	56,600
Disposals during the year	-	(3,881)	(509)	-	-	-	-	(4,390)
Revaluation adjustment on accumulated depreciation	(35,915)	-	-	-	-	-	-	(35,915)
Transfers/Adjustments	1,436,607	357,029	(933)	124,974	-	113,720	(2,037,874)	(6,477)
Balance as at 31 December 2022	1,825,192	605,937	48,336	238,149	2,721	316,198	-	3,036,533
Accumulated Depreciation								
Balance as at 01 January 2021	-	149,721	29,377	65,126	5,241	83,891	-	333,356
Depreciation charge for the year	-	25,669	4,848	11,704	181	19,780	-	62,182
Disposals during the year	-	(331)	(124)	(4,668)	(3,077)	(5,787)		(13,987)
Balance as at 31 December 2021	-	175,059	34,101	72,162	2,345	97,884	-	381,551
Depreciation charge for the year	35,915	57,061	4,562	16,168	182	42,763	-	156,651
Disposals during the year	-	(2,953)	(383)	-	-	-	-	(3,336)
Revaluation adjustment on accumulated depreciation	(35,915)	-	-	-	-	-	-	(35,915)
Balance as at 31 December 2022	-	229,167	38,280	88,330	2,527	140,647	-	498,951
Net book value as at 31 December 2022	1,825,192	376,770	10,056	149,819	194	175,551	-	2,537,582
Net book value as at 31 December 2021	367,900	55,469	14,597	31,683	376	94,886	1,427,304	1,992,215

26. PROPERTY, PLANT & EQUIPMENT(Contd..)

26.2 The carrying amount of Company's revalued freehold land and buildings, if they were carried at cost less accumulated depreciation, would be as follows:

	2022 Cost Rs. '000	2022 Carrying value Rs. '000	2021 Cost Rs. '000	2021 Carrying value Rs. '000
Freehold land	204,079	204,079	204,079	204,079
Freehold buildings	1,400,691	1,400,691	-	-
Total	1,604,770	1,604,770	204,079	204,079

26.3 Details of land and buildings stated at valuation

Valuer/Location	Date of Valuation	Method of Valuation	Net Book Value before Revaluation		Revaluation Amount		Revaluation Gain/(Loss)		Revaluation Gain/ (Loss) Recognised	
Valuer -C Wellappilli			**Land**	**Building**	**Land**	**Building**	**Land**	**Building**	**Income Statement**	**OCI**
			Rs'Million	**Rs'Million**	**Rs'Million**	**Rs'Million**	**Rs'Million**	**Rs'Million**	**Rs'Million**	**Rs'Million**
No:111,Dudley Senanayake Mawatha,Colombo 08	31.12.2022	Income basis	367.90	1,400.69	424.50	1,400.69	56.60	-	-	56.60
Total			367.90	1,400.69	424.50	1,400.69	56.60	-	-	56.60

Significant unobservable inputs	**Range (weighted average) 2022**
Estimated price per perch	Rs.5 Million-Rs.18 Million

"Significant increases/ (decreases) of significant unobservable input (Estimated price per perch) would result in a significantly higher/ (lower) fair value".

26.4 Freehold land and buildings

Location	Land extent Perches	Buildings Sq.ft	No. of Buildings in the Location	Cost/Revaluation of Land	Cost/Revaluation of Building	Total Value	Accumulated Depreciation	2022 Net Book Value	*2021 Net Book Value
				Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
No:111,Dudley Senanayake Mawatha,Colombo 08	29.1	61,370	1	424,500	1,400,691	1,825,191	-	1,825,191	367,900
				424,500	1,400,691	1,825,191	-	1,825,191	367,900

*The Company's Head Office building was under work-in-progress as at 31 December 2021. Cost incurred up to the reporting date on the building is included under capital work-in-progress of the Company.

26. PROPERTY, PLANT & EQUIPMENT(Contd..)

26.5 Fully Depreciated Property, Plant and Equipment

A class-wise analysis of the initial cost of fully depreciated property, plant and equipment of the Company which are still in use as at reporting date is as follows.

As at 31 December	2022 Rs. '000	2021 Rs. '000
Computer equipment	62,376	46,908
Fixtures	127,875	110,750
Motor vehicles	1,742	1,742
Office equipment	47,810	29,976
Office furniture	21,800	16,205
Computer software	129,764	41,161
Total	391,367	246,742

26.6 Temporarily idle Property, Plant and Equipment

The Company does not have any temporarily idle property, plant & equipment as at 31 December 2022 (2021-NIL).

26.7 Title restriction on Property, Plant and Equipment

There were no restrictions on the title of property, plant and equipment as at 31 December 2022 (2021: NIL).

26.8 Property, Plant and Equipment pledged as security against liabilities

The freehold land and building of the Company has been pledged as a security against a term loan arrangement with the Parent Company - Sampath Bank PLC.

26.9 Compensation from third parties for items of Property, Plant and Equipment

There were no compensations received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2021: NIL).

27. RIGHT-OF-USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year.

	2022 Rs. '000	2021 Rs. '000
Cost		
Balance as at 01 January	690,926	613,552
Additions and improvements	89,670	77,374
Cost as at 31 December	780,596	690,926
Accumulated amortisation		
Balance as at 01 January	328,056	210,973
Amortisation expenses for the year	80,696	117,083
Accumulated amortisation as at 31 December	408,752	328,056
Net book value as at 31 December	371,844	362,870

27. RIGHT-OF-USE ASSETS (Contd…)

27.1 Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumptions

27.1.1 Sensitivity to Discount Rates

1% increase/(decrease) in discount rate as at 31 December 2022 would have (decreased)/increased the lease liability by approximately Rs.11.48 Million with a similar (decrease)/increase in the right-of-use asset. Had the Company increased/(decreased) the discount rate by 1%, the Company's profit before tax for the year would have (decreased)/increased by approximately Rs.1.04 Million.

27.1.2 Sensitivity to Lease Term

Had the lease term of all existing lease agreements been increased by further one year, lease liability of the Company as at 31 December 2022 would have increased by Rs. 223.7 Million with a similar increase in the right-of-use assets. Further, this would reduce the profit before tax of the Company by Rs. 126.7 Million.

28. DEFERRED TAX LIABILITIES/(ASSETS)

Deferred Tax (Assets), Liabilities and Income Tax relates to the following.

	Accelerated depreciation for tax purposes		Provision for loan losses	Revaluation on land	Retirement benefit obligation	Total
	Property, plant & equipment Rs.000	Leased assets Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 01 January 2021	3,271	203,982	99,659	45,870	(24,433)	328,349
Income statement						
Due to rate revision	(467)	(29,140)	(14,404)	-	2,618	(41,394)
Due to change in temporary differences	(5,284)	(89,903)	(260,596)	-	(3,953)	(359,737)
Other comprehensive income						
Due to rate revision	-	-	-	(6,553)	813	(5,739)
Due to change in temporary differences	-	-	-	-	30	30
Balance as at 31 December 2021	(2,480)	84,938	(175,342)	39,317	(24,925)	(78,492)
Income statement						
Due to rate revision	(621)	21,235	(43,835)	-	(5,109)	(28,330)
Due to change in temporary differences	25,444	(88,523)	(77,670)	-	(7,012)	(147,761)
Other comprehensive income						
Due to rate revision	-	-	-	9,829	(1,123)	8,706
Due to change in temporary differences	-	-	-	16,980	3,112	20,092
Balance as at 31 December 2022	22,343	17,650	(296,847)	66,126	(35,057)	(225,785)

29. INTANGIBLE ASSETS

ACCOUNTING POLICY

Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible assets.

Intangible assets acquired are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

Subsequent Expenditure

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

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 the Income Statement when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Intangible assets of the Company as at 31 December 2022 only include computer software and cost of licenses. Rates of amortization for computer software and licenses are given in Note 11.2, 'Depreciation & amortization expenses'.

	2022 Rs. '000	2021 Rs. '000
Cost		
Balance as at 01 January	141,590	131,373
Additions and improvements	5,029	10,217
Transfers / adjustments	6,479	-
Write off during the year	-	-
Cost as at 31 December	153,098	141,590
Accumulated amortisation		
Balance as at 01 January	120,743	96,750
Amortisation for the year	17,064	23,993
Write off during the year	-	-
Accumulated amortisation as at 31 December	137,807	120,743
Net book value as at 31 December	15,291	20,847

30. DUE TO OTHER CUSTOMERS

	2022 Rs. '000	2021 Rs. '000
Term deposits	19,220,136	16,977,557
Saving deposits	121,910	137,366
	19,342,046	17,114,923

31. DEBT ISSUED AND OTHER BORROWED FUNDS

	2022 Rs. '000	2021 Rs. '000
Loans (31.2)	7,973,063	10,809,899
Securitizations (31.3)	2,375,589	-
Redeemable debentures (31.4)	5,237,136	6,267,615
	15,585,788	17,077,514

The company has not had any default of principal, interest or other breaches with regard to any liability during 2021 & 2022.

31.1 Movement in Debt issued and other borrowed funds

	2021 Rs. '000	Grantings/ Accrual Rs. '000	Repayments Rs. '000	2022 Rs. '000
Long-term borrowings & securitizations	6,384,386	3,173,000	(2,557,303)	7,000,083
Short-term borrowings	4,400,000	(1,350,000)	-	3,050,000
Redeemable debentures	6,000,000	-	(1,000,000)	5,000,000
Capital outstanding of debt issued and other borrowed funds	16,784,386	1,823,000	(3,557,303)	15,050,083
Interest on debt issued and other borrowed funds	293,128	3,246,663	(3,004,086)	535,705
	17,077,514	5,069,663	(6,561,389)	15,585,788

31.2 Loans - on terms

	Period	Amortised cost 2022 Rs. '000	Amortised cost 2021 Rs. '000
Short term loans			
Sampath Bank PLC	01 Month	1,759,493	700,997
Nations Trust Bank PLC	03 Months	1,311,521	1,703,158
Seylan Bank PLC	03 Months	-	2,007,257
		3,071,014	4,411,412
Long term loans			
Sampath Bank PLC	60-240 Months	2,646,733	2,236,741
Commercial Bank PLC	60 Months	1,300,734	1,882,482
Hatton National Bank PLC	60 Months	852,866	1,776,800
Seylan Bank PLC	60 Months	101,716	502,464
		4,902,049	6,398,487
		7,973,063	10,809,899

31.2.1 Loans - on maturity

As at 31 December 2022	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Short term loans and long lerm loans payable	4,898,097	3,074,966	7,973,063
	4,898,097	3,074,966	7,973,063

31. DEBT ISSUED AND OTHER BORROWED FUNDS (Contd..)

31.3 Securitizations

As at 31 December 2022	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Securitizations payable	1,886,338	489,251	2,375,589
	1,886,338	489,251	2,375,589

31.4 Redeemable debentures - movement

	2022 Rs. '000	2021 Rs. '000
Balance as at 01 January	6,267,615	5,840,552
Debentures issued	-	1,500,000
Debentures redeemed	(1,000,000)	(1,078,010)
	5,267,615	6,262,542
Interest payable	661,371	700,554
Interest paid	(691,850)	(695,481)
Balance as at 31 December	5,237,136	6,267,615

31.4.1 Redeemable debentures - maturity

As at 31 December 2022	Payable within 1 Year Rs'000	Payable after 1 Year Rs'000	Total Rs'000
Debentures payable	2,237,136	3,000,000	5,237,136
	2,237,136	3,000,000	5,237,136

31.4.2 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of Interest	Amortised cost 2022 Rs. '000	Amortised cost 2021 Rs'000
Rated unsecured subordinated redeemable debentures *	10,000,000	04-Oct-17	04-Oct-22	12.50%	-	1,030,479
Rated unsecured subordinated redeemable debentures	15,000,000	08-Aug-19	08-Aug-24	13.33%	1,579,980	1,579,980
Rated unsecured senior redeemable debentures	20,000,000	07-Jul-20	07-Jul-23	11.25%	2,109,726	2,109,726
Rated unsecured subordinated redeemable debentures	15,000,000	01-Sep-21	01-Sep-26	9.46%	1,547,430	1,547,430
					5,237,136	6,267,615

*The Company has redeemed these debentures on 04 October 2022.

32. OTHER PAYABLES

	2022 Rs'000	2021 Rs'000
Financial Liabilities		
Vendor payable	26,563	260,998
Insurance premium payable	243,267	100,489
Lease liabilities(Note 32.1 & 32.2)	439,373	414,660
Other financial liabilities	474,285	272,907
	1,183,488	1,049,054
Non Financial Liabilities		
Other taxes payable	42,987	111,953
Accrued expenses	29,750	36,604
Deposit insurance premium	2,346	2,116
Deferred guarantee income	44	49
Other non financial liabilities	45,727	67,895
	120,854	218,617
	1,304,342	1,267,671

32.1 Movement of lease liabilities during the year is as follows.

	2022 Rs'000	2021 Rs'000
Balance as at 01 January	414,660	441,322
Additions	89,670	77,374
Accretion of interest (Note 6.2)	51,322	50,219
Payments during the year	(116,279)	(154,255)
Balance as at 31 December	439,373	414,660

32.2 Maturity analysis of lease liabilities

	2022 Rs'000	2021 Rs'000
Less than 1 year	173,930	146,845
1 to 5 years	228,022	193,371
More than 5 years	37,421	74,444
Total lease liabilities as at 31 December	439,373	414,660

33. CURRENT TAX LIABILITIES

	2022 Rs'000	2021 Rs'000
Balance as at 01 January	768,927	118,150
Current tax based on profit for the year (Note 13.1)	445,238	876,882
Over provision in respect of previous years (Note 13.1)	39,621	(44,220)
Payment of tax	(901,606)	(181,885)
Balance as at 31 December	352,180	768,927

34. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2022 by Messrs. Piyal S Goonethilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

34.1 Defined benefit obligation reconciliation

	2022 Rs'000	2021 Rs'000
Balance as at 01 January	103,853	87,260
Amount recognised in the income statement (34.2)	31,978	22,247
Amounts recognised in other comprehensive income (34.3)	(10,374)	123
Benefits paid by the plan	(8,605)	(5,777)
Balance as at 31 December	116,852	103,853

34.2 Amount recognised in the Income Statement

	2022 Rs'000	2021 Rs'000
Current service cost for the year	20,035	18,496
Interest on the defined benefit liability	11,943	6,980
Gain on plan amendment during the year	-	(3,229)
Total amount recognised in income statement	31,978	22,247

34.3 Amounts recognised in Other Comprehensive Income (OCI)

	2022 Rs'000	2021 Rs'000
Actuarial (gain)/loss due to changes in assumptions		
-Financial assumptions	(7,049)	(601)
-Demographic assumptions	-	-
Liability experience (gains)/losses arising during the year	(3,325)	724
Total amount recognized in OCI	(10,374)	123

34.4 Assumptions

	2022	2021
Financial assumptions*		
Discount rate	18.00%	11.50%
Future salary increment rate	17.00%	10.90%
Demographic assumptions		
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age	60 years	60 years

*Discount rate used for the actuarial valuation was revised during the year due to changes in market interest rates. Future salary increment rate too was revised to fall in line with the change in market interest rates.

Expected average future working life of the active participants is 16.4 years. (2021: 16.4 years)
The weighted average duration of the defined benefit obligation is 15.3 years(2021:15.7 years)

34. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

34.5 Sensitivity assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Gratuity liability is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2022		2021	
Variable	**Rate Change**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**	**Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**	**Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)**
Discount rate	1.00%	13.61 Million	(13.61 Million)	13.04 Million	(13.04 Million)
Discount rate	-1.00%	(16.25 Million)	16.25 Million	(15.80 Million)	15.80 Million
Salary Increment rate	1.00%	(16.00 Million)	16.00 Million	(15.50 Million)	15.50 Million
Salary Increment rate	-1.00%	13.65 Million	(13.65 Million)	13.04 Million	(13.04 Million)

35. STATED CAPITAL

	2022		2021	
	No. of shares	**Rs.000**	**No. of shares**	**Rs.000**
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01 January	91,973,156	2,346,095	76,212,072	1,522,881
Rights issue	-	-	13,725,490	700,000
Scrip dividend	5,192,855	328,344	2,035,594	123,214
Ordinary shares as at 31 December	97,166,011	2,674,439	91,973,156	2,346,095

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

35.1 Share application money pending allotment

Share application money pending allotment as at 01 January 2021 represented applications received from existing shareholders on rights issue of shares. The equity shares have been allotted against the aforementioned share application money during the year 2021.

36. STATUTORY RESERVE FUND

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year is transferred to the Reserve Fund as long as the capital funds are not less than 25% of total deposit liabilities.

As at 31 December	**2022 Rs.000**	**2021 Rs.000**
Balance as at 01 January	240,000	185,000
Transfer during the year	38,000	55,000
Balance as at 31 December	278,000	240,000

37. REVALUATION RESERVE

Revaluation Reserve represents the fair value changes of freehold land and building as at the date of revaluation.

As at 31 December	**2022 Rs.000**	**2021 Rs.000**
Balance as at 01 January	124,504	117,951
Revaluation surplus(net of tax)	39,620	-
Deferred tax effect on revaluation surplus due to rate change	(9,829)	6,553
Balance as at 31 December	154,295	124,504

38. RETAINED EARNINGS

This represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

39. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Equity instruments at fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income primarily consist of unquoted equity securities. Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

Variable rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value and non financial assets carried at fair value in the financial statements.

	2022 Rs. '000					2021 Rs. '000				
		Fair value measurement using					Fair value measurement using			
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
FINANCIAL ASSETS										
Factoring receivables	112,793	-	112,793	-	112,793	153,483	-	153,483	-	153,483
Gold loan receivables	8,666,076	-	8,601,188	-	8,601,188	5,781,780	-	5,781,405	-	5,781,405
Loan receivables	993,460	-	1,017,788	-	1,017,788	1,643,806	-	1,836,732	-	1,836,732
Lease receivables	24,862,538	-	23,133,443	-	23,133,443	29,088,209	-	32,175,996	-	32,175,996
Debt instruments at amortised cost	5,461,866	-	5,461,866	-	5,461,866	900,241	-	900,241	-	900,241
Equity instruments at fair value through OCI	56	-	-	56	56	56	-	-	56	56
Hire purchase receivables	1,247	-	2,664	-	2,664	934	-	3,300	-	3,300
TOTAL FINANCIAL ASSETS	40,098,036	-	38,329,742	56	38,329,798	37,568,509	-	40,851,157	56	40,851,213
FINANCIAL LIABILITIES										
Due to other customers	19,342,046	-	19,132,931	-	19,132,931	17,114,923	-	17,632,330	-	17,632,330
Debt instruments issued and other borrowed funds	15,585,788	-	14,720,996	-	14,720,996	17,077,514	-	17,112,936	-	17,112,936
TOTAL FINANCIAL LIABILITIES	34,927,834	-	33,853,927	-	33,853,927	34,192,437	-	34,745,266	-	34,745,266

There were no transfers between levels of fair value hierarchy during 2021 and 2022.

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature ore re-priced to current market rates frequently.

Assets
Cash and bank balances
Securities purchased under repurchase agreements
Placements with banks
Other assets

Liabilities
Bank overdraft
Other payables

40. RISK MANAGEMENT

40.1 Introduction

Risk is inherent in the financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

40.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies. The Integrated Risk Management Committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of the BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

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

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 5 of 2021 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 4 Directors, Managing Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, the Risk Management function is managed by the Risk Management Department (RMD). The RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

40. RISK MANAGEMENT (Contd…)

40.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defense". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigating measures suggested.

Credit Risk	**1.Default Risk** Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations **2. Concentration Risk** Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	· Probability of Default · Loss Given Default · Sector / Asset / Client / Branch Concentrations of Lending Portfolio · Concentrations in Repossessed assets · Macro Credit Portfolio risk measures such as a) Provision Coverage b) Net NPL as a % of Equity Funds	· Board approved credit policies/ procedures/ framework and annual review · Delegated authority levels/ segregation of duties · Setting Prudential limits on maximum exposure - Overall NPL Ratio setting based on risk appetite - Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios - Concentration limits for clients/ groups, asset types · Monitoring of exposures against the limits · Trend analysis reported to BIRMC Strict compliance with CBSL Guidelines
Interest rate risk	Adverse effect on Net Interest Income	· Net Interest Yield and Movement in Net Interest Yield · Lending to Borrowing Ratio · Tracking of Movements in Money Market rates · Marginal Cost of funds / Risk based Pricing · Gaps in asset Liability Re-Pricing · Cumulative Gaps as a % of Cumulative Liabilities	· Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets · Setting of Lending to Borrowing ratios · Gaps limits for structural liquidity, · Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets
Liquidity Risk	Inability to meet obligations as they fall due	· Gaps in dynamic liquidity flows · Stocks of high quality liquid assets	· Volatile Liability Dependency measures · Balance sheet ratios

40. RISK MANAGEMENT (Contd…)

40.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Management of Credit Risk

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

40.4.1 Impairment Assessment

The methodology of the impairment assessment has explained in Note 3.1.8 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

40. RISK MANAGEMENT (Contd…)

40.4.1. (a) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

* Internal assessment of the borrower indicating default or near-default
* The borrower requesting emergency funding from the Company
* The borrower having past due liabilities to public creditors or employees
* The borrower is deceased
* A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
* A material decrease in the borrower's turnover or the loss of a major customer
* A covenant breach not waived by the Company
* The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
* Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

40.4.1(b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the SLFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

Since March 2020, The Company is focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka. As per industry guidance given by the Central Bank and the Institute of Chartered Accountants of Sri Lanka, eligibility for the debt moratorium does not automatically result in a significant increase in credit risk (SICR) which moves an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL).Further,the expected impacts of the adverse macro-economic conditions too have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome.Accordingly, as explained in Note 3.1.8, a case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stage 2. The Company has identified industries such as tourism, manufacturing, construction (including condominiums), and transportation as industries carrying an increased credit risk. Accordingly, exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and has specifically identified as stage 1.

This approach ensures the volume of exposures in stage 2 reflects a forward-looking view of the economy and not just what is observable as at the reporting date.An analysis of the loans classified under stage 2 is given in Note 40.4.1(i).

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

40.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

As at 31 December	2022				2021			
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Cash & cash equivalents	40	-	-	40	20	-	-	20
Loans & Advances:								
Factoring receivables	25,860	-	230,615	256,475	8,840	-	344,224	353,064
Gold loan receivables	14,001	12,740	13,641	40,382	7,599	9,941	7,747	25,287
Loan receivables	1,022	77,804	1,231,158	1,309,984	2,049	65,834	1,233,389	1,301,272
Lease receivables	101,710	808,955	1,653,360	2,564,025	122,119	673,994	1,785,607	2,581,720
Hire purchase receivables	-	-	1,323	1,323	-	23	1,973	1,996
Repossessed stock	-	-	97,903	97,903	-	-	85,699	85,699
Insurance premium receivable			4,802	4,802			4,901	4,901
Insurance commission receivable	-	-	38,272	38,272	-	-	20,217	20,217
Credit related commitments & contingencies	2,817	-	-	2,817	5,431	-	-	5,431
Total impairment for expected credit losses	145,450	899,499	3,271,074	4,316,023	146,058	749,792	3,483,757	4,379,607

40.4.1(d) Movement of the total allowance for expected credit losses during the year

	2022 Rs.000	2021 Rs.000
Balance as at 01 January	4,379,607	2,919,766
Net charge to profit or loss (Note 9)	131,671	1,618,176
Write-off during the year	(195,464)	(147,031)
Interest income accrued on impaired loans & receivables (Note 6.1)	(2,544)	(17,441)
Other movements	2,753	6,137
Balance as at 31 December	4,316,023	4,379,607

The methodology used in the determination of expected credit losses is explained in Note 3.1.8 to Financial Statements. As explained in the said Note, the company has made allowances for overlays where required to address the impacts of the adverse macro-economic conditions and potential implications of COVID-19.

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

40.4.1(e) Credit exposure & provision for impairment movement-Loans & Advances

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts and provision for impairment of loans and advances.

	2022							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount Rs.000	Provision for impairment Rs.000	Gross carrying amount Rs.000	Provision for impairment Rs.000	Gross carrying amount Rs.000	Provision for impairment Rs.000	Gross carrying amount Rs.000	Provision for impairment Rs.000
Loans and advances at amortised cost								
Balance as at 1 January 2022	14,257,347	140,607	16,211,512	749,792	11,018,557	3,463,539	41,487,416	4,353,938
- Transfer to stage 1	2,283,306	99,161	(1,555,411)	(49,279)	(727,895)	(49,882)	-	-
- Transfer to stage 2	(4,060,922)	(98,804)	6,135,900	317,923	(2,074,978)	(219,119)	-	-
- Transfer to stage 3	(1,452,215)	(89,184)	(3,934,051)	(413,097)	5,386,266	502,281	-	-
Net remeasurement of impairment	(20,788)	127	(1,333)	11,086	6,375	37,237	(15,746)	48,450
New financial assets originated or purchased	7,811,321	124,794	7,168,570	442,424	3,150,915	452,931	18,130,806	1,020,149
Financial assets that have been derecognised	(5,942,038)	(34,354)	(7,753,876)	(160,125)	(6,367,473)	(759,272)	(20,063,387)	(953,751)
Write-offs	-	-	-	-	(195,892)	(195,892)	(195,892)	(195,892)
Interest accrued on impaired loans and advances	-	-	-	-	-	(2,544)	-	(2,544)
Other changes	-	-	-	-	-	2,753	-	2,753
Changes to contractual cash flows due to modifications not resulting in derecognition	25,697	246	21,772	777	3,568	769	51,037	1,792
Balance as at 31 December 2022	12,901,708	142,593	16,293,083	899,501	10,199,443	3,232,801	39,394,234	4,274,895

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

40.4.1(e) Credit exposure & provision for impairment movement-Loans & Advances (Contd…)

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount Rs.000	Provision for impairment Rs.000	Gross carrying amount Rs.000	Provision for impairment Rs.000	Gross carrying amount Rs.000	Provision for impairment Rs.000	Gross carrying amount Rs.000	Provision for impairment Rs.000
Loans and advances at amortised cost								
Balance as at 1 January 2021	15,374,407	120,071	12,740,119	295,797	11,237,582	2,502,764	39,352,108	2,918,632
- Transfer to stage 1	2,086,474	65,873	(1,434,159)	(23,666)	(652,315)	(42,207)	-	-
- Transfer to stage 2	(4,326,053)	(112,494)	5,630,331	225,460	(1,304,278)	(112,966)	-	-
- Transfer to stage 3	(1,929,326)	(110,667)	(4,696,870)	(396,068)	6,626,196	506,735	-	-
Net remeasurement of impairment	-	823	-	965	-	350,267	-	352,055
New financial assets originated or purchased	10,062,710	217,137	10,214,146	728,604	2,130,887	1,005,037	22,407,743	1,950,778
Financial assets that have been derecognised	(7,096,077)	(40,645)	(6,282,499)	(82,451)	(6,875,533)	(588,042)	(20,254,109)	(711,138)
Write-offs	-	-	-	-	(147,031)	(147,031)	(147,031)	(147,031)
Interest accrued on impaired loans and advances	-	-	-	-	-	(17,441)	-	(17,441)
Other changes	-	-	-	-	-	6,137	-	6,137
Changes to contractual cash flows due to modifications not resulting in derecognition	85,212	509	40,444	1,151	3,049	286	128,705	1,946
Balance as at 31 December 2021	14,257,347	140,607	16,211,512	749,792	11,018,557	3,463,539	41,487,416	4,353,938

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

40.4.1(f) Sensitivity of factors used to determine impairment provisions

COVID-19 and recent adverse macro-economic conditions introduced significant estimation uncertainty in relation to measurement of Company’s allowance for expected credit losses.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Company should be considered as a best estimate within a range of possible estimates.

The following table demonstrates the sensitivity of the impairment provision of the Company to a feasible change in property realisation period, PDs, LGDs and forward looking macro-economic information.

As at 31 December 2022

	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Change in Property realisation period of individually significant impaired customers					
- Advanced by one year	-	-	(34,775)	(34,775)	34,775
- Deferred by one year	-	-	73,509	73,509	(73,509)
Change in Probability of Default (PD)					
- Increase existing PD by 10% across all age buckets	73,847	161,939	0	235,786	(235,786)
- Decrease existing PD by 10% across all age buckets	(72,942)	(150,898)	0	(223,839)	223,839
Change in Loss Given Default (LGD)					
- 1% increase	29,024	91,827	68,195	189,046	(189,046)
- 1% decrease	(24,840)	(91,392)	(59,357)	(175,590)	175,590
Change in Economic Factor Adjustment(EFA)					
- Worse case 5% increase, best case 5% decrease, base case constant	295	1,599	1,495	3,389	(3,389)
- Worse case 5% decrease, best case 5% increase, base case constant	(526)	(2,862)	(0)	(3,388)	3,388

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

As at 31 December 2021

	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Change in Property realisation period of individually significant impaired customers					
- Advanced by one year	-	-	(50,639)	(50,639)	50,639
- Deferred by one year	-	-	54,780	54,780	(54,780)
Change in Probability of Default (PD)					
- Increase existing PD by 10% across all age buckets	102,366	120,564	-	222,930	(222,930)
- Decrease existing PD by 10% across all age buckets	(87,683)	(121,301)	-	(208,984)	208,984
Change in Loss Given Default (LGD)					
- 1% increase	24,403	78,435	76,531	179,369	(179,369)
- 1% decrease	(19,683)	(75,633)	(75,540)	(170,856)	170,856
Change in Economic Factor Adjustment(EFA)					
- Worse case 5% increase, best case 5% decrease, base case constant	1,867	2,330	-	4,197	(4,197)
- Worse case 5% decrease, best case 5% increase, base case constant	307	(2,847)	-	(2,539)	2,539

40.4.1(g) Collateral held

The table below sets out the carrying amount and the value of identifiable collateral (mainly commercial property) held against loans and advances to measured at amortised cost. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

	2022		2021	
	Amortised Cost	Collateral	Amortised Cost	Collateral
	Rs.000	Rs.000	Rs.000	Rs.000
Stage 1 and Stage 2	29,194,791	29,243,540	30,468,859	30,544,524
Stage 3	10,199,443	10,826,853	11,018,557	11,650,152

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

Collateral and other credit enhancement

	2022		2021	
	Amortised Cost Rs.000	**Collateral Rs.000**	**Amortised Cost Rs.000**	**Collateral Rs.000**
Stage 1				
Cash Collateral	401,724	401,724	413,708	413,708
Property, plant and machinery	-	-	3,024	19,300
Treasury Guarantee	-	-	-	-
Vehicles	7,277,512	7,277,512	10,177,963	10,177,963
Gold Articles	4,897,108	4,897,108	3,257,576	3,257,576
Others	325,364	325,364	405,076	405,076
Unsecured	-	-	-	-
	12,901,708	12,901,708	14,257,347	14,273,623
Stage 2				
Cash Collateral	48,742	48,742	27,444	27,444
Property, plant and machinery	10,051	58,800	17,836	77,225
Treasury Guarantee	-	-	-	-
Vehicles	13,940,304	13,940,304	14,217,180	14,217,180
Gold Articles	2,026,868	2,026,868	1,518,376	1,518,376
Others	267,118	267,118	430,676	430,676
Unsecured	-	-	-	-
	16,293,083	16,341,832	16,211,512	16,270,901
Stage 3				
Cash Collateral	22,479	22,479	39,661	39,661
Property, plant and machinery	582,090	1,209,500	653,953	1,285,548
Treasury Guarantee	-	-	-	-
Vehicles	6,211,316	6,211,316	7,277,715	7,277,715
Gold Articles	1,782,483	1,782,483	1,031,114	1,031,114
Others	1,601,075	1,601,075	2,016,114	2,016,114
Unsecured	-	-	-	-
	10,199,443	10,826,853	11,018,557	11,650,152

Assets obtained by taking possession of collateral

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and a transparent manner and the proceeds are used to reduce or recover the outstanding claims and the amounts recovered in excess of the dues are refunded to the customers.

40. RISK MANAGEMENT (Contd…)

40.4.1(h) Breakdown of loans classified under stage 2

Loans classified under the Stage 2 includes contractually past due loans and loans which have been pushed to Stage 2 based on the criteria specified in the Note 40.4.1(b).

	2022				2021			
	Not Contractually Past due	Contractually Past due 31 - 60 Days	Contractually Past due 61 - 90 Days	Total	Not Contractually Past due	Contractually Past due 31 - 60 Days	Contractually Past due 61 - 90 Days	Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Factoring receivables	-	-	-	-	-	-	-	-
Gold loan receivables	-	1,487,484	539,384	2,026,868	-	859,324	659,051	1,518,375
Loan receivables	125,797	46,293	32,118	204,208	235,415	67,193	93,960	396,568
Lease receivables	8,088,305	3,359,507	2,492,492	13,940,304	8,331,771	3,498,377	2,385,699	14,215,847
Hire purchase receivables	-	-	-	-	-	1,331	-	1,331
	8,214,102	4,893,284	3,063,994	16,171,380	8,567,186	4,426,225	3,138,710	16,132,121

40.4.1(i) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

An analysis of rescheduled/restructured loans and advances of the Company which are in stage 2 and stage 3 is given below along with the impairment for ECL. This does not include individually significant impaired loans and advances for which ECLs have been derived by discounting future cash flows of such loans.

As at 31 December	2022							2021						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value	Gross Carrying Value			Allowance for ECL			Net Carrying
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total		Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Loan receivables	2,982	116,534	119,516	202	55,069	55,271	64,245	2,535	62,152	64,687	156	8,972	9,128	55,559
Lease receivables	579,161	644,072	1,223,233	25,130	233,774	258,904	964,329	455,497	832,926	1,288,423	17,325	334,014	351,339	937,084
	582,143	760,606	1,342,749	25,332	288,843	314,175	1,028,574	458,032	895,078	1,353,110	17,481	342,986	360,467	992,643

40.4.1(j) Overview of rescheduled/restructured loans & advances upgraded during the year

The Company upgrades rescheduled/restructured loans from Stage 3/Stage 2 to Stage 1 as per the upgrading policy described in Note 3.1.8.10 of the Financial Statements. During the year the Company upgraded Rs 150.3 Million worth of rescheduled/restructured loans to Stage 1. Due to this upgrade, the impairment provision against these loans decreased from Rs 9.74 Million as at 31 December 2021 to Rs 1.23 Million as at 31 December 2022.

40.4.1(k) Analysis of the loans and advances eligible for the COVID-19 Debt Moratorium

Following table shows the stage-wise analysis of loan and advances which are under COVID -19 debt moratorium.

As at 31 December	2022		2021	
	Amortised Cost	Allowance for ECL	Amortised Cost	Allowance for ECL
	Rs 000	Rs 000	Rs 000	Rs 000
Stage 1	382,589	19,949	759,704	29,764
Stage 2	775,805	51,684	1,909,637	125,662
Stage 3	1,392,843	569,280	3,341,707	645,763
	2,551,237	640,913	6,011,048	801,189

The Company made an additional provision against moratorium loans by the way of an allowance for overlay. The Company made this additional provision, anticipating that some of the moratorium loans would move from current classification to Stage 2 and Stage 3 once the moratorium lapses. The cumulative impairment provision available against moratorium loans as at 31 December 2022 amounted to Rs.640.9 Million.

40. RISK MANAGEMENT (Contd…)

40.4.2 Risks on Credit-related Commitments

The Company makes available to its customers, guarantees that may require the Company to make payments on behalf of customers and enters into commitments to extend credit lines to secure their liquidity needs. Letters of guarantees are commitments to make payments on behalf of customers in the event of a specific act. Such commitments expose the Company to risks similar to loans and are mitigated by the same control processes and policies.

40.4.3 Maximum Exposure to Credit Risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained include mortgages over residential properties, motor vehicles, gold etc.

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Company's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

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 does not provide for any allowances for ECL against financial assets secured by cash/deposits held within the Company. Further, no allowance for ECL has been recognised for government securities denominated in Sri Lankan rupees, other financial assets secured by government guarantees, treasury bills and treasury bonds.

The following table shows the maximum exposure and net exposure to credit risk by class of financial assets.

As at 31 December	2022		2021	
	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE
	Rs'000	Rs. '000	Rs'000	Rs. '000
Financial Assets				
Cash and bank balances	221,187	69,892	250,277	115,680
Securities purchased under repurchase agreements	-	-	1,839,911	-
Factoring receivables	112,793	66,171	153,483	100,370
Gold loan receivables	8,666,076	-	5,781,780	-
Loan receivables	993,460	91,757	1,643,806	164,427
Lease receivables	24,862,538	-	29,088,209	-
Hire purchase receivables	1,247	-	934	-
Other assets	512,671	374,248	487,930	296,003
Equity instruments at fair value through OCI	56	56	56	56
Debt instruments at amortised cost	5,461,866	-	900,241	-
Total Financial Assets	**40,831,894**	**602,124**	**40,146,627**	**676,536**

Approximately 97% (2021:97%) of the loans and receivables are secured against securities including movable property, gold, lease receivables etc. Further, 1.1% and 1.4% (2021:1.2% and 1.3%) of the loans and receivables of the Company are secured against immovable property and deposits held within the Company respectively.

40. RISK MANAGEMENT (Contd…)

40.4.4 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

40.4.5 Financial assets & liabilities not subject to offsetting

Amounts that do not qualify for offsetting include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of other predetermined events. Such netting arrangements include repurchase arrangements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below.

	2022			2021		
	Gross amount Rs.'000	Amount subject to netting but do not qualify for offsetting Rs.'000	Net amount Rs.'000	Gross amount Rs.'000	Amount subject to netting but do not qualify for offsetting Rs.'000	Net amount Rs.'000
Financial Assets						
Loan receivables	534,860	472,945	61,915	583,026	482,737	100,289

40. RISK MANAGEMENT (Contd…)

40.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position, including geography of counterparty and industry.

As at 31 December 2022 — **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	221,187	-	-	221,187
Factoring receivables	64,936	-	24,979	14,757	-	-	8,121	-	-	-	-	112,793
Gold loan receivables	-	-	-	-	-	-	-	-	-	8,666,076	-	8,666,076
Loan receivables	106,445	28,465	19,943	167,767	263,364	32,134	158,893	-	-	147,652	68,797	993,460
Lease receivables	2,504,138	629,857	2,884,084	4,709,360	1,666,865	2,657,512	7,068,695	-	717,488	1,609,790	414,749	24,862,538
Hire purchase receivables	-	-	140	-	-	-	-	-	1,107	-	-	1,247
Other assets	34,015	17,299	33,722	62,136	30,048	42,879	86,779	-	86,877	98,538	20,378	512,671
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	5,461,866	-	-	-	5,461,866
	2,709,534	675,621	2,962,868	4,954,020	1,960,277	2,732,525	7,322,488	5,461,866	1,026,715	10,522,056	503,924	40,831,894

As at 31 December 2021 — **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	250,277	-	-	250,277
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,839,911	-	-	-	1,839,911
Factoring receivables	91,297	-	21,227	22,111	1,924	-	16,924	-	-	-	-	153,483
Gold loan receivables	-	-	-	-	-	-	-	-	-	5,781,780	-	5,781,780
Loan receivables	175,070	43,193	68,673	345,905	240,439	95,928	313,874	-	-	179,861	180,863	1,643,806
Lease receivables	2,810,907	969,467	3,363,755	5,308,071	2,027,471	2,985,648	8,563,301	-	1,063,539	1,529,408	466,642	29,088,209
Hire purchase receivables	-	-	-	-	-	-	-	-	934	-	-	934
Other assets	24,744	18,739	28,910	55,661	25,780	32,586	74,952	-	104,579	106,412	15,567	487,930
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	900,241	-	-	-	900,241
	3,102,018	1,031,399	3,482,565	5,731,748	2,295,614	3,114,162	8,969,051	2,740,152	1,419,385	7,597,461	663,072	40,146,627

The provisional breakdown for factoring, gold loan,loans,leasing and hire purchases is as follows.

Province	**2022**	**2021**
	Rs.'000	**Rs.'000**
Central	4,922,634	4,907,336
Eastern	3,229,180	3,439,816
North Central	1,488,157	1,534,123
North Western	3,504,393	3,883,754
Northern	1,210,334	1,062,923
Sabaragamuwa	2,106,806	2,283,725
Southern	2,554,501	2,587,624
Uva	463,725	524,493
Western	15,156,384	16,444,418
Total	34,636,114	36,668,212

40. RISK MANAGEMENT (Contd…)

40.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.

-Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

40.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

			Rs. Million
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2022	**2022**	**2022**
Term Loans linked to AWPLR	1/ (-1)	(23.82)/23.82	0.36%
	0.5 / (0.5)	(11.91)/11.91	0.18%
	0.25 / (0.25)	(5.96)/5.96	0.09%
	2021	**2021**	**2021**
Term Loans linked to AWPLR	1/ (-1)	(102.93)/102.93	1.65%
	0.5 / (0.5)	(51.46)/51.46	0.83%
	0.25 / (0.25)	(25.73)/25.73	0.41%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 29.72% (2021-61.32%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

40. RISK MANAGEMENT (Contd…)

40.5.2 Interest Rate Risk (Contd..)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

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

As at 31 December 2022	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Financial Assets							
Cash and bank balances	221,187	-	-	-	-	-	221,187
Factoring receivables	24,993	87,800	-	-	-	-	112,793
Lease receivables	4,605,809	6,337,816	10,693,891	3,197,900	27,122	-	24,862,538
Hire purchase receivables	723	112	412	-	-	-	1,247
Gold loan receivables	6,887,916	1,778,160	-	-	-	-	8,666,076
Loan receivables	562,446	168,213	144,060	91,808	26,933	-	993,460
Other assets	13,800	33,208	60,172	50,029	154	355,308	512,671
Equity instruments at FVOCI	-	-	-	-	56	-	56
Debt instruments at amortised cost	2,767,729	2,694,137	-	-	-	-	5,461,866
Total Financial Assets	15,084,603	11,099,446	10,898,535	3,339,737	54,265	355,308	40,831,894
Financial Liabilities							
Bank overdraft	826,180	-	-	-	-	-	826,180
Due to other customers	2,395,725	13,272,327	1,700,276	1,970,799	2,919	-	19,342,046
Debt instruments issued and other borrowed funds	7,870,951	3,933,923	2,189,255	1,591,659	-	-	15,585,788
Other payables	-	-	-	-	-	1,183,488	1,183,488
Total Financial Liabilities	11,092,856	17,206,250	3,889,531	3,562,458	2,919	1,183,488	36,937,502
Interest Sensitivity Gap	3,991,747	(6,106,804)	7,009,004	(222,721)	51,346	(828,180)	3,894,392

As at 31 December 2021	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Financial Assets							
Cash and bank balances	250,277	-	-	-	-	-	250,277
Securities purchased under repurchase agreements	369,283	1,470,628	-	-	-	-	1,839,911
Factoring receivables	25,477	128,006	-	-	-	-	153,483
Lease receivables	4,362,727	7,093,477	12,546,582	4,994,849	90,574	-	29,088,209
Hire purchase receivables	489	63	382	-	-	-	934
Gold loan receivables	4,554,911	1,226,869	-	-	-	-	5,781,780
Loan receivables	790,478	349,767	356,338	94,732	52,491	-	1,643,806
Other assets	5,671	39,538	80,997	63,894	1,828	296,002	487,930
Equity instruments at FVOCI	-	-	-	-	56	-	56
Debt instruments at amortised cost	-	900,241	-	-	-	-	900,241
Total Financial Assets	10,359,313	11,208,589	12,984,299	5,153,475	144,949	296,002	40,146,627
Financial Liabilities							
Bank overdraft	191,266	-	-	-	-	-	191,266
Due to other customers	5,626,382	9,510,671	1,521,150	454,795	1,925	-	17,114,923
Debt instruments issued and other borrowed funds	10,343,232	1,342,615	3,700,000	1,691,667	-	-	17,077,514
Other payables	-	-	-	-	-	1,049,054	1,049,054
Total Financial Liabilities	16,160,880	10,853,286	5,221,150	2,146,462	1,925	1,049,054	35,432,757
Interest Sensitivity Gap	(5,801,567)	355,303	7,763,149	3,007,013	143,024	(753,052)	4,713,870

40. RISK MANAGEMENT (Contd…)

40.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

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

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.

- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.

- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

40. RISK MANAGEMENT (Contd…)

40.6 Liquidity Risk (Contd..)

40.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013 and amendments thereto.

The Company's liquid asset ratio is 15.95% (2021-7.62%) of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction and amendments thereto). Liquid assets are maintained with Sri Lanka Government securities.

40.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 December 2022.

The tables below summarise the maturity profile of the expected undiscounted cash flows of the Company's financial assets and financial liabilities as at 31 December 2022. However, the Company expects that many customers will not request repayment on the earliest date it could be required to pay and the tables do not reflect the expected cash flows indicated by its deposit retention history based on the behavioural pattern.

As at 31 December 2022	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	221,187	-	-	-	-	221,187
Factoring receivables	740,600	111,517	-	-	-	852,117
Lease receivables	6,345,405	9,599,411	14,946,779	3,944,241	30,957	34,866,793
Hire purchase receivables	2,006	327	863	-	-	3,196
Gold loan receivables	7,046,520	2,127,615	-	-	-	9,174,135
Loan receivables	1,516,600	381,787	326,967	208,375	61,132	2,494,861
Other assets	377,583	39,635	64,225	50,012	154	531,609
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	2,850,000	2,963,599	-	-	-	5,813,599
Total Financial Assets	19,099,901	15,223,891	15,338,834	4,202,628	92,299	53,957,553
Financial Liabilities						
Bank overdraft	826,180	-	-	-	-	826,180
Due to other customers	2,711,944	15,722,879	2,267,034	3,725,801	2,918	24,430,576
Debt instruments issued and other borrowed funds	4,352,690	6,701,296	5,258,900	2,644,710	2,699,037	21,656,633
Other payables	749,218	85,282	213,967	164,856	169,297	1,382,620
Total Financial Liabilities	8,640,032	22,509,457	7,739,901	6,535,367	2,871,252	48,296,009
Net Financial Asset/Liabilities	10,459,869	(7,285,566)	7,598,933	(2,332,739)	(2,778,953)	5,661,544

As at 31 December 2021	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	250,277	-	-	-	-	250,277
Securities purchased under repurchase agreements	370,074	1,508,366	-	-	-	1,878,440
Factoring receivables	824,958	149,040	-	-	-	973,998
Lease receivables	6,004,703	10,658,366	17,555,952	6,126,068	105,718	40,450,807
Hire purchase receivables	2,064	327	1,298	-	-	3,689
Gold loan receivables	4,613,821	1,378,991	-	-	-	5,992,812
Loan receivables	1,756,890	615,796	628,596	167,112	92,597	3,260,991
Other assets	298,555	58,806	100,227	70,977	1,882	530,447
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	918,000	-	-	-	918,000
Total Financial Assets	14,121,342	15,287,692	18,286,073	6,364,157	200,253	54,259,517
Financial Liabilities						
Bank overdraft	191,266	-	-	-	-	191,266
Due to other customers	6,015,351	10,373,097	1,800,534	492,804	1,925	18,683,711
Debt instruments issued and other borrowed funds	5,406,486	3,823,034	7,985,187	2,318,245	436,089	19,969,041
Other payables	638,512	72,466	187,472	151,106	173,549	1,223,105
Total Financial Liabilities	12,251,615	14,268,597	9,973,193	2,962,155	611,563	40,067,123
Net Financial Asset/Liabilities	1,869,727	1,019,095	8,312,880	3,402,002	(411,310)	14,192,394

41. MATURITY ANALYSIS

As at 31 December 2022	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	221,187	-	-	-	-	221,187
Factoring receivables	24,993	87,800	-	-	-	112,793
Lease receivables	4,605,809	6,337,816	10,693,891	3,197,900	27,122	24,862,538
Hire purchase receivables	723	112	412	-	-	1,247
Gold loan receivables	6,887,916	1,778,160	-	-	-	8,666,076
Loan receivables	562,446	168,213	144,060	91,808	26,933	993,460
Other assets	376,199	92,843	82,422	57,228	16,146	624,838
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	2,767,729	2,694,137	-	-	-	5,461,866
Property, plant & equipment	-	-	-	-	2,537,582	2,537,582
Right-of-use assets	49,755	56,647	166,045	61,976	37,421	371,844
Deferred tax assets	-	-	-	-	225,785	225,785
Intangible assets	-	-	-	-	15,291	15,291
Total Assets	15,496,757	11,215,728	11,086,830	3,408,912	2,886,336	44,094,563
Liabilities						
Bank overdraft	826,180	-	-	-	-	826,180
Due to other customers	2,395,725	13,272,327	1,700,276	1,970,799	2,919	19,342,046
Debt instruments issued and other borrowed funds	3,887,642	5,133,929	3,558,058	1,728,459	1,277,700	15,585,788
Other payables	982,209	56,691	166,045	61,976	37,421	1,304,342
Income taxation payable	-	352,180	-	-	-	352,180
Retirement benefit obligations	-	-	-	-	116,852	116,852
Total Liabilities	8,091,756	18,815,127	5,424,379	3,761,234	1,434,892	37,527,388

As at 31 December 2021	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	250,277	-	-	-	-	250,277
Securities purchased under repurchase agreements	369,283	1,470,628	-	-	-	1,839,911
Factoring receivables	25,477	128,006	-	-	-	153,483
Lease receivables	4,362,727	7,093,477	12,546,582	4,994,849	90,574	29,088,209
Hire purchase receivables	489	63	382	-	-	934
Gold loan receivables	4,554,911	1,226,869	-	-	-	5,781,780
Loan receivables	790,478	349,767	356,338	94,732	52,491	1,643,806
Other assets	380,923	70,333	97,150	71,157	17,564	637,127
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	900,241	-	-	-	900,241
Property, plant & equipment	-	-	-	-	1,992,215	1,992,215
Right-of-use assets	-	-	-	-	362,870	362,870
	-	-	-	-	78,492	78,492
Intangible assets	-	-	-	-	20,847	20,847
Total Assets	10,734,565	11,239,384	13,000,452	5,160,738	2,615,109	42,750,248
Total Liabilities						
Bank overdraft	191,266	-	-	-	-	191,266
Due to other customers	5,626,382	9,510,671	1,521,150	454,795	1,925	17,114,923
Debt instruments issued and other borrowed funds	5,225,455	2,976,891	6,600,639	1,928,429	346,100	17,077,514
Other payables	948,493	51,362	115,788	77,583	74,445	1,267,671
Income taxation payable	-	768,927	-	-	-	768,927
Retirement benefit obligations	-	-	-	-	103,853	103,853
Total Liabilities	11,991,596	13,307,851	8,237,577	2,460,807	526,323	36,524,154

42. COMMITMENTS AND CONTINGENCIES

	2022					2021				
	Rs. '000					Rs. '000				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Credit related commitments & contingencies										
Undrawn-direct credit facilities										
- Factoring	8,766	-	-	-	8,766	37,998	-	-	-	37,998
-Revolving Loans	-	-	-	-	-	-	-	-	-	-
Guarantees	-	5,700	-	-	5,700	-	6,200	-	-	6,200
Impairment for expected credit losses - credit related commitments & contingencies	(2,817)	-	-	-	(2,817)	(5,431)	-	-	-	(5,431)
	5,949	5,700	-	-	11,649	32,567	6,200	-	-	38,767
Other commitments & contingencies										
Capital commitments(Note 42.3)	-	3,538	-	-	3,538	-	393,594	-	-	393,594
Commitments & contingencies net of impairment for expected credit losses	5,949	9,238	-	-	15,187	32,567	399,794	-	-	432,361

42.1 Analysis of Credit Related Commitments and Contingencies based on the Exposure to Credit Risk

	2022				2021			
	Rs'000 Stage 1	Rs'000 Stage 2	Rs'000 Stage 3	Rs'000 Total	Rs'000 Stage 1	Rs'000 Stage 2	Rs'000 Stage 3	Rs'000 Total
Unutilised facilities-Direct credit facilities	8,766	-	-	8,766	37,998	-	-	37,998
Guarantees	5,700	-	-	5,700	6,200	-	-	6,200
Impairment for Expected Credit Losses	(2,817)	-	-	(2,817)	(5,431)	-	-	(5,431)
	11,649	-	-	11,649	38,767	-	-	38,767

42.2 Impairment for Expected Credit Losses- Credit Related Commitments and Contingencies

	2022				2021			
	Rs'000 Stage 1	Rs'000 Stage 2	Rs'000 Stage 3	Rs'000 Total	Rs'000 Stage 1	Rs'000 Stage 2	Rs'000 Stage 3	Rs'000 Total
Balance as at 01 January	5,431	-	-	5,431	752	365	-	1,117
Net charge for the year (Note 9)	(2,614)	-	-	(2,614)	4,679	(365)	-	4,314
Balance as at 31 December	2,817	-	-	2,817	5,431	-	-	5,431

42.3 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

	2022 Rs'000	2021 Rs'000
Approved and contracted for	3,538	383,792
Approved but not contracted for	-	9,802
	3,538	393,594

42.3 Other Contingent Liabilities

42.3.1 Litigation against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken and in that light, the Company has formal controls and policies for managing and defending the legal actions instituted against it. Pursuant to obtaining professional advice and estimating any loss likely to be incurred, adjustments are made to the accounts of the Company in order to accommodate any adverse effects that such claims may have on its financial standing. There was no pending litigation against the Company as at 31 December 2022 which would have a material impact on the Financial Statements other than those disclosed below.

The following case instituted against the Company is currently being adjudicated before Court:

D C Kandy Case No. DLM/213/2018

Previous owner of the customer's property has filed an action against the present owner and Siyapatha Finance PLC, challenging the Deed of Transfer between herself and the customer but the case is not hearing in court now. Siyapatha Finance PLC has already filed action against the customer under case No. CHC/452/18/MR demanding a sum of Rs.19,363,739.24, which is fixed for trial on 04 May 2023 and negotiating settlement with customer for a full settlement.

42.3.2 Litigation on Employment and Industrial Relations

There are no material legal issues outstanding against the Company on employment and industrial relations as at 31 December 2022.

Other than those disclosed above there is no case filed against the Company which would have material impact on the financial position of the Company.

43. EVENTS AFTER THE REPORTING PERIOD

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements other than the following.

Revision of National Long-Term Rating by Fitch Ratings Lanka Limited

Fitch Ratings Lanka Limited has revised their ratings of 05 Sri Lankan Finance and Leasing Companies including Siyapatha Finance PLC on 19 January 2023 following the recent sovereign downgrade and recalibration of Agency's Sri Lankan national rating scale.

Accordingly, the Company's National Long-Term rating has been revised down to 'BBB+ (lka)/RWN' from 'A(lka)/RWN'.Further, Fitch has assigned 'BBB-(lka)RWN' rating for Company's subordinated debentures.

44. RELATED PARTY TRANSACTIONS

The Company carry out transactions in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standards - LKAS 24 (Related Party Disclosures), the details of which are reported below.

44.1 Terms and Conditions

The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers with similar credit standing.

44.2 Parent and Ultimate Controlling Party

The Company is 100% owned by Sampath Bank PLC. Hence, Sampath Bank PLC is the parent company and the ultimate controlling party.

44.3 Transactions with Key Managerial Personnel

As per Sri Lanka Accounting Standard - LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition, a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity).Such KMPs include the Board of Directors of the Company, Managing Director and the KMPs of the Sampath Bank PLC.

	2022 Rs'000	2021 Rs'000
Directors' fees & short term employee benefits	58,538	57,042
Total	58,538	57,042

In addition to the above, the Company has also paid for fuel and medical benefits to KMP who are employees of the Company in line with the approved benefit plans of the Company.

44.4 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

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

As at 31 December	2022 Rs'000	2021 Rs'000
Loans and advances	-	-
Term/Savings deposits	232,987	238,970
Debentures	7,500	22,500

For the year ended 31 December	2022 Rs'000	2021 Rs'000
Interest on term/savings deposits	30,595	17,870
Interest on Debentures	2,423	2,875

44.5 Transactions with Group Companies

44.5.1 Sampath Bank PLC - Parent Company

The Company has obtained short term loans, term loans and overdraft facilities from the bank. All the transactions with the bank were on terms and conditions similar to facilities obtained through other banks.

As at 31 December	2022 Rs'000	2021 Rs'000
Investment in government securities - REPOs/Treasury bills		
Opening Balance	-	1,000,116
Net investments during the year	876,841	(1,000,116)
Closing Balance	876,841	-
Other receivables	-	-
Other payables	23	-

44. RELATED PARTY TRANSACTIONS (Contd..)

44.5 Transactions with Group Companies (Contd..)

44.5.1 Sampath Bank PLC (Contd..)

	2022 Rs'000	2021 Rs'000
Term Loan (Only capital)		
Opening Balance	2,233,333	2,970,333
Granted during the year	1,000,000	500,000
Less : Repayment during the year	(600,000)	(1,237,000)
Closing Balance	2,633,333	2,233,333
Short Term Loan (Only capital)	1,750,000	700,000
Bank Overdraft	822,727	191,266
Total Accommodation obtained	5,206,060	3,124,599
Less : Favourable balances in current accounts with bank	(64,489)	(107,438)
Net Accommodation	5,141,571	3,017,161
Net Accommodation as a percentage of Capital Funds	78.29%	48.46%

For the year ended 31 December	2022 Rs'000	2021 Rs'000
Expenses		
Interest expenses	1,000,499	219,852
Fees paid for acting as Bankers to the debentures issued in year 2021 & 2020.	-	298
Other expenses	3,854	1,626
Income		
Fee for locating ATM machines at Company's branch premises operations	220	480
Interest Income on short term government securities	235,618	1,096
Interest Income on call/savings deposits	1,956	1,385

The company has invested in short term government securities through Sampath Bank PLC.

	2022	2021
Issue of scrip dividend		
Scrip Dividend(Gross)-number of shares-5,192,855(2021-2,035,594)	328,344	123,214

44.5.2 Sampath Information Technology Solutions Ltd

Sampath Information Technology Solutions Ltd is a subsidiary of Sampath Bank PLC which is the parent undertaking of Siyapatha Finance PLC.

The Company has obtained Hardware/ Software maintenance services from SITS and payments were made as per the maintenance agreement. The Company has purchased Leasing/ Loan Management & Pawning software and the same is disclosed below.

As at 31 December	2022 Rs'000	2021 Rs'000
Facilities granted	2,238	3,976

For the year ended 31 December	2022 Rs'000	2021 Rs'000
Interest Income on leasing facility granted	404	641
Hardware/Software maintenance paid	12,140	4,192
Operating lease expenses(Computer hire charges)	-	23

44.5.3 Sampath Centre Ltd

	2022 Rs'000	2021 Rs'000
As at 31 December		
Facilities granted	45,072	-
Deposits	50,000	-

For the year ended 31 December	2022 Rs'000	2021 Rs'000
Interest income on loan facility granted	72	-
Interest expense on deposits	13,290	-

44.5.4 SC Securities (Pvt) Limited

	2022 Rs'000	2021 Rs'000
As at 31 December		
Deposits	7,852	-
For the year ended 31 December		
Interest expense on deposits	853	-
Fees paid for acting as Managers to the debentures issued in year 2021	-	1,125

45. SEGMENT INFORMATION

ACCOUNTING POLICY

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue 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.

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

- Leasing and hire purchase
- Gold Loan
- Others

Leasing, hire purchase represents the finance leasing, hire purchase businesses of the Company where as gold loan represents gold loan product offered to the customers. All other business activities other than the above are segmented under "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, which in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on collective basis and not allocated to operating segments.

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Company's total revenue in 2021 & 2022.

The following table presents income,profit,total assets and total liabilities of the Company's operating segments.

	Leasing and Hire Purchase		Gold Loan		Others		Total	
For the year ended 31 December	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Interest Income	6,079,385	5,503,942	1,891,860	963,655	298,544	318,839	8,269,789	6,786,436
Less: Interest expenses	(4,338,968)	(2,193,075)	(965,703)	(339,936)	(483,480)	(280,717)	(5,788,151)	(2,813,728)
Net interest income	1,740,417	3,310,867	926,157	623,719	(184,936)	38,122	2,481,638	3,972,708
Net fee and commission income	168,085	180,867	141,575	99,656	525	501	310,185	281,024
Other operating income	678,064	1,000,141	-	-	37,295	79,730	715,359	1,079,871
Total operating income	2,586,566	4,491,875	1,067,732	723,375	(147,116)	118,353	3,507,182	5,333,603
Less: Impairment (charges)/reversal on loans and losses	(203,352)	(1,135,639)	(15,094)	(14,529)	86,775	(468,008)	(131,671)	(1,618,176)
Net operating income	2,383,214	3,356,236	1,052,638	708,846	(60,341)	(349,655)	3,375,511	3,715,427
Less: Total operating expenses (Including Taxes on financial services)	(1,759,434)	(1,694,030)	(385,570)	(316,560)	(166,770)	(178,763)	(2,311,774)	(2,189,353)
Operating profit before taxes	623,780	1,662,206	667,068	392,286	(227,111)	(528,418)	1,063,737	1,526,074
Less: Income tax expenses							(308,768)	(431,531)
Profit for the year							754,969	1,094,543
Non-controlling interest							-	-
Profit attributable to equity holders of the Company							754,969	1,094,543
As at 31 December	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Segment assets	24,863,784	29,089,143	8,666,076	5,781,780	10,564,703	7,879,325	44,094,563	42,750,248
Total assets	24,863,784	29,089,143	8,666,076	5,781,780	10,564,703	7,879,325	44,094,563	42,750,248
Segment liabilities	21,156,092	24,852,636	7,373,790	4,939,728	8,997,506	6,731,790	37,527,388	36,524,154
Total liabilities	21,156,092	24,852,636	7,373,790	4,939,728	8,997,506	6,731,790	37,527,388	36,524,154

46. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

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

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka(CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly, finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 12.5% and a minimum core capital adequacy ratio (Tier I) of 8.5%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.