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சியபத பினான்ஸ்
Siyapatha Finance
(Finance Company of Sampath Bank Group)

REINFORCING QUALITY & TRUST

SIYAPATHA FINANCE PLC

ANNUAL REPORT

2022

REINFORCING QUALITY & TRUST

Navigating through a challenging business landscape, Siyapatha Finance PLC reshaped and transformed its business model and portfolio to be future- fit and agile. The company seized every opportunity to develop resilience through difficult circumstances to emerge stronger by reinforcing paradigms of quality and trust.

The challenges we traversed through in 2022 gave us the impetus and the strength to be innovative in a dynamic environment. As we embraced these emerging opportunities, we strengthened our resolve committing to a future ready organization which will create greater dimensions of value for our stakeholders.

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ABOUT US

Our Values

Loyalty

Openness

Trust

Unity

Service Excellence

Our Vison

To be the most innovative and trusted premier financial services provider.

Our Mission

To provide flexible and creative solutions to customers and generate greater values to our stakeholders while assuring corporate governance through an empowered professional team.

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Company Profile

Siyapatha Finance PLC, formerly known as Sampath Leasing & Factoring Limited a fully owned subsidiary of Sampath Bank PLC, was established in March 2005 as a specialized leasing company, licensed and regulated by the Central Bank of Sri Lanka (CBSL) to service the lower end of the SME/ Retail customer segment. Over its 17 years in operation, Siyapatha Finance has grown into the largest subsidiary of Sampath Bank and in September 2013 the entity was rebranded to its current name subsequent to receiving the finance company license by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011. The company's lending portfolio consists of finance leases, hire purchase financing, loans, gold financing, factoring (debt financing) operations and deposits.

Siyapatha Finance PLC is a key player in the country's Non-Bank Financial Institutions sector with a network of 43 branches in principal cities and towns, powered by a dynamic team of 789 employees.

Rating (Issued by Fitch Ratings Lanka):
National Long-Term Rating of 'A(lka)',
Outlook – Stable (as at 31 December 2022)
Current Rating "BBB +(lka)"

MILESTONES

2005

- Incorporation of the Company & obtained 'Specialized Leasing Company' status
- Opening of branches in Kandy & Matara

2010

- Appointment of new Corporate Management

2013

- Received the "Registered Finance Company" Status
- Re-branded as "Siyapatha Finance Limited"
- Launch of Gold Financing business
- Expanded the branch network to 18 branches

2014

- Appointment of New chairman to Board of Directors
- Issuance of its first listed, rated, unsecured, subordinated, redeemable debentures to the value of LKR 1Bn.

2015

- Changed the name to "Siyapatha Finance PLC"
- Commenced Deposit Mobilization from the general public

2016

- Appointment of new Chairman and Managing Director
- Launch of Personal and Business loans
- Relocation of Negombo Branch
- Expansion of branch network to 24 branches. Opened branches in Gamapaha, Kalutara, Trincomalee and Wellawatte
- Issuance of second listed, rated, unsecured, senior, redeemable debentures to the value of LKR 2.5Bn.

2017

- Addition of two branches to the branch network - Galle & Panadura
- Launch of first corporate campaign along with corporate logo and t≠agline "Trust Assured"
- Issuance of rated, unsecured, subordinated, redeemable debentures to the value LKR 1Bn
- Relocation of Kurunegala Metro Branch
- Taking initiatives to implement "Finacle Core Banking System" to become the first in the NBFI sector 2017
- Appointment of new Chairman and two Directors to the Board of Directors

2018

- Appointment of two Directors to the Board of Directors
- Successful Rights Issue to increase the Tier 1 Capital of the company
- Addition of four branches to the Branch network - Kiribathgoda, Maharagama, Wattala and Hatton
- Branch network expanded to 30 branches
- Commenced construction of new head office building

2019

- Appointment of new Managing Director and two New Directors to the Board of Directors
- Issuance of listed, rated, unsecured, subordinated, redeemable debentures to the value of LKR 1.5Bn
- Addition of 5 branches to the network - Piliyandala, Chilaw, Moratuwa, Jaffna and Pettah
- Branch network expanded to 35 branches
- Relocation of Anuradhapura Branch

2020

- Appointment of new Chairman and three New Directors to the Board of Directors
- Issuance of listed, rated, unsecured, senior, redeemable, debentures to the value of LKR 2 Bn
- Addition of 5 branches to the network - Kohuwela, Nittabuwa, Matale, Malabe, Dambulla
- Branch network expanded to 40 branches
- Relocation of Avissawella Branch
- Introduced Siyapatha ATM Card

2021

- Recorded a profit after tax of Rs. 1.1 Bn
- Moving into the new Head Office building – Siyapatha Tower
- Fitch upgrades Siyaptha Finance credit rating to "A(lka) with a Stable outlook from A-(lka)
- Siyapatha Finance was recognized and certified as a "Great Place to Work" in Sri Lanka in the year 2021. Further Siyapatha is among the Top 10 best workplaces in the Banking, Finance and Insurance Industry in Sri Lanka.
- Siyapatha won the Transformation Excellence Golden Award at the InfoSys Finacle Innovation Awards 2021
- Issuance of listed, rated, unsecured, subordinated, redeemable, debentures to the value of LKR 1.5 Bn
- Revamped the Official Siyapatha Website
- Islandwide CSR project covering 11 hospitals in the country

2022

- Recognized and awarded as one of "Sri Lanka's Best 50 Workplaces in 2022". Recognized as one of the "Best Workplaces for Millennials™ in Sri Lanka for 2022. Siyapatha ranked "No.54 on the Best Workplaces in Asia™ in 2022" list in the Large size category.
- Addition of 3 Branches to the network - Nawam Mawatha, Polonnaruwa and Kilinochchi.
- Relocation of Kandy Branch.
- Branch network expanded to 43 branches.

FINANCIAL HIGHLIGHTS

	2022	2021	Change %
Profitability - (Rs Mn)			
Gross income	9,299	8,147	14.14
Total operating income	3,507	5,334	-34.25
Operating expenses & impairment charges	2,043	3,408	-40.05
Operating profit before Taxes on financial services	1,465	1,925	-23.90
Taxes on financial services	401	399	0.50
Profit before income tax	1,064	1,526	-30.28
Income tax expense	309	432	-28.47
Profit for the year	755	1,095	-31.05
Assets & Liabilities (Rs Mn)			
Customer deposits	19,342	17,115	13.01
Other borrowings	16,412	17,269	-4.96
Gross loans & receivables	38,808	40,932	-5.19
Total equity	6,567	6,226	5.48
Total liabilities	37,527	36,524	2.75
Total assets	44,095	42,750	3.15
Investor Information			
Net asset value per share (Rs)	67.59	67.69	-0.15
Earnings per share - Basic /Diluted (Rs)	7.77	11.67	-33.42
Total dividend per share (Rs)	2.33	3.57	-34.73
Gross dividend (Rs Mn)	226.40	328.34	-31.05
Dividend payout ratio (%)	30.00	30.00	-
Regulatory Ratios			
Core capital ratio (Tier I) (%)	16.11	14.74	1.37
Total capital ratio (Tier I+ Tier II) (%)	20.95	21.36	-0.41
Liquid assets ratio (%)	15.95	7.62	8.33
Other Ratios			
Total Impairment on loans as a % of gross loans (%)	10.75	10.42	0.33
Gross stage 3 loans ratio (%)	25.89	26.56	-0.67
Net stage 3 loans ratio (%)	17.68	18.21	-0.53
Net stage 3 loans to core capital ratio (%)	108.64	123.82	-15.18
Stage 3 impairment coverage ratio (%)	31.70	31.43	0.27
Cost to income ratio (%)	54.49	33.56	20.93

Key performance indicators	2022	2021	2020	2019	2018
Profit for the year (Rs. Mn)	754.97	1094.54	409.49	480.19	516.52
Return on average assets (ROA) (%)	1.68	2.59	0.96	1.22	1.50
Return on average shareholders funds (ROE) (%)	11.28	19.16	9.54	12.88	16.84
Growth in total assets (%)	3.14	2.88	1.48	13.22	21.32
Capital adequacy ratios					
Core capital ratio (Tier I) (%)	16.11	14.74	9.77	8.96	9.40
Total capital ratio (Tier I+ Tier II) (%)	20.95	21.36	14.18	14.16	12.21

CHAIRMAN'S MESSAGE

We took significant strides in terms of our digital agenda, and I am of the view that while we have set the foundation, we still have further to go to bring as many features as possible to the periphery.

Dear Shareholder,

As a nation, we have been through an unprecedented year. Similarly, as a financial institution, Siyapatha Finance PLC was challenged like never before, as the ripple effects of the pandemic and the build-up of inherent structural weaknesses of the country took a toll on the economy, society and livelihoods. Yet, despite the volatility, we responded with strength and empathy, and as the nation confronted its challenges, we recognised the essential role we play in the lives of our customers as well as all other key stakeholders and the importance of maintaining stability and consistency.

I am pleased to report that Siyapatha Finance PLC delivered a strong performance in 2022 while switching gears to a new trajectory. The results set out in this report are a testament to our dynamic strategy, the resilience and agility of our business, as well as the sheer determination of our people to move forward against all odds.

Setting our priorities straight

We began the year with a lot of expectations, on course to magnify the phenomenal growth of 2021. We had an excellent first quarter with performance exceeding that of the comparative period of the previous year. However, with the political and economic turbulence that surfaced from April 2022 onwards we had no choice but to tone down our strategy, which was previously set on accelerating the growth of last year, to a more subdued one of survival. Accordingly, the Board took a cautious stance and carefully recalibrated its priorities to maintain stability while supporting customers and keeping all stakeholders closely engaged as the crisis unravelled.

Our primary focus was managing the balance sheet as we erred on the side of caution in terms of our lending appetite and prioritised the quality of assets. The NBFI sector as a whole was exposed to a high level of risk and many customers were faced with significant difficulties in managing their repayments as a result of the increasing interest rates. This necessitated careful scrutiny of credit quality and monitoring of recoveries. As a responsible financial institution, we sought to understand our customers' needs better and wherever possible, helped them to improve their credit standing and delinquency status. The composition of our portfolio mix was also rebalanced as we shifted our focus to small ticket leases and moved away from the high-end vehicle market in order to capitalise on the small business segment and minimise our risk exposure. We also took measures to reduce our borrowings in response to the rising interest rates and this was compensated with the steady growth in deposits.

We took significant strides in terms of our digital agenda, and I am of the view that while we have set the foundation, we still have further to go to bring as many features as possible to the periphery. It is clear that the investments made over the past few years to develop our key

CHAIRMAN'S MESSAGE

technological and operational capabilities have produced positive results specially during these challenging times. Our employees were able to swiftly adapt to the changing business environment with the right digital infrastructure, enabling us to continually deliver an efficient service which our customers are accustomed to. Our aim is to make our processes more effective and productive and once we harness the required capabilities from the system, we intend to provide a more responsive, competitive and agile service to our customers.

Amidst the uncertainty that prevailed, we treaded cautiously on our branch expansion front and opened three new branches in Polonnaruwa, Kilinochchi and Nawam Mawatha. We took this decision with the future in view, as we are hopeful that the economy will gradually recover and stabilize.

We also made it a point to treat our employees the best we could, as they have been our most valued resource. Over the past couple of years, the management and staff of Siyapatha have truly done themselves proud and done proud by the Company. It was gratifying to see how the team stood in solidarity, showing great spirit in the face of potential disruptions to business continuity due to the energy and fuel crisis, to keep the operations going and ensure our customers were efficiently served. We were mindful of the fact that they were stressed and as a Board tried to see how best we could accommodate their requirements.

Sustainable business practices

With the increased attention given to sustainability, the Company took additional steps in the past year to strengthen its actions around the environment, social and governance framework. Over the years we have refined our strategy on financial inclusivity and have increased our penetration towards the small business community. Through our micro leasing facilities and gold loan facilities we have helped individuals and enterprises develop themselves as well as their businesses and turn their visions into reality. We continued to support the growth of the agriculture industry, through our Agri-Lease scheme anchored to a myriad of benefits and opportunities. We remained mindful of the inherent risks associated with agriculture finance and thus, tailored the facilities to match the cashflows of the entrepreneurs and mitigate these risks, while seeking to propel value addition in this sector.

The post covid revival unit established in 2021 with the aim of improving the financial literacy of our customer segments continued their efforts through 2022. Awareness sessions were conducted across the island to educate especially the rural population and the micro, small and medium enterprises community on the benefits they can reap through making the right investment decisions. Financial literacy is essential to the development of a country's financial inclusion, which ultimately contributes significantly to the stability of the financial system, and we are proud to continue helping communities and social enterprises in their endeavours that not only drive innovation but also bring sustainability elements to the forefront of economic development. The team also made it a point to continuously educate our front-line on lending and credit screening protocols used to assess the creditworthiness and legitimacy of customers and spot any red flags before they become a risk.

We are conscious of the growing implications of climate change and continued to monitor our own use of resources as part of a larger cost management exercise through which we aim to reduce our carbon footprint.

On the Corporate Governance front, I wish to state that there were no departures from any of the provisions of the Finance Business Act Directions No. 5 of 2021 on Corporate Governance issued by the Central Bank of Sri Lanka. The Company voluntarily adopted the Code of Best Practices on Corporate Governance 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. We maintain a strong compliance culture within the Company and accordingly, I wish to affirm that we maintained full conformance to the regulatory directions issued by the Central Bank of Sri Lanka while upholding our corporate policies and values.

Business performance

We succeeded in recording commendable results during 2022, underpinned by our strong fundamentals and disciplined management of our asset quality. We concluded the year with a profit after tax of LKR 755 Mn and a profit before tax of LKR 1,064 Mn which I believe was a very creditable achievement given the difficult circumstances in which we operated. Robust cost management strategies coupled with a rigorous focus on recoveries were the key factors that contributed towards safeguarding our bottom line.

The Company's balance sheet marginally expanded, in line with our controlled lending and borrowing strategy. Total assets reached LKR 44.09 Bn as at 31st December 2022 compared to LKR 42.75 Bn recorded at the end of 2021, while the net lending portfolio recorded a decrease of LKR 2.03 Bn reaching LKR 34.64 Bn as at year end.

In terms of other indicators, the Company's net asset value per share reached LKR 67.59 as at year end. The tier 1 capital ratio and the total capital ratio stood at 16.11% and 20.95% respectively as at 31st December 2022, well above the statutory minimum requirement. The statutory liquid asset ratio stood at 15.95% also remaining above the expected regulatory norm.

After careful consideration the Board has proposed a dividend of LKR 2.33 per share to be distributed in the form of a scrip dividend amounting to a total sum of

Sri Lankan Rupees Two Hundred Twenty Six Million Three Hundred Ninety Six Thousand Eight Hundred and Six (LKR 226,396,806), balancing both shareholder expectations as well as the Company's capacity for future growth.

Looking ahead

The outlook for Sri Lanka in the short to medium term is likely to remain volatile, whilst long term stability will hinge on an enabling political environment, rational economic management and the implementation of a debt restructuring program with the support of the International Monetary Fund (IMF). The non-bank financial institutions sector as a whole continued to show great potential, despite the challenging circumstances. Once the IMF agreement comes to fruition the Central Bank should be able to keep the currency strengthened, eventually reduce interest rates, and continue to see inflation ease, which to a certain degree will ease the pressure on the sector. At present we are witnessing a growth in export earnings and tourist arrivals and if we can match our assets and liabilities as well as our cashflows on a national level, I am hopeful that the economy may recover faster than envisaged when we were in the throes of the crisis.

We remain cautiously optimistic about the future and while we hope to pursue a more active growth strategy in the year ahead, we are aware of the challenges we may have to overcome and stand ready to endure these and remain competitive. As we aim to grow our loan book more assertively, we will mainly concentrate on the SME landscape with short-term micro leasing and gold loan products being at the fore.

As informal financial operators continue to plague the industry, we hope to concentrate our efforts on creating more awareness among the general public about transacting with well-established, registered financial institutions and prevent people from falling into the hands of unethical operators.

We are determined to support our customers through these challenging times and will keep on providing the necessary assistance to enable them to weather this storm, while ensuring that our products and services continue to meet their expectations. In looking ahead, we are confident that our prudent strategies and persistent focus on embracing new technology will continue to help us manage the ambiguities and nuances of this challenging era.

We remain hopeful that this dramatic turn of events will usher in sound economic management principles and a new political philosophy which will advocate skilled and competent individuals to take up public office, and in turn pave the way for efficient, committed young leaders to take over the stewardship of our country in the years to come.

Appreciations

As we close a challenging chapter in our journey, I would like to thank my colleagues on the Board for their continued guidance and advice in steering the company through the turbulence.

I take this opportunity to thank our management team, led by the Managing Director, for relentlessly pushing the Company forward in the face of multiple challenges. As we step into yet another rough year, I take comfort in knowing that the business is in safe hands. I wish to once again acknowledge our employees who with utmost determination and dedication, continued to perform exceptionally well while fighting their own battles.

I am grateful to our customers and depositors, who kept their faith in us, and we remain committed to enhancing the value delivered as we move towards realizing our aspirations.

My appreciation goes out to our parent company Sampath Bank PLC for being supportive year on year. Together we have been able to create greater synergies and broaden our vistas.

Finally, I would also like to take this opportunity to extend my gratitude and appreciation to the officials of the Central Bank of Sri Lanka for being very forthcoming and understanding, and the members of the Finance Houses Association of Sri Lanka for uniting as one to withstand some of the industry challenges.

Sumith Cumaranatunga
Chairman

13th March 2023

MANAGING DIRECTOR'S REVIEW

Despite the external headwinds, the Company was successful in recording a profit before tax of LKR 1,064 Mn and a profit after tax of LKR 755 Mn in 2022.

The year 2022 once again tested our resilience! Nevertheless, with careful planning and execution of our strategies we were able to adapt swiftly to the changing circumstances while strategically positioning ourselves better to provide continued value to our stakeholders. The Company managed to achieve a net profit of LKR 755 Mn during the year, which I believe was a great achievement, given the challenging external environmental conditions that prevailed. I am grateful to the Siyapatha team for their hard work and the manner in which they supported each other through the trials and hurdles of the past year. The culture we nurture within the Company continues to be one of our unique strengths, while being guided by our values, we were truly able to drive a positive change and make a difference.

Demonstrating resilience under pressure

Even though we entered 2022 with a sense of confidence and optimism to build on the monumental growth experienced in 2021, crisis and the subsequent negative impacts caused to the business environment which unravelled from early 2022 onwards. Deepening of macro-economic vulnerabilities followed by the sharp depreciation of the Sri Lankan Rupee, plunging the country into an economic crisis which sent shockwaves through the financial services sector as well as other industries across the economy. In this backdrop we adapted and responded swiftly to multiple challenges, by strengthening our resolve and sharpening our focus on several critical areas of the business.

Our key strategic focus for the year was to limit our borrowings and lendings and operate within a selective market segment. We were able to analyse that even though people had the prerequisite to borrow, the rising cost of living and high interest rates weakened their capabilities to repay loans, thus, we adopted a controlled approach towards lending. The Company increased its focus on sectors that could earn and repay loans, thereby we specifically targeted the SME sector, and succeeded in making significant progress in the gold loans segment. We refrained from lending large amounts to borrowers and concentrated mainly on the micro leasing segment. Decisions were taken to reduce our borrowings due to the continuous rise in bank lending rates made it unlucrative to borrow and lend to customers.

We also made it a point to look after our customers and support them to the best of our ability during this crucial time. We extended various benefits to our customers including concessions as instructed by the regulator, and additionally provided voluntary concessions and repayment schemes. Even though this had a negative impact on our profitability, we focused on the importance of sustaining our customers and supporting them to navigate through the challenging period. In light of the prevailing economic uncertainty, the Company continued to be focused on strengthening and improving its credit recoveries and collection processes. As a responsible financial institution, we took the initiative to set up customer clinics to support our customers in distress and educate them on the best possible avenues and solutions of settling their dues. This significantly aided the Company to improve its collections and reduce its bad debts, while in turn supporting customers alleviate their financial vulnerabilities and stresses. As a result, majority of our customers stayed on with us and we were able to meet all our obligations.

The Company opted to consolidate its operations and harness success through segments which offered more potential. We deliberately contracted our large ticket leasing portfolio by 14.85 % to reach LKR 23 Bn as at year end. The loan portfolio was also reduced by 21.79% reflecting a depletion in absolute terms of LKR 642 Mn and the micro leasing portfolio shrank by 4.82% marking an absolute depletion of LKR 221 Mn. The gold loan portfolio however, recorded an impressive growth of LKR 2.90 Bn for the year, demonstrating a portfolio growth rate of 49.90%.

Despite the external headwinds, the Company was successful in recording a profit before tax of LKR 1,064 Mn and a profit after tax of LKR 755 Mn in 2022. However, as a result of the reduction in revenue, we witnessed the cost-to income ratio substantially increase from 33.56% to 54.49% in spite of prudent management of operating expenses.

The Company held a strong asset base of LKR 44.09 Bn as at 31st December 2022. Total liabilities of the Company increased marginally to LKR 37.53 Bn as at 31st December 2022 compared to LKR 36.52 Bn as at 31st December 2021 and the Company's return on assets decreased to 1.68% as at the year end. The deposit base of the Company was maintained at a steady level of LKR 19.34 Bn reflecting a 13% growth from the previous year. This indicates the continued trust and confidence of the fund managers and retail customers that continued to place a substantial quantum of fixed deposits with the Company.

We continued to maintain a cordial relationship with our regulator and ensured compliance with all regulatory requirements. Liquidity and capital adequacy ratios were always maintained above the recommended levels. The Tier I Core Capital Ratio and the Total Capital Ratio stood at 16.11% and 20.95% as at 31st December 2022, well above the respective regulatory capital adequacy requirements of 8.50% and 12.50%.

Delivering operational efficiency

The opportunity to develop resilience comes through difficult circumstances, and the challenges we faced offered us opportunities to revamp our operations and move away from the conventional ways of handling matters. During the year we embraced such opportunities to create change by identifying and eliminating the inefficiencies of our system thus enabling us to be more efficient and productive at what we do.

We had several highly active quality groups assigned to examine our expenses and reduce unproductive and unnecessary costs. Moving forward we focused on creating leaner and more efficient processes, better positioned to grow value by supplying faster and more agile financial services. The reduction in business volumes experienced during the year gave us the time and the opportunity to really focus on our digitalisation agenda. We succeeded in converting several of our manual operations to automated systems, thereby significantly increasing operational efficiency. We also made use of this opportunity to improve the skills of our workforce which assisted in the enhancement of our speed of service delivery with reduction in costs.

We also made sure our team felt valued and focused on providing ample opportunities for growth. Rather than looking at external recruitments we prioritised internal promotions, which in turn improved job satisfaction. We made sure all benefits extended to employees were sustained while introducing new initiatives to keep our staff motivated.

In light of the fuel and transport crisis that emerged during the year, wherever feasible, we allowed our staff to work from home, relaxed the dress code and also arranged special company-funded transport facilities to help employees report to work.

Despite these challenging circumstances, we continued to focus on expanding our footprint and customer reach. Three new branches were opened in Nawam Mawatha, Polonnaruwa and Kilinochchi and the branch in Kandy was relocated to a more customer friendly, convenient location. These expansions were initiated primarily by considering the timely needs of the business and with the intention of prioritising specific products.

Focus on sustainability

With the increased attention given to sustainability and climate change by the general public and the investment community, the Company took additional steps in the past year to ensure we fortify our actions around our Environment, Social and Governance Framework. As mentioned previously, we took the strategic decision to align our portfolio with the changing market requirements and provided solutions that were practical and sustainable. We even ventured into the motorcycle leasing market, a segment which we had not explored much previously, due to the rising demand for motorcycles in place of fourwheel vehicles. In terms of green financing, we continued to support the agriculture industry, offering a range of facilities under the Agri Lease category. Facilities were extended for a wide range of agricultural equipment, providing much needed support to revive this sector.

We also engaged in several corporate social responsibility initiatives in our quest to provide social value. Recognising the crucial role played by the country's public health care system in safeguarding the

MANAGING DIRECTOR'S REVIEW

citizens during the COVID-19 pandemic, Siyapatha Finance made it a top priority to support the health sector for the greater benefit the community. Accordingly, several donations were made to selected outstation hospitals to obtain medical equipment. Further, CSR programmes were initiated to provide food assistance for in-house patients of government hospitals with the participation of branch level staff.

Additionally, in light of the sharp increase in road accidents that have resulted in loss of life as well as serious injuries to both pedestrians as well as commuters, the Company took action to donate road safety equipment and road signage to selected police stations around the country, to help minimise accidents and traffic violations.

High level of involvement with the Finance House Association continued and the Company contributed in various ways towards the benefit and sustainability of the overall industry.

Awards and accolades

It is indeed very gratifying to note that our commitment towards our people had been acknowledged. I am proud to state that Siyapatha Finance was certified as a "Great Place to Work 2022" and was recognized as one of the Top 10 companies in the Banking, Financial Services and Insurance (BFSI) Sector in Sri Lanka. Further to this, Siyapatha Finance PLC was awarded as one of Sri Lanka's Best 50 Workplaces in 2022, recognized as one of the Best Workplaces for Millennials™ in Sri Lanka for 2022 and ranked 54th on the Best Workplaces in Asia™ in 2022 in the large size category. We also clinched the Gold award for Sustainable Development through innovative quality solutions from the National Convention on Quality and Productivity (NCQP 2022), organized by the Sri Lanka Association for the Advancement of Quality and Productivity (SLAAQP). These significant achievements simply bring out the level of trust and commitment displayed by our employees towards the Company.

Future outlook

I believe 2022 was a year in which we reshaped our portfolio and transformed our business for the future. We stand fully equipped to face the challenges of 2023 and are hopeful that the country's economy will rise, allowing us to achieve moderate growth. We hope to add seven additional branches to our portfolio bringing our total branch count to 50 and will be introducing new products to suit the market requirements. We have ambitious plans to improve our deposit base which was previously concentrated on fund managers and the corporate sector and hope to encourage retail deposits across the country. We will also explore lucrative means to handle leases, and target segments that will contribute towards the Company's sustainable growth.

Although risks still point to the downside, both globally and domestically, I believe that all sectors, especially those involved in exports and tourism will experience a revival as depicted by the current uptick of exports earnings and tourist arrivals. Despite external volatility, the fundamentals that underpin our business are positive and strongly position Siyapatha for enduring success and thus, I am enthusiastic about our plans for 2023.

Appreciations

With gratitude, I seize this opportunity to thank our Chairman and the Board of Directors for their foresight and visionary leadership that has paved the way for Siyapatha Finance PLC to continue to grow sustainably regardless of the challenges faced as a Company. I also wish to express my sincere appreciation to the Corporate Management who continued to stand by me and for walking the extra mile during the most challenging period in our history. I am extremely grateful to our employees who amidst all the difficulties, fulfilled their responsibilities with commitment and dedication. We certainly would not have been able to achieve these commendable results without their resolute contribution.

Essentially, I wish to thank our Parent Company, Sampath Bank PLC for being a constant source of support to us. I thank the officials of the Central Bank of Sri Lanka and the Department on Non-Bank Financial Institutions Supervision for their guidance, and for understanding our concerns and providing a positive response when required.

In conclusion, I urge all our stakeholders to stay invested in us as we aspire to accelerate our growth trajectory in the years ahead.

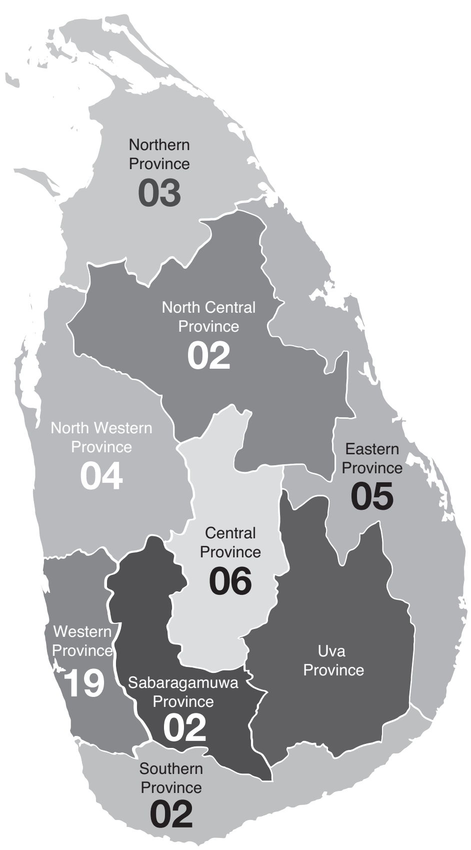
Ananda Seneviratne
Managing Director

13th March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

In spite of the volatile political and economic conditions that prevailed during the year, Siyapatha Finance PLC reported a commendable performance with a consistent growth in assets, by ensuring uninterrupted delivery of high-quality financial services. Focusing on flexible and creative financial solutions, Siyapatha has continued to support diverse groups of customers across the country to recover from persistent COVID aftershocks as well as the economic impact of the national financial crisis. Continually engaging with customers, the Company developed customised solutions to support the recovery of businesses as well as individuals facing increasing hardships within the prevailing environment of decreasing disposable incomes and economic uncertainty. As always, Siyapatha continued to maximise the customer experience by ensuring unmatched service excellence, coupled with greater convenience through



Branch expansion

During the year, we continued to extend our service reach to provide high quality financial solutions for the public by opening three new branches in Nawam Mawatha, Polonnaruwa and Kilinochchi. The three locations were selected with the strategic objective of catering to the financial and business needs of these communities in an efficient and timely manner and to prioritize availability of specific products that would enhance the economic growth of these communities. More prominence was given to micro leasing and gold financing businesses as well as expanding the fixed deposit base. Outstation locations were selected by considering prospective industry performance as well as future potential.

Branch Locations and Addresses

	Branch	Address
1	Head Office	No. 111, Dudley Senanayake Mawatha, Colombo 08
2	Matara	No.5B, Hakmana Road, Matara
3	Kalutara	No. 169, 169/1/1, Main Street, Kalutara
4	Wellawatte	No. 226, Galle Road, Wellawatte
5	Galle	No. 27, Old Matara Road, Pettigala Watte, Galle
6	Panadura	No. 414, Galle Road, Panadura
7	Kurunegala Metro	No. 36, Negombo Road, Kurunegala
8	Kurunegala	No. 254C, Colombo Road, Kurunegala
9	Anuradhapura	No. 10, Maithreepala Senanayaka Mawatha, Anuradhapura
10	Vavuniya	No. 156, Bazaar Street, Vavuniya
11	Kegalle	No. 137, Kandy Road, Kegalle
12	Nuwara-Eliya	No. 28, Kandy Road, Nuwara Eliya
13	Sainthamaruthu	No.1610, Main Street, Sainthamaruthu
14	Kalmunai	No. 172/4, Batticaloa Rd, Kalmunai
15	Batticaloa	No. 257, 259, Trinco Road, Batticoloa
16	Trincomalee	No. 273/A, 273/1/1, Central Road, Trincomalee
17	Negombo	No. 287, Main Street, Negombo
18	Gampaha	No. 3A, Mangala Road, Gampaha
19	Peliyagoda	No. 304, Negombo Road, Peliyagoda
20	Kuliyapitiya	No. 50/52, Kurunegala road, Kuliyapitiya
21	Katugasthota	No. 274/A, Katugasthota Road, Kandy
22	Kandy	No. 28, Hill street, Kandy
23	Ampara	No. 32, D S Senanayake Street, Ampara
24	Nugegoda	No. 181,181/1/1, Stanley Thilakarathne Mawatha, Nugegoda
25	Ratnapura	No. 186, Main Street, Ratnapura
26	Avissawella	No. 16, Colombo Road, Avissawella
27	Kiribathgoda	No 211/1/1, Kandy Road, Kiribathgoda
28	Maharagama	No 137, Piliyandala Road, Maharagama
29	Wattala	No. 540, Negombo Road, Wattala
30	Hatton	No. 07, Circular Road, Hatton
31	Piliyandala	No. 88, Moratuwa Road, Piliyandala
32	Chilaw	No. 111A, Colombo Road, Chilaw
33	Moratuwa	No. 168 Galle Road, Idama, Moratuwa
34	Jaffna	No. 388, Hospital Road, Jaffna
35	Pettah	No. 341, Main Street, Colombo 11
36	Kohuwela	No. 69, 69/1,D.De.S. Jayasinghe Mawatha, Kohuwala
37	Nittabuwa	No. 195, Colombo Road, Nittambuwa
38	Malabe	No. 793/C, Kaduwela Road, Thalangama North, Malabe
39	Matale	No. 313, 315, Trincomalee Street, Matale
40	Dambulla	No. 705, Anuradhapura Road, Dambula
41	Nawam Mawatha	No. 46/12, Nawam Mawatha, Colombo 02
42	Polonnaruwa	No. 804, Main Street, Kaduruwela, Polonnaruwa
43	Kilinochchi	No. 317, Kaka kadai Junction, A9 Road, Kilinochchi

MANAGEMENT DISCUSSION AND ANALYSIS

continued technology enhancements across all delivery channels. This has resulted in both cost and time savings for customers.

Product portfolio

- Leasing: A range of leasing solutions have been developed to suit diverse segments including Corporates, SME's, Self-Employed, Professionals and Executives. Our lifestyle leasing products accommodate tailor-made leasing solutions covering a wide range of assets, offering competitive leasing rates.

- Micro Leasing: Micro Leasing facilities are offered to three-wheelers, motorcycles and buddy trucks to fulfil the leasing requirements of individuals and small-scale enterprises.

- Fixed Deposits & Savings: Our fixed deposits and savings with attractive interest rates offers a higher return for the investments.

- Gold Financing: Our Gold Financing products such as Gold Loans and Business Gold Loan facilities offer financial solutions for the customers with short term funding requirements.

- Factoring: We offer working capital solutions for businesses and organization to continue business operations on credit terms.

- Loans: We offer customer friendly loan schemes which include personal loans, auto loans, educational loans and business loans.

The local economy

The Sri Lankan economy faced multiple challenges and uncertainty during the first half of 2022. The marked increase in the trade deficit in the current account due to the shortfall in foreign currency reserves and default in debt payments gave rise to intense social unrest. The growth momentum observed towards the end of 2021 took a rapid downturn and the real economy fell into a contraction during the first half of 2022, driven by the spill over effects of the unprecedented economic crisis felt across several sectors, owing to fuel shortages, power outages, widespread scarcity of key imported raw materials and other essentials and the soaring cost of production, among other factors. The country witnessed a steady rise in inflation to historically high levels, diminishing the purchasing power of households. Domestic and global supply side disruptions, escalating oil and gas prices, the undertaking of long overdue adjustments in administrative prices, the sharp depreciation of the Sri lanka rupee against the USD and the release of pent-up demand pressures originating from the lagged impact of monetary accommodation in the recent past pushed up inflation to unconceivable levels. However, the second half of the year was relatively more stable, supported by the myriad of multifaceted policy interventions undertaken to steer the economy towards a path of stable and sustainable growth.

Industry performance

The stability of the Licensed Financial Companies (LFCs) and Specialised Leasing Companies (SLCs) was challenged during the year 2022 amidst the crisis conditions that prevailed in the economy. However, amidst this volatile backdrop, the LFCs and SLCs sector experienced a moderate growth during the year in terms of asset base. The sector's expansion was largely embodied by an increase in loans and advances which accounted for 74.43% of the total assets. The concentration on leasing and hire purchase products, the core loan products of the LFCs and SLCs sector, was badly affected mainly as a result of the prolonged restrictions on vehicle imports as a measure to limit forex outflows and the low purchasing power of households. However, the pawning advances of the sector surged to 14.26% at end December 2022 from 8.70% recorded during the previous year. Furthermore, the contractionary monetary policy posed serious challenges to the sector and a considerable increase in gross Stage 3 loans was observed indicating a potential deterioration in the sector's credit quality.

The sector's core capital adequacy ratio (CAR) and total capital adequacy ratio increased to 20.58% and 22.02% respectively, from the prior year record of 15.45% and 17.04%. Moderate growth of risk weighted assets and higher growth of capital led to this higher CAR during the year under review.

The earnings and profits for the sector witnessed a decrease through the year. During the financial year ended 31st December 2022, the sector's net interest income stood at LKR 115.21 Bn, a 12.34% decrease compared to the previous year. The total income for the sector stood at LKR 315.58 Bn while the total expenses stood at LKR 251.17 Bn. The sector made a profit after tax of LKR 43.91 Bn. The liquidity position of the sector remained satisfactory with Regulatory Liquid Assets to Total Assets remaining at 10.67%, a marginal increase compared to the 9.69% in December 2021.

The Central Bank continued to conduct statutory examinations and continuous surveillance of the LFCs, while supervising the issuance of prudential regulations, granting regulatory approvals and investigating into companies carrying on finance business without authority.

Sector outlook

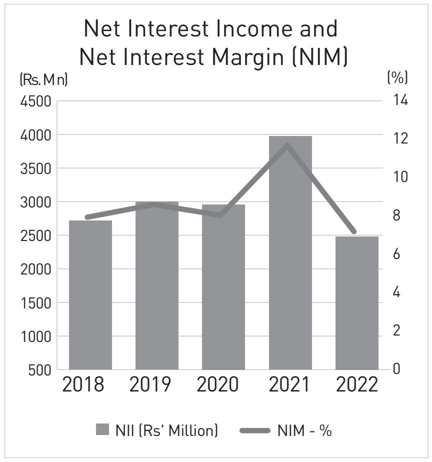
Over the past two years, the financial services industry has demonstrated its ability to successfully navigate unprecedented levels of uncertainty. Financial services organizations across the globe faced the pandemic with remarkable resilience and adaptivity, and played a key role in helping people, organizations and governments get back on track. However, the sector still faces a journey uphill. Now faced with a convergence of geopolitical and economic challenges such as the war in Ukraine, inflation, supply chain disruptions and the possibility of regional or global recession, 2023 promises to be a year in which more regulation and requirements around transparency become marketplace realities. This subdued global economic outlook for the upcoming year may also keep Sri Lanka's economy struggling until 2023 at the earliest. The impacts of the Sri Lankan political and economic turmoil on the financial services sector during the crisis have been profound and with Sri Lanka's economy under pressure the sector will continue to be presented with clear credit risks amid a fragile operating environment.

FINANCIAL REVIEW

Notwithstanding the extremely challenging economic conditions which prevailed, the Company's profit before income tax (PBT) surpassed the LKR 1 Bn mark and recorded LKR 1.06 Bn for the year ended 31st December 2022. Profit after tax (PAT) recorded during the year under review amounted to LKR 754.90 Mn. Despite continuous stress faced by the leasing sector in terms of restrictions on vehicle importation and higher funding costs, the Company continued to operate with adequate levels of capital, statutory liquid assets ratios and provision coverage ratios during the year ended 31st December 2022.

Net interest income (NII)

The Company recorded a total interest income of LKR 8.27 Bn compared to LKR 6.78 Bn reported in the previous year, reflecting an increase of LKR 1.48 Bn. The growth in interest income of the gold loan portfolio by LKR 795.63 Mn was the main contributory factor for such increase in interest income on advances over the year. In addition, interest income from government securities too increased by LKR 678 Mn due to combined effects of the increase in average balances as well as increase in average yield of the government securities.



Interest expenses reported an increase of 105.71% due to the combined effects of increased funding cost and increase in average fund base, recording LKR 5.79 Bn in 2022, from LKR 2.81 Bn recorded in 2021.

The impact of the increase in interest expense resulted in a decrease in net interest income by 37.53%, recording LKR 2.48 Bn in 2022 compared to LKR 3.97 Bn of the prior year. Accordingly, net interest margin (NIM) reported a decrease from 11.60% to 7.11% during the year.

Fee and commission income and other operating income

The Company reported a fee and commission income and other operating income of LKR 1.02 Bn during the year, compared to LKR 1.36 Bn recorded in 2021 indicating a decline of 24.64%. This was mainly due to the decrease in profit on sale of repossessed vehicles and the decrease in credit related documentation fees and charges.

Credit loss expense

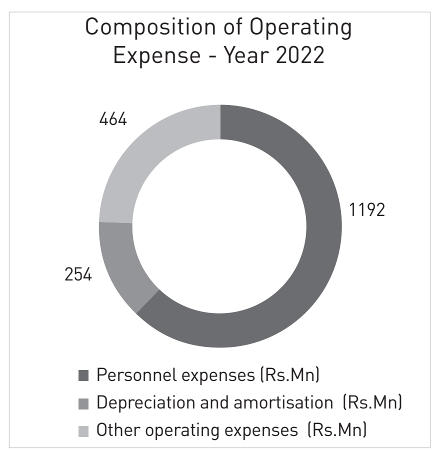
The total impairment charges against loans and advances for the year ended 31st December 2022 stood at LKR 132 Mn, a decrease of LKR 1.48 Bn compared to the previous year. Significantly higher provisioning was made in the previous financial year considering COVID-19 related uncertainties in 2021. Accordingly, it was not required to increase the impairment provision during the year under review as it did in 2021, resulting in a 91.86% drop compared to the previous year. In addition, the previous year impairment charges included a full provision made against few personal/ business loan exposures as a result of increased credit risk.

Operating expenses

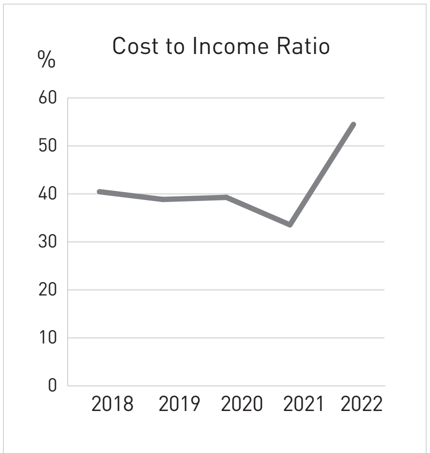
Operating expenses grew by 6.76% over the previous year recording LKR 1.91 Bn for the year ended 31st December 2022.

Personnel expenses accounted for 62.40% of the total operating expenses and amounted to LKR 1.19 Bn, denoting a year-on-year increase of 1.66%.

Other operating expenses (including depreciation and amortization expenses) reported a 16.44% increase compared to the previous year. The cost-to-income (CIR) ratio reflected an increase from 33.56% in 2021 to 54.49% in 2022 mainly due to the decrease of total operating income by 34.24% against the 6.76 % growth in operating expenses.



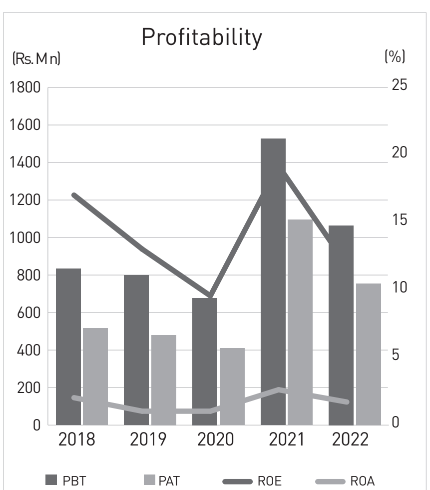
MANAGEMENT DISCUSSION AND ANALYSIS



Profit before tax and profit after tax

Siyapatha posted a profit before tax of LKR 1,064 Mn in 2022 as opposed to LKR 1,526 Mn recorded in 2021, denoting a decrease of 30.30%. The Company recorded a total tax expense of LKR 710 Mn in 2022, marking a decrease of LKR 121 Mn (i.e. 14.60%) against the total tax expense of the preceding year in line with the decrease in profitability. Profit after tax too declined by 31.02% from LKR 1,095 Mn to LKR 755 Mn in 2022.

	2022	2021
ROE	11.82%	19.16%
ROA	1.68%	2.59%



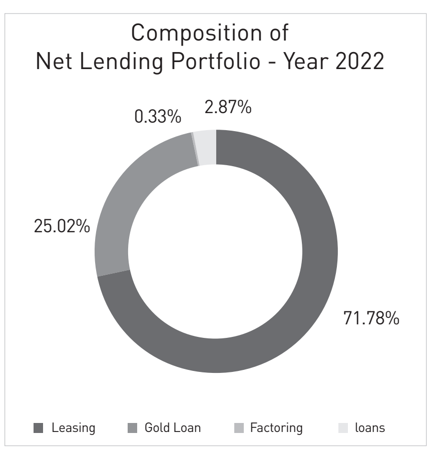
Total assets

Total assets of Siyapatha stood at LKR 44.09 Bn as at the year ended 31st December 2022 compared to LKR 42.75 Bn of the previous year end, recording a growth of LKR 1,344.31 Mn (i.e. 3.14%). The net lending portfolio decreased by LKR 2.03 Bn to LKR 34.64 Bn by the end of the year, compared to LKR 36.67 Bn as at 31st December 2021.

Leasing continued to dominate a major portion of the net lending portfolio and accounted for 71.78% followed by gold loans- 25.02%, loans- 2.87% and factoring accounting for less than 1%. The decline of the leasing portfolio during the year was 14.53%. Net gold loans increased to LKR 8,666 Mn from LKR 5,781 Mn in 2021, recording a 49.89% increase compared to the previous year.

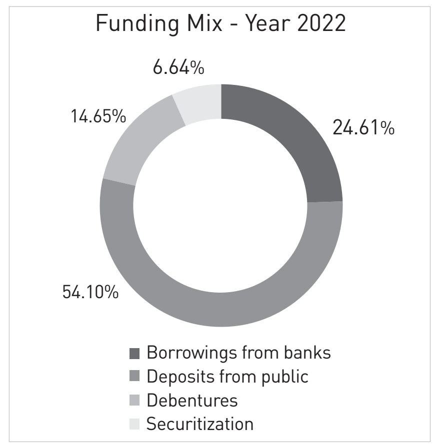
The net loan portfolio, which stood at LKR 1.64 Mn as at 31st December 2021, dropped by 39.56% during the year under review to reach LKR 993 Mn as at 31st December 2022.

The total net lending portfolio recorded a decline of 5.5% recording LKR 34.64 Bn as at 31st December 2022 compared to LKR 36.67 Bn recorded at the end of the previous year, mainly due to the decline in leasing, loans and factoring portfolio exceeding the increase in gold loans portfolio.



Total liabilities

The Company's total liabilities remained at LKR 37.53 Bn as of 31st December 2022 displaying an increase compared to LKR 36.52 Bn as at 31st December 2021. The deposit base of the Company increased by LKR 2.22 Bn during the year, reaching LKR 19.34 Bn as at 31st December 2022.

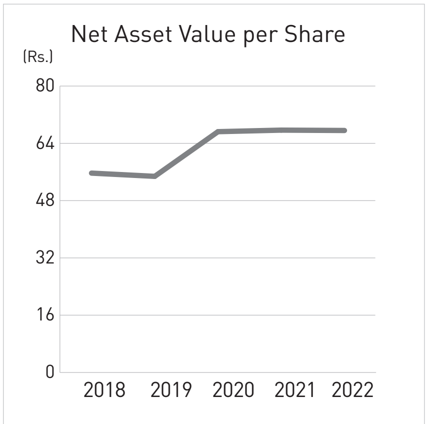


Capital

As at the end of the year under review, total equity comprising of capital, retained earnings and other reserves amounted to LKR 6,567 Mn, up by 5.48% from the previous year. Stated capital increased to LKR 2,674 Mn. The Company's Tier 1 and Total Capital ratios of 16.11% and 20.95% respectively remained well in line with the regulatory capital adequacy requirements reflecting the strength of our financial position.

Net asset value per share and earnings per share

Earnings per share for the financial year 2022 decreased to LKR 7.77 compared to LKR 11.67 recorded as at the end of the previous year. Net asset value per share slightly decreased to LKR 67.59 per share during the year from LKR 67.69 in 2021.



Dividends

Dividend per share decreased to LKR 2.33 for the year 2022 against LKR 3.57 of the prior year due to the decrease in profitability. Dividend for the year 2021 was paid in the form of a scrip dividend facilitating value to shareholders and capital formation for growth plans of the Company.

OPERATIONAL REVIEW

During the financial year 2022, the disposable income of many clients deteriorated further due to the contraction in almost all economic sectors and escalating costs. As a result, their ability to repay loans weakened, triggering a direct impact on the Company's recovery operations. Against this backdrop, Siyapatha Finance placed strategic focus on maintaining financial stability, pursuing selective growth opportunities through capital-efficient lending and robust recovery procedures. Furthermore, customer engagement was strengthened significantly during the year, through which we were able to identify potential pain points, offer advisory services and determine customised plans to ensure commercial survival.

Risks and concerns of 2022

The political instability, social conflict, and economic uncertainty of 2022 posed serious challenges for businesses across the country. Though the spread of Covid-19 virus was successfully controlled in 2021, we saw that the deficiency of the foreign currency to finance imports and repayment of debt lead to a major crisis from mid-2022. The major risks and challenges experienced during the year included the following:

- Uncertain macro environmental variables such as political and economic instability.
- High borrowing costs and increased deposit rates.
- Large value deposit flows to treasury investments created a challenge for FDs.
- Depleted customer disposable incomes.
- Many industries struggling to recover and perform.
- Due to restrictions on vehicle imports, artificial asset prices are created which increases the credit risk.
- Due to high tax rates, disposable incomes of the fixed income earning segment has noticeably reduced.
- Technological risks arising due to new product developments by competitors.
- Retention of human capital

With the objective of easing the economic burdens faced by clients and enhancing benefits for customers, the Company continued to introduce improvements and additional features to its product portfolio. These innovative solutions have contributed towards maintaining customers' lifestyles, while ensuring the delivery of effective and affordable financial products to cope with financial difficulties confronting many customers during the year. Recognising the key role of the agriculture sector within the national economy, Siyapatha Finance continued to support this sector through the Agri Leasing scheme, by facilitating financial aid to purchase agricultural equipment and machinery while seasonal payment options were offered to reduce the financial burden of the farming community.

In addition, special emphasis was placed on the financial needs of daily income earners in industries such as cultivation, plantation and small-scale entrepreneurs to fulfil their urgent financial requirements through Micro Leasing and Gold Financing.

Due to the prevailing economic dynamics in the country, which resulted in the unfavourable performance of some product categories, and enhanced demand for other product categories, changes were experienced across the business portfolio.

- The gold loan portfolio recorded an impressive growth of LKR 2.90 Bn for the year, reaching a portfolio growth rate of 49.89%.
- The large ticket leasing portfolio was deliberately depleted by 14.85 % where the portfolio was already depleted by an absolute value of LKR 4.02 Bn.
- The loan portfolio depleted by 21.79 % with an absolute depletion value of LKR 642 Mn.
- The micro leasing portfolio too declined by 4.82%, thereby marking an absolute depletion of LKR 221 Mn.

The Company responded with the following strategies to mitigate the heightened default risk during the year.

- Building close relationships with customers.
- Providing breathing space to customers during economically difficult times.
- Branch recovery clinics were established to provide effective solutions for customers in arrears.
- Special settlement rebates were provided to settle arrears of customers.

MANAGEMENT DISCUSSION AND ANALYSIS

- Promoting voluntary handovers among the customers with higher arrears.
- Transparent tender processes were carried out to dispose of acquired vehicles at maximum value.

In addition to credit risk monitoring, the Company also takes precautionary action on managing Market, operational, legal, compliance and reputational risks. Further information on this can be found in the Risk Management report on pages 83 to 94.

Key marketing initiatives introduced in 2022

In response to the market volatility that was experienced in the country, no new products were introduced during the year and a strategic decision was made to curtail lending, which limited the Company's marketing communication strategy to specific communication tools and platforms. However PR communication was utilised regularly by highlighting corporate achievements and branch expansion. Greater emphasis was placed on BTL communication activities at branch level to gain market share in the segments of micro leasing and gold financing. Deposits were mainly canvassed through direct marketing and personal selling initiatives.

Preserving the environment – energy conservation and cost optimization

As a responsible entity committed towards sustainable growth, we firmly believe that the restoration of natural resources is a fundamental obligation and always adopt best practices on improving and enhancing environmentally friendly business operations to a great extent.

To make this effort a success, the Company is committed towards minimizing direct environmental impacts from its business by monitoring and assessing the usage of natural resources and strives to adhere to best practices in discharging organic and non–organic waste.

Being a finance company, the impact to the environment from our business is limited to the use of energy, water and paper, whilst outputs from operation will be mainly office waste and emissions from employee travel.

Energy management	We make every effort to use energy in the most efficient, cost effective and environmentally responsible manner. Energy consumed by the Company consists of electricity, which is from the national grid, and fuel used by the Company-owned vehicles and generators. The Company's electricity usage is monitored daily and measured to ensure optimization of energy usage by the Company. Following are the initiatives taken during the current financial year, to reduce electricity consumption. • Introduced LED lighting to branches. • Replaced 500w flasher lights with 50w LED flood lights.
Water management	Being part of the services industry, the Company's water use is limited to consumption and sanitation purposes. Use of this resource is centrally monitored within the Company.
Waste management	The Company has partnered with GEOCYC (Private) Ltd to recycle all used and discarded paper. During the year under review, the Company recycled 408 Kgs of wastepaper. All other forms of waste are segregated as biodegradable and non-biodegradable and disposed responsibly.

IT and innovation

Having successfully integrated many new emerging technologies in the recent past, business process automation was the key area of innovation emphasised on during the current financial year. Within this strategic framework, the Company upgraded the Gold Loan system with a fully automated renewal process and auction module and was able to integrate the risk rating into the system. Further, the digitalization of the Recovery module improved the 360^0-view of processes. Apart from the financial systems, the call centre application was also upgraded to offer the convenience of handling customer inquiries.

Business process automation contributed to higher process efficiency as it replaced the manual intervention of error handling and bottlenecks in workflows. The cost of operations was minimized, resources were optimally utilized, and wastage was eliminated. Further, it streamlined document management completely making it an effortless process. Data organization and retrieval was simplified which contributed towards easier day-to-day task handling and this data is secured with role-based access which ensures the confidentiality of information. Accurate information is transferred smoothly between processes, and this increased employee productivity by leaps and bounds. Additionally, this automation enhanced the Key Performance Indicators (KPI) which are tracked at a glance for multiple processes that are running.

The upgrade of the network infrastructure aligns with industry standard VLAN segregation and the implementation of the Aruba ClearPass Network Access Control which ensures the authentication, verification and authorization of network access, wireless access, and policy enforcement of the network devices, were significant accomplishments in the Company.

Since information security is a matter of high importance, the Company implemented a privilege access monitoring system to improve information security, visibility, compliance, and productivity by managing privileged user access.

Corporate Social Responsibility (CSR)

As a responsible corporate citizen, Siyapatha Finance PLC upholds its tradition of supporting social and environment welfare projects within the country. The concept of CSR is ingrained within the organisation and we remain conscious of our impact on all aspects of society including economic, social, and environmental factors. We have integrated the concept of sustainability across all our business operations and carry out business activities adhering to all applicable legal obligations while continuously investing on enhancing human capital, the environment, and the stakeholders. We persistently remain committed to achieve a balance on economic, environmental, and social imperatives while addressing the expectations of all stakeholders.

The Company greatly values the contribution by the national health care system to the public, which was instrumental in safeguarding citizens during the COVID-19 pandemic and has made it a top priority to support the health services for the wider benefit of all communities. During the year under review, Siyapatha Finance PLC maintained its focus on supporting the healthcare sector through CSR initiatives aimed at strengthening public medical facilities in the country by providing donations to selected outstation hospitals to obtain medical equipment.

Further, the Company introduced CSR initiatives to provide food assistance for in-house patients of government hospitals through the participation of branch level staff.

Following the sharp increase in road accidents that have resulted in loss of life as well as serious injuries to both pedestrians as well as commuters, the Company took action to donate road safety and road side signage to selected police stations around the country, to contribute towards minimizing accidents and traffic violations.

HUMAN RESOURCES

Our employees are the heart of the Company and have been the key stakeholders of our success over the past 17 years, through their dedicated service to the Company. Hence, the Human Resources Department is fully committed towards ensuring a positive employee experience during the employee life cycle, while also harmonising human resources policies and strategies with the Company's mission, vision and strategic business objectives. Such endeavours are promulgated by the Board of Directors who guide the Human Resources Department to act as an enabler of sustainable growth. Within this leadership, our dedicated Human Resources Team have implemented a range of policies, procedures and guidelines aimed at encouraging performance, efficiency and the productivity levels of our valued employees.

Values

Loyalty

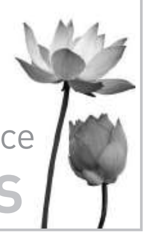
Openness

Trust

Unity

Service Excellence

L O T U S



HR strategy, culture and values

The Company's HR strategy focuses on nurturing a sustainable, profitable and value driven culture which would enhance employee engagement towards innovative and creative workplace solutions. In this regard, the Company has dedicated its efforts to create a pleasant work

environment while fostering a learning and development culture within the Company that attracts and encourages the retention of competent and skilled employees. Aligning with our HR objective of being the "Best HR managed finance company" in Sri Lanka, we aim to attract and sustain proficient people while inspiring them to work for a greater purpose. Additionally, we aspire to make Siyapatha a happy place to work.

As a Strategic Business Partner, the Human Resources team at Siyapatha Finance consistently contributes to enhancing employees' leadership skills, competencies to enhance resource efficiency, productivity and creativity by encouraging active employee engagement whilst contributing towards workplace solutions and services. The focused efforts of our Human Resources team to attract, motivate, develop and retain people has made Siyapatha Finance a stimulating work environment with a value driven friendly culture.

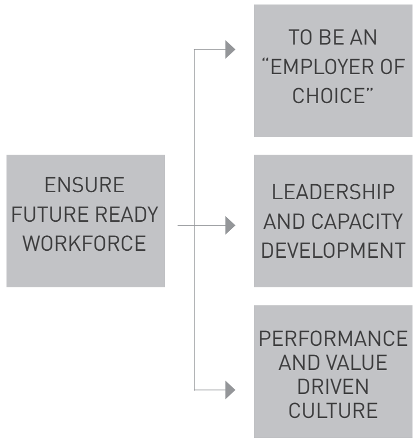
We encourage a learning culture that supports the development of the employees by enabling them to achieve greater success both in their personal and professional fronts. With a performance-

MANAGEMENT DISCUSSION AND ANALYSIS

based reward culture with a focus on retaining a competent workforce with potential, the HR Team of Siyapatha Finance proactively contributes to business progress by empowering team members by developing their leadership capabilities. By creating innovation and enhancing employee engagement through encouraging leadership, innovation and engagement levels, the work environment is enriched to create a future ready workforce within the organisation.

The Company's Human Resources Development Framework focuses on the employee life cycle and inculcating a performance driven culture amongst the employees, thereby nurturing a well-informed, skilled and passionate group of individuals who contribute towards gaining a competitive edge. The Company is well focused and equipped with relevant resources to enhance its competencies and skills by inculcating a customer centric ethos to drive the Company's strategic objectives.

STRATEGIC OBJECTIVES OF HR



Objective of 2022-2024
To ensure a future ready motivated workforce

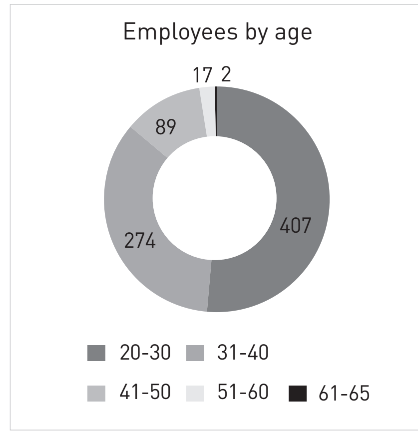
Our team

The workforce profile of the Company during the year is illustrated below. Out of the total cadre, 535 employees were male and 254 were female. A majority of our employees were in the 20-30 age bucket, representing a youthful and dynamic workforce.

- **Gender wise composition**

Male : 535
Female : 254

- **Employees by age**



Attraction, Retention and Strategies to enhance retention of employees

Siyapatha believes that diversity and inclusiveness helps creates a dynamic and energetic culture within the Company. Siyapatha has certified and professionally trained recruiters who focuses on diverse talent and filter the most suitable candidate for the respective position. Due to the economic crisis of the country, the Company faced challenges in terms of recruitment such as changes in the job market, migration. Siyapatha's recruitment strategy focuses on attracting, selecting and retaining the most qualified and suitable candidates by defining job requirements, developing a recruitment plan, assessing cultural fit and offering competitive compensation and benefit packages.

The company uses multiple sources to attract external candidates and values diversity and inclusion in the recruitment process. In 2022, Siyapatha on boarded 147 employees with a recruitment hit ratio of over 95%, despite challenging economic conditions. The Company provided more opportunities to internal staff and recruited freshers with the intention of providing industry experience. Siyapatha plans to expand its recruitment strategy, invest in new recruitment technologies, and continue to focus on improving diversity and inclusion.

We firmly believe in investing in our employees' growth and development and retaining our employees to build a professional and competent workforce. The following strategies were implemented to enhance employee retention levels during the year:

Competitive compensation and benefits

- Offering competitive salary and benefits packages to attract and retain employees on par with the market rates.

Employee recognition and engagement programs

- Recognizing and rewarding employees for their commitment, contributions and engaging them through various programs and activities.

Professional development opportunities

- Providing employees with opportunities to grow and develop professionally through training and development programs.

Flexible work arrangements

- Offering flexible work arrangements such as work from home options, flexible schedules and job rotation to help employees balance work and personal life.

Healthy manager-employee relationships

- Encouraging strong and supportive relationships between managers and employees to foster a positive work environment.

Clear career growth path

- Providing employees with a clear understanding of their career path within the organization to help them feel valued and motivated.

Employee involvement and empowerment

- Encouraging employee involvement and empowerment by giving them a voice and making them feel like they are an integral part of the organization.

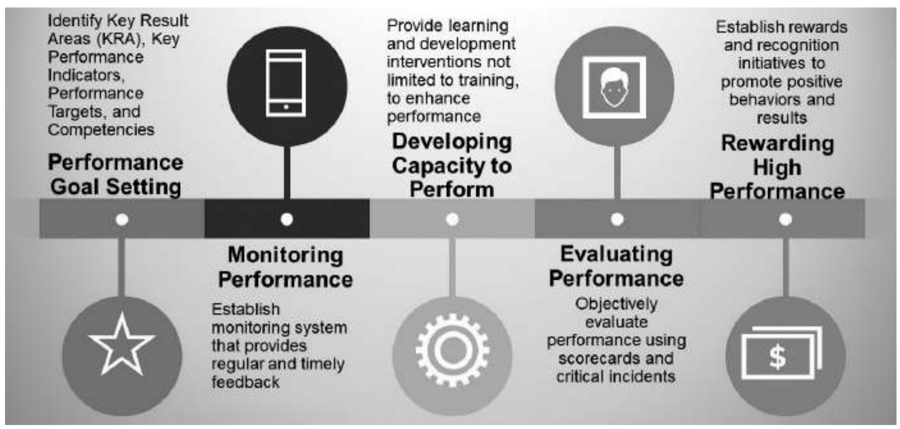
Open communication channels

- Introduction of open communication channels to obtain employee's queries and eliminate regional or any kind of disparities.

Performance management system

As mentioned earlier Siyapatha Finance PLC promotes a performance-driven work culture. A performance driven culture in an organisation is propelled by the motivation to perform and achieve success. Hence, the Company has established a well-structured and transparent Performance Management System to evaluate employee performance, empowering and motivating employees to perform to the best of their abilities and knowledge, while supporting employees to meet their professional and personal goals and objectives.

key performance areas are identified and further developed to measure their true contribution to the Company. Performance appraisals are carried out semi-annually considering the results of the previous performance appraisal together with their knowledge, skills, attitudes and competencies. Based on the results of the performance evaluation, employees are provided with feedback in a structured manner highlighting their strengths and the areas for improvement. This enables the employees to progress further in their career path, aligned with



Managing employees' performance is a vital activity for managers, immediate supervisors and HODs.

The Performance Management System (PMS) of Siyapatha consists of two models. Managers and the Heads of Departments are assigned to develop and evaluate the performance of employees based on two approaches; probationers are evaluated after 6 months of their service to gauge their interaction with the organisational values and culture while the performance of the permanent cadre is reviewed annually and bi-annually. At the beginning of each year, KPIs are set for all the employees to measure their performance in terms of soft skills as well as their performance in terms of meeting the Company's budgeted targets and departmental targets. Aligned with their specific job roles and responsibilities, their personal and professional goals. Currently the performance of staff is evaluated on a 180-degree measure, whilst the performance of senior managers is evaluated on a 360-degree scale.

Rewards and recognition

Siyapatha Finance was certified as a "Great Place to Work" (Dec 2021 - Dec 2022) from Great Place To Work®, the Global Authority on Workplace Culture. Further Siyapatha was certified and awarded as a "Great Work Place" and was amongst the Top 10 Companies in the Banking, Financial Services and Insurance (BFSI) Sector in Sri Lanka. In addition, Siyapatha Finance PLC received the accolades of being:

- Recognized and awarded as one of "Sri Lanka's Best 50 Workplaces in 2022".

MANAGEMENT DISCUSSION AND ANALYSIS

- Recognized as one of the "Best Workplaces for Millennials™ in Sri Lanka for 2022.
- Ranked "No.54 on the Best Workplaces in Asia™ in 2022" list in the Large size category.

Recognition of employees and rewarding their achievements stimulates their outstanding contribution towards organisational success. Hence, we inculcate a performance-based culture within the Company, thereby providing them with opportunities for growth and retention of high performing employees in the long-term. We measure employee performance periodically against their KPIs across departments and branches.

Based on their performance, employees are recognised and rewarded accordingly by providing them with new opportunities, responsibilities, and annual promotions thus improving productivity and efficiency. Apart from this, their engagement in social activities, sports, memberships, special skills and talents are recognised, rewarded and appreciated at annual staff gatherings and spot recognition is also practised within the Company.

Training and development

Siyapatha believes that training and development helps to gain and retain top talent, increase job satisfaction and morale, improve productivity and generate more profit. Therefore, we have introduced a range of training and development opportunities to develop employees' soft and technical skills. These skill development opportunities are made available following critical evaluation of their training and development needs at the organisational, departmental, and individual level, as well as critical evaluation of their existing competencies and skills.

As the Company sustains a strong growth momentum, HR is a key partner in progress, contributing to achieving the Company's strategic objectives. Our HR team primarily focuses on creating a leadership pipeline and a succession planning mechanism, along with continuous learning and development opportunities covering all categories of staff. By considering the source of the training origination, we have categorised training as internal and external training programs as well as soft skills and technical skills training programs.

Internal Training programs

The Company's internal training sessions are conducted by well-trained, certified internal trainers and subject experts. We practise on-the-job training to train newly recruited employees by implementing the buddy concept and job rotation of existing employees to enrich and enhance their capabilities and potential.

External Training programs

External trainings play a vital role to sharpen industrial exposure and expert knowledge. The Company also facilitates employees with external training to build their personal and professional networks and gain an in-depth understanding of new technology, best practices, and current trends in the industry via relevant authorities, regulatory bodies as well as industry and subject experts in professional institutes and service providers.

Familiarization programs

In terms of orientation for the new recruits, the Company conducts familiarization programs to facilitate an easy transition into the Siyapatha organizational culture and the environment. This program is conducted over a period of one week, and covers corporate values, ethics, HR processes, operations, systems, policies and procedures. Apart from that, employees are also placed for on-the job training at the Head Office, at all departments and at branch level for them to get an overview of all critical business functions. New recruits are exposed to many networking opportunities with peers and the management to familiarise themselves with their teams and build team spirit. HR continues to evaluate employee performance from the first day of starting the new job through the 'Employee Activity Book'.

A re-orientation program is conducted after 06 months to evaluate their adaptability towards the Company's' work environment and to create a platform for them to raise any concerns and make any clarifications.

Succession planning

The internal strategy to develop leaders is a crucial element in our succession plan as it ensures skilled employees are nurtured within the organisation to take the Company to the next level. In this regard, we have created a systematic, transparent system of identifying candidates for succession, thereby developing a high-quality leadership pipeline within the Company. As a key priority, we have put in place several initiatives to develop the leadership pipeline, adopting a progressive approach in developing successors and critical talent through the Individual Development Plan (IDP) and Management Development Plans (MDP). Siyapatha has promoted the highest number of employees in the year 2022.

E-learning

Our E-learning platform supports teaching and learning using digital technology. This has enabled bridging the knowledge gap between the current and expected job responsibilities through self-development models, further eliminating regional and geographical disparities.

Employee benefits

Health and well-being of employees is of paramount importance to the Company. We have introduced a range of health and welfare incentives to ensure a happy and healthy workforce.

Medical reimbursement (Surgical, Hospitalization and OPD)	Hospitalisation cover for employees and immediate family members and OPD reimbursement for employees and family members.
Reimbursement of travelling, meals, and accommodation	Reimbursement schemes for travel, meals and accommodation have been introduced to motivate employees to achieve set targets and encourage them to go the extra mile in terms of their work scope. The implementation of these reimbursement schemes has established a transparent and fair payments procedure within the Company.
Death Donation scheme	We provide financial aid in the event of the death of a family member, or a Siyapatha team member.
Distress Loan Policy	Financial aid is extended when employees are facing a challenging situation, such as medical treatments, recovery from natural disasters or other circumstances where the Distress Loan Committee agrees to grant the facility.
Staff Vehicle Lease Policy	Our employees can obtain a lease facility to enhance their life style.
Other Benefits	• Maternity benefits • Membership subscriptions • Medical and health campaigns • Insurance schemes • Staff loan facility • Mobile reimbursement • Per diem reimbursement

Work-life balance

MANAGEMENT DISCUSSION AND ANALYSIS

The Company encourages employees to maintain a strong work-life balance to remain motivated and passionate about their job roles while attending to their personal and social commitments in a stress-free manner. To ensure that this balance is maintained regardless of work pressures, the Company has instituted some key HR policies which help in building an encouraging work atmosphere.

Employee engagement activities

During the year, many staff engagement activities were conducted to ensure that we are a "Happy Place to Work." These include:

- 1st of January official celebrations
- Siyapatha Tower Cricket Bash 2022
- Siyapatha Movie Fiesta
- Christmas Carols and Santa's gifts

In addition, many virtual activities were conducted to engage team members, such as:

- Team Lotus Musical Night
- Vesak with family
- Virtual gaming "Bits and Bites" among branches and departments

Key HR initiatives introduced in 2022

- CFT (Cross Functional Teams) was established towards a lean and green productive office under the O-ECO Project.
- HR as a Business Partner –improve resource productivity of employees by inculcating a cost conscious, cost saving culture within Siyapatha.
- Eco Cleaning Week held at Siyapatha Tower with the leadership of CFTs.
- FD Drive and Deposits Incentive for staff members in Siyapatha Tower.
- Awareness sessions and staff communications to stimulate a cost saving, cost conscious work culture .
- HR as a healthcare facilitator and empathetic life supporter, organized medical and health care campaigns, introduced well women packages with the collaboration of health care experts, eye-sight checks and corporate negotiations to obtain discounts on for our team members.

- Considering the country's situation, to facilitate health and safety and work life balance of the team members, Siyapatha implemented work rosters and work from home initiatives.

- Initiated the "Bike to Office" concept and facilitated staff to purchase bikes through interest free loans.
- Introduced best practises and etiquettes to ensure health and safety among staff and disciplined them to follow best practices at the workplace.
- Introduced staff transport amid the fuel crisis to facilitate their travel to and from work.
- Educated staff continuously on how to navigate through the challenges of the economic and fuel crisis.
- HR as a portal of open communication and life motivator, shared across the board communication on appreciation of staff for their service excellence, their achievements etc. and shared motivational facts as "Food for Thought."
- Mutual partnerships with professional institutes including CMA Sri Lanka, and Sampath Bank Learning Academy.

To ensure success in minimizing these challenges, it is important for the Company to involve employees in the implementation and review process, and continuously evaluate and adapt its strategies as required.

The future of HR

The future of HR in Siyapatha is likely to be shaped by the integration of technology and the shift towards more strategic and data-driven approaches. Key areas that we expect to see a significant development include:

- Automation of routine tasks: Automation of HR processes, such as recruitment and performance evaluation, off boarding etc. will become increasingly common, freeing up HR professionals to focus on more strategic work.
- Emphasis on employee experiences: The focus will shift from employee satisfaction to creating a positive employee experience, with HR playing a central role in designing and implementing programs and initiatives that support this.
- Data-driven decision making: The use of data and analytics to inform HR decision making will become more widespread, helping the Company to make more informed decisions about the Company's talent strategies.
- Remote work and virtual HR: With remote work becoming increasingly common, HR will need to adapt to support virtual and remote teams, with a focus on building strong connections and fostering a sense of community.
- Increased emphasis on diversity, equity, and inclusion: The Company will continue to place a greater emphasis on creating a diverse and inclusive workplace culture, with HR playing a key role in implementing programs and initiatives to support this.

Challenges in the HR space and how the Company is geared to minimize these challenges

In the process of managing human resources, we face various challenges such as attracting and retaining top talent, managing diversity and inclusiveness, maintaining work-life balance, developing a strong Company culture, and complying with changing employment laws and regulations.

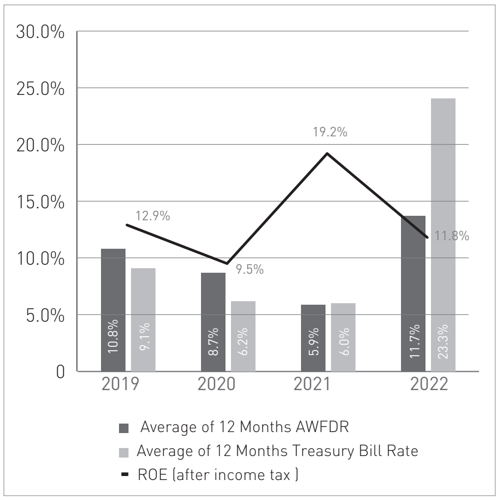
To minimize these challenges, the Company has adopted the following strategies.

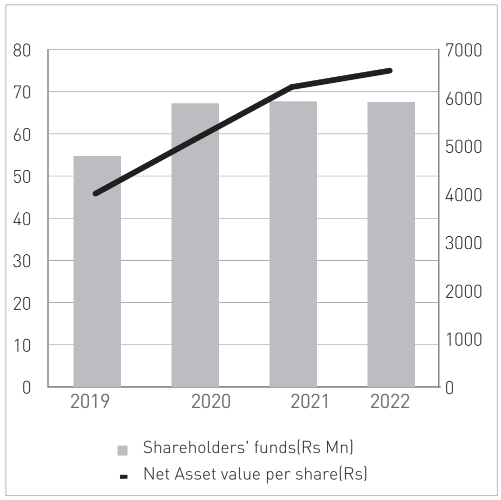
EMPLOYEE ENGAGEMENT	TALENT MANAGEMENT	DIVERSITY AND INCLUSION	WORK-LIFE BALANCE	COMPANY CULTURE	COMPLIANCE
Implementing programs and activities to boost employee satisfaction, motivation and commitment to the Company	Implementing strategies to attract, develop, and retain the best employees and reduce turnover	Encouraging a diverse and inclusive workplace by promoting equal opportunities and creating a welcoming environment	Offering flexible work arrangements, paid time off and other benefits to support employees' well-being	Fostering a strong Company culture that aligns with the Company's values, goals, and vision	Keeping up-to-date with employment laws and regulations and ensuring compliance with all relevant laws and regulations

INVESTOR INFORMATION

Value Creation for Shareholders	2022	2021	Change %
Net asset value per share (Rs)	67.59	67.69	-0.15
Earnings per share (Rs)	7.77	11.67	-33.42
Dividend per share (Rs)	2.33	3.57	-34.73
Dividend payout ratio (%)	30.00%	30.00%	0.00

The Board of Directors have recommended a scrip dividend of Rs.2.33 per share on 97,166,011 ordinary shares, totaling to Rs 226.40 Mn subject to approval of Shareholders of the Company.





INFORMATION ON SHARES

	As at 31st December 2022		As at 31st December 2021	
	Number	Rs	Number	Rs
Ordinary Shares	97,166,011	2,674,439,468	91,973,156	2,346,095,301
Total	97,166,011	2,674,439,468	91,973,156	2,346,095,301

Shareholders' list as at 31st December 2022

	Name	No: of Shares	% Holding
(01).	Sampath Bank PLC	97,166,004	100.00
(02).	Mr. P.S. Cumaranatunga	01	0.00
(03).	Mr. Y.S.H.R.S. Silva	01	0.00
(04).	Mr. J.H. Gunawardena	01	0.00
(05).	Mr. J. Selvaratnam	01	0.00
(06).	Ms. H.S.R. Ranatunga	01	0.00
(07).	Mr. D. Sooriyaarachchi	01	0.00
(08).	Mr. W.S.C. Perera	01	0.00
		97,166,011	100.00

PUBLIC HOLDINGS

The percentage of ordinary shares held by the public as at 31 December 2022 was 0%. Directors'/ CEO's Holding in Shares as at 31st December 2022.

Name	Position	No: of Shares
Mr. P.S. Cumaranatunga	Director	01
Mr. Y.S.H.R.S. Silva	Director	01
Mr. J.H. Gunawardena	Director	01
Mr. J. Selvaratnam	Director	01
Ms. H.S.R. Ranatunga	Director	01
Mr. D. Sooriyaarachchi	Director	01
Mr. W.S.C. Perera	Director	01

DISTRIBUTION OF SHARE OWNERSHIP

	31-12-2022				31-12-2021			
	No: of shareholders	%	No: of shares	%	No: of shareholders	%	No: of shares	%
1-1,000 shares	7	87.50	7	0.00	7	87.50	7	0.00
1,001-10,000 shares	-	0.00	-	0.00	-	0.00	-	0.00
10,001-100,000 shares	-	0.00	-	0.00	-	0.00	-	0.00
100,001- 1,000,000 shares	-	0.00	-	0.00	-	0.00	-	0.00
over 1,000,000 shares	1	12.50	97,166,004	100.00	1	12.50	91,973,149	100.00
	8	100.00	97,166,011	100.00	8	100.00	91,973,156	100.00

RECORD OF SCRIP ISSUES

Year	Issue	Basis / Proportion	No. of Shares Issued	Consideration per share (Rs)	Consideration to Stated Capital (Rs Mn)	Reason for Issue
2017	Final Scrip Dividend for 2016	1 for 32.75	1,652,420	35.67	58.94	Increase Stated Capital
2018	Final Scrip Dividend for 2017	1 for 35.54	1,569,242	39.99	62.75	Increase Stated Capital
2019	Final Scrip Dividend for 2018	1 for 116.28	625,111	50.00	31.25	Increase Stated Capital
2020	Final Scrip Dividend for 2019	1 for 25.28	2,899,663	49.30	142.96	Increase Stated Capital
2021	Final Scrip Dividend for 2020	1 for 37.44	2,035,594	60.53	123.21	Increase Stated Capital
2022	Final Scrip Dividend for 2021	1 for 17.71	5,192,855	63.23	328.34	Increase Stated Capital

RECORD OF RIGHTS ISSUES

Year	Issue	Basis /Proportion	No. of Shares Issued	Price per share (Rs)	Consideration to Stated Capital (Rs Mn)
2018	Rights Issue 2018	40 for 367 held	6,250,000	40.00	250
2019	Rights Issue 2019	44 for 308 held	9,090,910	44.00	400
2021	Rights Issue 2021	51 for 283 held	13,725,490	51.00	700

RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE COMPANY

(DISCLOSURE OF RELATED PARTY TRANSACTIONS AS PER SECTION 9 OF THE CSE LISTING RULES.)

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholder's equity of the Company or 5% of the total assets of the Company as at 31st December 2022.

INVESTOR INFORMATION

INFORMATION ON LISTED DEBENTURES

(i).Market Values

	Highest (LKR.)		Lowest (LKR.)		Period End (LKR.)	
	2022	2021	2022	2021	2022	2021
Debentures - 2017/2022	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded
Debentures - 2019/2024	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded
Debentures - 2020/2023	95.00	99.85	95.00	99.85	95.00	99.85
Debentures - 2021/2026	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded

(ii).Interest Rates

	2022		2021	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Debentures - 2017/2022	12.50%	12.50%	12.50%	12.50%
Debentures - 2019/2024	13.33%	13.33%	13.33%	13.33%
Debentures - 2020/2023	11.25%	11.25%	11.25%	11.25%
Debentures - 2021/2026	9.46%	9.46%	9.46%	9.46%

(iii).Interest rates of comparable Government Securities

	31-12-2022	31-12-2021
6 months treasury bill	32.20	8.00
1 year treasury bill	29.27	8.18
5 year treasury bond	26.76	10.69

(iv).Current Yield & Yield to maturity

	2022		2021	
	Current Yield (%)	Yield to Maturity (%)	Current Yield (%)	Yield to Maturity (%)
Debentures Issued - October 2017 5 year Fixed rated (12.50% p.a. payable annually)	Not Traded	Not Traded	Not Traded	Not Traded
Debentures Issued - August 2019 5 year Fixed rated (13.33% p.a. payable annually)	Not Traded	Not Traded	Not Traded	Not Traded
Debentures Issued -July 2020 3 year Fixed rated (11.25% p.a. payable annually)	11.84%	18.73%	11.27%	11.25
Debentures Issued - September 2021 5 year Fixed rated (9.46% p.a. payable annually)	Not Traded	Not Traded	Not Traded	Not Traded

(v).Ratios

	31-12-2022	31-12-2021
Debt to Equity Ratio (Times)	1.53	1.73
Interest Cover (Times)	1.18	1.54
Quick Asset Ratio (%)	89.51%	83.32%

BOARD OF DIRECTORS

MR. SUMITH CUMARANATUNGA

Chairman
Independent Non–Executive Director

Appointed to the Board as an Independent Non–Executive Director on 30th October 2017 and appointed as the Chairman of the Board of Directors with effect from 12th February 2020.

QUALIFICATIONS, SKILLS & EXPERIENCE:

He was formerly the Chairman & Managing Director of the David Pieris Group of Companies, where he served for 30 years and 9 months – 24 years as a Director and 2 years prior to that as General Manager. He retired as Chairman on 31st March 2016, having joined as Accountant on 01st July 1985.

During his tenure at the David Pieris Group of Companies, the organization transformed from a relatively small business unit in a single location with a turnover of LKR 43.3 Mn and a net profit of LKR 311,000 in 1985/86, to one of the most profitable, professionally managed conglomerates in Sri Lanka, with a turnover of LKR 86.2 Bn and a net profit of LKR 11.1 Bn in 2015/16, an island-wide reach and a consistent track record of exceptional performance, successfully overcoming numerous challenges. The David Pieris Group of Companies was at the forefront of automotive, financial services, information technology and logistics businesses, with industry leadership in many spheres, breaching LKR 10 Bn in net profit thrice in five years, from 2011/12 to 2015/16.

He also served as the Chairman of Assetline Leasing Company from 13th October 2010 to 01st April 2015, during which period the Company was among the most profitable entities in the finance leasing industry.

He is a Chartered Management Accountant (CGMA ACMA UK), a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM)

CURRENT APPOINTMENTS:

Currently, he serves as Chairman of Suvimie Associates (Pvt) Ltd, a Company engaged in local retailing, global trading, manufacturing, plantations and renewable energy.

FORMER APPOINTMENTS:

He commenced his career as an Executive at Ceylon Shipping Lines in 1981. Thereafter, he joined Richard Pieris & Company Ltd as the first Accountant of Richard Pieris Motor Company (Subsequently David Pieris Motor Company Ltd) in 1985. During his career, he was extensively involved strategically and operationally, in the disciplines of finance & accounting, sales & marketing, information communication technology and operations. He served as a Council Member of the University of Colombo from 27th January 2020 to 20th April 2022.

MEMBERSHIP OF BOARD SUB–COMMITTEES:

He serves as the Chairman of the Board Nomination Committee and a Member of the Board Audit Committee, the Board Integrated Risk Management Committee and the Board Human Resources and Remuneration Committee.

MR. RUSHANKA SILVA

Deputy Chairman
Non-Independent Non-Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director on 01st June 2018 and subsequently appointed as the Deputy Chairman of the Board on 26th May 2020.

QUALIFICATIONS, SKILLS & EXPERIENCE:

He is a dedicated professional with a solid background in Management Accounting, Marketing and Sales. He is an Associate Member of the Chartered Institute of Management Accountants, UK (ACMA). A strategic and creative thinker who has proven his ability to develop strong client relationships quickly and promote teamwork efficiently. A leader with a rich mixture of experience and successes in the business world, having completed his secondary education at Trinity College, Kandy. Holds a Masters in Business Administration from the University of Western Sydney, Australia. An alumnus of Harvard Business School (USA).

CURRENT APPOINTMENTS:

Deputy Chairman of Sampath Bank PLC and Non-Executive Director of Sampath Centre Limited. Managing Director of Indra Traders (Pvt) Ltd. Director of Indra Motor Spares (Pvt) Ltd, Indra Property Development (Pvt)

BOARD OF DIRECTORS

Ltd and Chairman of Indra Hotels & Resorts Kandy (Pvt) Ltd, Braybrooke Residential Properties (Pvt) Ltd and Braybrooke Residential Towers (Pvt) Ltd.

FORMER APPOINTMENTS:

He was a Non-Independent Non-Executive Director of Serendib Finance Limited.

MEMBERSHIP OF BOARD SUB – COMMITTEES:

Currently, he serves as a Member of the Board Nomination Committee.

MR. ANANDA SENEVIRATNE

Managing Director
Executive Director

Appointed and assumed duties as the Managing Director and as an Executive Director of Siyapatha Finance PLC on 01st March 2019.

QUALIFICATIONS, SKILLS & EXPERIENCE:

Possessing over 36 years of working experience in various local and international institutions, Mr. Seneviratne is a fellow member of the Institute of Chartered Accountants of Sri Lanka. He graduated in the Business Administration field from the University of Sri Jayawardenapura and proceeded to acquire a Masters Degree in Business Administration from the University of Colombo. Mr. Seneviratne served at Nestle Lanka Limited for a period of 17 years from May 1991 to June 2008, performing duties at various Senior Managerial levels. His tenure at Nestle commenced as the Head of Internal Audit and continued in the same position until 1995. Thereafter, he moved to the Financial Accounting Department as the Head of Financial Accounting in 1995 and in 1999, he was transferred to Nestle Middle East as the Business Excellence Manager until 2002 and subsequently assumed duties as the Head of Procurement in Nestle Lanka Limited. In 2008, he joined Loadstar (Pvt) Ltd as Director/General Manager of Procurement and continued up to 2009. Subsequently, he joined Assetline Leasing Company Limited in 2009 as Director Operations and was promoted to Chief Executive Officer in 2015.

FORMER APPOINTMENTS:

Chairman of the Leasing Association of Sri Lanka from 2016 to 2018 and simultaneously he was a Board Member of the Credit Information Bureau of Sri Lanka (CRIB) and David Pieris Global Ventures (Pvt) Ltd.

CURRENT APPOINTMENTS:

Chairman of the Finance Houses Association of Sri Lanka and Member of Faculty Advisory Committee for the Centre for Banking Studies, Central Bank of Sri Lanka representing the Finance Houses Association of Sri Lanka (FHA)

MEMBERSHIP OF BOARD SUB – COMMITTEES:

He currently serves as a member of the Board Credit Committee, the Board Information Technology Committee, the Board Corporate Governance Committee. He attends the Board Human Resource & Remuneration Committee, the Board Nomination Committee, the Board Audit Committee the Board Integrated Risk Management Committee and the Board Related Party Transactions Review Committee meetings by invitation.

MR. JANAKAN SELVARATNAM

Non–Independent Non–Executive Director

Mr. Janakan Selvaratnam was appointed to the Board as a Non–Independent Non-Executive Director on 18th December 2018.

QUALIFICATIONS, SKILLS & EXPERIENCE:

In his career spanning 25 years with Citibank N.A., Sri Lanka, he was Vice President, Head of the Local Corporate Bank & Public Sector for the Bank's Sri Lankan franchise. His exposure has been in managing client portfolios in corporate, multinational, non – banking financial sector and public sector segments. He was a member of the Bank's Management Committee, Credit Committee etc. The scope of his responsibilities included heading of businesses in a highly performance driven culture, strategic & business planning, corporate governance & compliance and credit & risk management. He possesses widespread experience working with risk management, legal teams, product groups and regulators at all levels within and outside the country. He holds a Post Graduate Diploma in Business Administration from the University of Wales (PfrifysgolCymru) and Diploma in Banking form the Institute of Bankers Sri Lanka.

He engages in business development and consultancies in the Banking, Non – Banking Financial Institution, Insurance Brokerage and Corporate Sectors.

CURRENT APPOINTMENTS:

He currently acts as the consultant to Samapth Bank PLC's Board Credit Committee. His main role is the provision of advisory services on corporate banking strategy, credit risk evaluation and approval and credit quality expansion.

FORMER APPOINTMENTS:

He commenced his career at Citibank N. A., Sri Lanka in 1990. He has held several key corporate positions which include Head of Sales and Marketing for Commercial Banking and Vice President, Head Local Corporate Bank and Public Sector at Citibank N A until 2015. Subsequently, he served as the Consultant on Risk Management to the Board of Directors of Richard Pieris Finance PLC and as the Consultant to Foresight Insurance Brokers (Pvt) Ltd

MEMBERSHIP OF BOARD SUB – COMMITTEES:

Currently he serves as the Chairman of the Board Credit Committee and a Member of the Board Integrated Risk Management Committee, the Board Corporate Governance Committee, the Board Related Party Transactions Review Committee and the Board Nomination Committee.

MR. JAYANTHA GUNAWARDENA

Independent Non–Executive Director

Appointed to the Board as an Independent Non–Executive Director on 29th January 2019.

QUALIFICATIONS, SKILLS & EXPERIENCE AND PREVIOUS APPOINTMENTS:

Previous Appointments:
He had a distinguished career at Standard Chartered Bank, Colombo holding several senior managerial positions such as Imports Manager, Exports Manager, Manager Trade Services, and Senior Treasury Dealer, with extensive knowledge and experience in Trade Services (International Operations), Treasury Operations, Retail Banking Operations, Corporate Credit, Internal Control and Inspection and Credit Administration spanning over 23 years. At the time of his early retirement, he held the position of Manager Quality Control and Operational Risks where he was mainly responsible for maintaining a stronger control environment in the bank. He was also acting as the Anti–Money Laundering monitoring officer responsible to report suspicious transactions to the Financial Intelligence Unit of the Central Bank of Sri Lanka.

Subsequent to his early retirement from the Bank, he joined Ms. Ernst & Young Chartered Accountants, Colombo. At Ernst & Young, he was designated as the Investigation Manager, which was a key position involved in investigations and external/internal audits related to complex areas such as Treasury Operations, Trade Services, Retail and Corporate Banking Operations in leading licensed Commercial Banks of Sri Lanka such as People's Bank, Bank of Ceylon, Commercial Banks of Ceylon PLC, Sampath Bank PLC, National Savings Bank, NDB Bank, Merchant Bank of Sri Lanka and People's Merchant Bank. His experience in handling Operational areas such as International Trade (Imports and Exports), Treasury Operations, Corporate Credit, Regulatory Compliance, Retail Banking and Cash Management had always brought incomparable insights to the audit teams involved.

Further, he was also responsible for carrying out Corporate Governance Compliance Audits for several years at a number of leading Licensed Commercial Banks and Registered Finance Companies as required by the CBSL directions.

He holds a Postgraduate Diploma in Bank Management and AIB Sri Lanka Part 1 offered by the Institute of Bankers of Sri Lanka.

MEMBERSHIP OF BOARD SUBCOMMITTEES:

He is the Chairman of the Board Integrated Risk Management Committee and a Member of the Board Related Party Transactions Review Committee, the Board Audit Committee and the Board Corporate Governance Committee.

BOARD OF DIRECTORS

MR. DEEPAL SOORIYAARACHCHI

Independent Non-Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director on 20th November 2019 and re-designated as an Independent Non-Executive Director with effect form on 23rd February 2021

QUALIFICATIONS, SKILLS & EXPERIENCE:

Counts over 40 years' experience in Sales, Advertising, Marketing, Human Resources Development and Strategy with extensive experience in the field of Insurance. Out of that over 15 years at Board Level. Fellow Member of the Chartered Institute of Marketing UK and Sri Lanka Institute of Marketing. Holds a Masters of Business Administration from the University of Sri Jayewardenapura. Pioneered disseminating Management knowledge in Sinhala. Mr. Sooriyaarachchi is a leading Management Development Consultant, Author, Accredited Master Coach and Master Mentor.

CURRENT APPOINTMENTS:

Independent, Non-Executive Director of AIA Insurance Lanka PLC, Pan Asian Power PLC, Singer Sri Lanka PLC, Kelani Cables PLC, Prime Lands Residencies PLC, Lanka Shipping and Logistics (Pvt) Ltd., Consulting Partner – RBL Group USA, a Member of the Board of Management of the Postgraduate Institute of Management (PIM), Managing Director at SAIT Human Development Institute (Pvt) Ltd.

FORMER APPOINTMENTS:

He served on the Board of Sampath Bank PLC as an Independent, Non–Executive Director (parent company). He is a past President of Sri Lanka Institute of Marketing, Managing Director Aviva NDB Insurance PLC, and Commissioner of the Sri Lanka Inventors' Commission.

MEMBERSHIP IN BOARD SUB – COMMITTEES:

Currently, he serves as the Chairman of the Board Human Resource & Remuneration Committee and the Board Related Party Transactions Review Committee. Also he is a Member of the Board Nomination Committee and the Board Information Technology Committee.

MR. SHIRAN PERERA

Non-Independent Non-Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director on 16th January 2020.

QUALIFICATIONS, SKILLS & EXPERIENCE AND FORMER APPOINTMENTS:

He counts over 25 years of corporate experience in Information Technology and Engineering Industry. He holds an Honors degree in Engineering from the University of Moratuwa. The 25 years of experience gained by him was by working closely with CXOs, Consultants, Professional bodies and Industry groups to understand the market dynamics, industry trends and adoption of technology to bring business values to organizations. He started his career in 1993 as a Manager IBM World Trade Corporation, thereafter as Operations Manager to Stretchline (Pvt) Ltd - MAS Group, Chief Operating Officer to Stretchline – Indonesia - MAS Group, General Manager IMAS Corporate Software – Ceylinco Group, Chief Executive Officer – Blue Chip Customer Engineering and Country General Manager – Hewlett Packard. He was a Director of Hewlett Packard Lanka (Pvt) Ltd.

CURRENT APPOINTMENTS:

Currently serves as a Non-Executive Director on the Boards of Sampath Information Technology Solutions Ltd and Matrix (Pvt) Ltd.

MEMBERSHIP OF BOARD SUB-COMMITTEES:

Currently he serves as the Chairman of the Board Information Technology Committee and a member of the Board Credit Committee and the Board Integrated Risk Management Committee.

MS. SRIYANI RANATUNGA

Independent Non–Executive Director

Appointed to the Board as an Independent Non–Executive Director on 28th January 2020.

QUALIFICATIONS, SKILLS & EXPERIENCE

A Fellow Member of The Chartered Institute of Management Accountants, UK (FCMA-UK), Chartered Global Management Accountants (CGMA) and holds an MBA from Postgraduate Institute of Management, University of Sri Jayewardenepura. She holds a MA in Economics from the University of Colombo. She is a past pupil of Visakha Vidyalaya, Colombo. She retired from DFCC Bank PLC as a Vice President, after serving the bank for 20 years in the fields of Internal Audit, Credit Administration and Corporate Banking. Prior to DFCC, she has worked at several mercantile sector organizations in the fields of Accounting & Finance and commenced her career at Property Development Ltd (a subsidiary of Bank of Ceylon). She worked as an Accountant at Lanka Queen International (Pvt) Ltd, Metropolitan Group of Companies, Bauer Ceylon (Pvt) Ltd, covering over 16 years of experience.

She served as a Council / Board Member of CIMA Sri Lanka Division for over 10 years and chaired a few committees such as Member Services Committee, Students Services Committee, IT Committee, Library Committee, Student Growth Committee etc.

A Past President of the Rotary Club of Cinnamon Gardens and currently holds the honorary position of Treasurer of the Rotary Club of Cinnamon Gardens. She served as the Honorary Treasurer of the Rotary International District 3220 Sri Lanka and Maldives for the years 2014/15, 2018/19 and 2019/20.

She has served as a Vice President of the Organization of Professional Associations of Sri Lanka for three consecutive years commencing from 2013/14, 2014/15 & 2015/16.

FORMER APPOINTMENTS:

Served as a Council / Board member of CIMA Sri Lanka and Vice President of the Organization of Professional Associations of Sri Lanka

MEMBERSHIP IN BOARD SUB – COMMITTEES:

Currently, she serves as the Chairperson of the Board Corporate Governance Committee and a Member of the Board Audit Committee, the Board Human Resource & Remuneration Committee, the Board Credit Committee, and the Board Related Party Transactions Review Committee.

MR. MALINDA BOYAGODA

Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 28th April 2020.

Posses over 18 years of post-qualification experience of which nearly 14 years is with PwC, working for the offices of Colombo – Sri Lanka, Gaborone – Botswana and Seattle – USA. Mr. Boyagoda has 3 years of experience working in the Cayman Islands heading the finance function of a company operating in the tourism industry. Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA – UK) and the Chartered Global Management Accountant (CGMA). He graduated from the University of Sri Jayawardenepura, Sri Lanka with a Degree in BSc Business Administration specialized in Finance.

CURRENT APPOINTMENTS:

Partner at PC a leading audit and assurance engagements primarily focusing on the financial services sector clients. Member of the Sri Lanka Accounting Standards implementation and interpretation task force of CA Sri Lanka.

FORMER APPOINTMENTS:

His participation and contribution to the profession include being a member of the Sri Lanka Accounting Standards implementation and interpretation task force of CA Sri Lanka (2017-2021). He has also served on several other forums and technical sub- committee of the Institute of Chartered Accountants of Sri Lanka formed to address accounting and auditing related issues in the industries of Banking and Insurance. He has also been a resource person for many training programs on International Financial Reporting Standards conducted locally and overseas.

MEMBERSHIP IN BOARD SUB – COMMITTEES:

Currently, he serves as the Chairman of the Board Audit Committee and a Member of the Board Information Technology Committee, the Board Integrated Risk Management Committee, the Board Corporate Governance Committee, and the Board Related Party Transactions Review Committee.

KEY REPORTING PERSONS

Mr. Ananda Seneviratne
Managing Director

Mr. Rajeev De Silva
Chief Operating Officer

Mr. Mathisha Hewavitharana
Chief Marketing Officer

Mr. Prasad Udugampala
Chief Human Resources Officer

Mr. Ruwan Wanniarachchi
Chief Financial Officer

Mr. Chathura Galhena
Head of Internal Audit

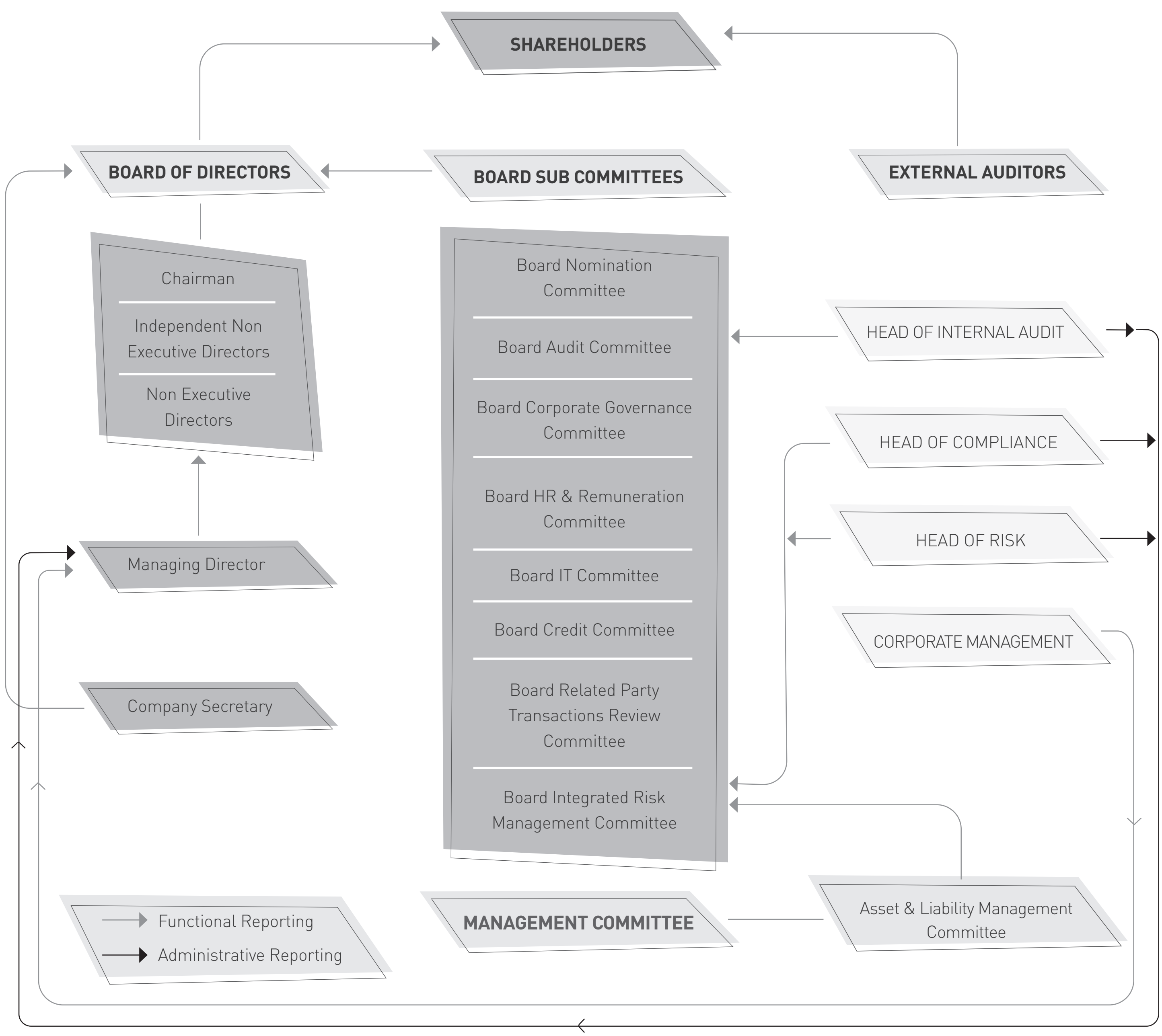
Mr. Indraka Liyanage
Head of Risk Management

Ms. Mahika Rajakaruna
Head of Compliance

CORPORATE GOVERNANCE REPORT

Corporate Governance is the structures and processes in place for the direction and control of companies. It is also about the relationships among the Management, Board of Directors, Shareholders, Minority Shareholders, and other Stakeholders. As the guardian of Corporate Governance, the Board assures that the Company pursues its strategic goals in accordance with sound Corporate Governance principles, safeguarding its reputation, values, and assets while enhancing stakeholder interests. The Board has established a robust governance framework that is aligned with its core values, provides strong risk and performance management, has checks and controls to ensure accountability, and promotes sound decision-making, transparency, and effective and ethical leadership. The Corporate Governance framework is reviewed annually to comply with internal and external developments and to stay aligned with evolving best practices.

GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE REPORT

The Board of Directors bears the ultimate responsibility for the affairs of the Company and has set in place an appropriate governance structure to facilitate the discharge of its duties. The Board Subcommittees assist the Board in its oversight functions in specialized areas or areas requiring significant attention. Accordingly, the Board Audit Committee, the Board Integrated Risk Management Committee, the Board Related Party Transaction Review Committee, Board Human Resources and Remuneration Committee, Board Nomination Committee, the Board Credit Committee, Board Corporate Governance Committee, and the Board Information Technology Committee have been formed in line with the business' requirements and in compliance with the regulatory requirements. The terms of reference and work of the committees are given in the reports of the Board subcommittees on pages 95 to 108.

The Managing Director is responsible for the day-to-day management of the operations of the Company and is accountable to the Board. He is supported by Key Responsible Persons, who collectively form the Corporate Management Team responsible for business lines or key support functions.

GOVERNANCE FRAMEWORK

Siyapatha Finance PLC's Corporate Governance framework complies with the following regulatory requirements:

A. Companies Act No.7 of 2007

B. Finance Business Act No.42 of 2011

C. Finance Leasing Act, No.56 of 2000

D. The Finance Companies Directions, rules, determinations, notices, and guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka in terms of the Finance Business Act Directions No.05 of 2021 on Corporate Governance and Finance Business Act Directions No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.

E. Continuing Listing Rules of the Colombo Stock Exchange.

The Annual Report of the Board of Directors on the State of Affairs of the Company on pages 111 to 118 provides insights into how the Company complies with the requirements of the Companies Act No.7 of 2007. Compliance with the Finance Business Act Directions No.05 of 2021 on Corporate Governance is set out on pages 35 to 82 providing an overview of the governance mechanisms in place at the Company.

The Finance Business Act Directions No.05 of 2021 on Corporate Governance issued by the Central Bank of Sri Lanka for Licensed Finance Companies.

Section	Corporate Governance Principle	Compliance
1.	BOARD'S OVERALL RESPONSIBILITIES	
1.1	The Board shall have overall responsibility and accountability for the Finance Company (FC), including approving and overseeing management's implementation of the FC's corporate strategy, setting up the governance framework, establishing a corporate culture, and ensuring compliance with regulatory requirements.	The Board approved Strategic Business Plan for 2022-2024 is in place. The Board and the Management are well aware of the strategic objectives and organizational values which have been communicated throughout the Company. Further, the Board approved Strategic Plan for 2023-2025 has also been established.
1.2	Business Strategy and Governance Framework	
1.2.a	Approving and overseeing the implementation of strategic objectives, including, the overall business strategy with measurable goals for at least the next three years, and updating annually in light of the current developments.	Board approved Strategic Plan for 2022-2024 and projected financial statements / budget for the year 2022 are in place. The Board measures corporate performance against predetermined goals. The Company's Strategic Plan for 2023-2025 includes measurable goals for the next three years.
1.2.b	Approving and implementing the Company's governance framework in light of the Company's size, complexity, business strategy, and regulatory requirements.	The Board approved governance framework is in place.
1.2.c	Assessing the effectiveness of its governance framework periodically.	The governance framework is assessed annually by the Board of Directors.

Section	Corporate Governance Principle	Compliance
1.2.d	Appoint the Chairman and the Chief Executive Officer and define the roles and responsibilities.	The Board approved functions and responsibilities of the Managing Director and Chairman is in place which complies with the section 6.4 and 6.5 of the Finance Business Act Direction 05 of 2021. The Chairman and Managing Director positions are held by two individuals, and the functions of the Chairman and the Managing Director are clearly documented, defined, and separated by the Board, thereby preventing unfettered powers for decision making being vested in one individual. There is a clear division of responsibilities between conducting the business of the Board and the day-to-day operations of the Company in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Managing Director's role is primarily to conduct the business operations of the Company with the help of Corporate Management. The roles of the Chairman and the Managing Director are clearly distinct from one another.
1.3	Corporate Culture and Values	
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent, and professional behaviour.	The Company invests in building Human Resources culture and there is a people management strategy in place that focuses on leadership and management culture, and embeds cultural values across all levels of the organization. A Board approved Code of Conduct for employees is in place. The Code of Conduct translates generic values into more specific policies and guidance, which in turn influences behaviour. The Code of Conduct emphasize that the Company sees the value in acting with integrity.
1.3.b	Playing a lead role in establishing the Company's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	The Board approved Code of Conduct is available to all employees including the Board of Directors. This Code focuses mainly on the following areas: Fair dealing, protection, and proper use of the Company's assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination, and harassment, health, and safety, discipline, etc.
1.3.c	Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	Sustainable development goals are included in the Board approved Strategic Plan 2023 - 2025.
1.3.d	Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers, and other creditors, in the view of projecting a balanced view of the Company's performance, position and prospects with the public and regulators.	The Board approved Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholders, and Borrowers. The Board of Directors, officers, and employees comply with the policy in order to ensure effective communication for the best interests of all stakeholders.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
1.4	Risk Appetite, Risk Management, and Internal Controls	
1.4.a	Establishing and reviewing the Risk Appetite Statement (RAS) in line with Company's business strategy and governance framework.	The Board approved Risk Appetite Statement (RAS) is in place which is in line with Company's business strategy and governance framework.
1.4.b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	Risk indicators and monitoring pertaining to Credit Risk, Market Risk, Operational Risks, and other residual risks are discussed and appropriate mitigating actions are recommended at the BIRMC meeting.
1.4.c	Adopting and reviewing the adequacy and the effectiveness of the Company's internal control systems and management information systems periodically.	The Board Audit Committee assists the Board in assessing the adequacy and integrity of the internal controls system, management information system (MIS), and financial reporting processes of the Company. The Internal Audit Department helps the process by carrying out audits to assess the internal controls over financial reporting and MIS. The Board reviews the adequacy and integrity of the MIS through the critical Management Information reports submitted by the Internal Audit Department of the Company. Further, the External Auditors were engaged in providing assurance on the Directors' Responsibility Statement on Internal Controls over financial reporting included in the annual report, and their opinion was submitted to the Board.
1.4.d	Approving and overseeing Business Continuity and Disaster Recovery Plan for the Company to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.	Board approved comprehensive Business Continuity and Disaster Recovery Plan (BCP) is in place. BCP is being reviewed by the BIRMC and the current status is updated at meetings.
1.5	Board Commitment and Competency	
1.5.a	All members of the Board shall devote sufficient time to dealing with the matters relating to the affairs of the Company.	The views of the Board of Directors on issues under consideration are ascertained, and a record of such deliberations are reflected in the minutes. Further, the Board is in complete control of the Company's affairs and aware of its obligations to all shareholders and other stakeholders.
1.5.b	All members of the Board shall possess the necessary qualifications, adequate skills, knowledge, and experience.	All members of the Board possess vast experience, qualifications, adequate skills, and knowledge in the relevant fields.
1.5.c	The Board shall regularly review and agree on the training and development needs of all the members.	Directors have recognized the need for continuous training and take part in professional development as they consider it necessary in carrying out their duties as Directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programs relevant to the Board are communicated to the Board by the Company Secretary for the Directors' participation.
1.5.d	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Boards as a whole and that of its committees and maintain records of such assessments.	A process is in place for annual self-assessments to be undertaken by each Director, of its Board as a whole and that of its committees. The records of such assessments are maintained by the Company Secretary. The summary of the self-assessment is submitted to the Board, enabling Directors to discuss relevant matters, if any.

Section	Corporate Governance Principle	Compliance
1.5.e	The Board shall resolve to obtain external, independent, professional advice to the Board to discharge duties to the FC.	A Board approved policy is in place that enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.
1.6	Oversight of Senior Management	
1.6.a	Identifying and designating senior management, who are in a position to significantly influence policy, direct activities, and exercise control over business operations and risk management.	In line with the Central Bank of Sri Lanka (CBSL) direction on Corporate Governance, the Board of Directors and all Heads of Departments have been identified as Key Responsible Persons (KRPs).
1.6.b	Defining the areas of authority and key responsibilities for the senior management.	Job Descriptions of the Key Responsible Personnel are approved by the Board and include the functions and responsibilities of the KRPs. Areas and limits of authority of the KRPs are covered under the Delegation Authority (DA) limits assigned to them.
1.6.c	Ensuring the senior management possesses the necessary qualifications, skills, experience, and knowledge to achieve the FC's strategic objectives.	The job description (JD) and job specification (JS) of a particular position of KRPs are approved by the Board of Directors. JD and JS include key responsibilities, skills, competencies, and required qualifications. The set of skills and competencies expected by the Company is determined through the recruitment process. A candidate is evaluated and verified during the interview process as per the recruitment policy. Information related to experience and qualifications is verified through their affidavit and declaration, which is submitted to the CBSL. Further, the physical documents/ confirmations are verified and obtained from the candidates during the on-boarding process.
1.6.d	Ensuring there is appropriate oversight of the affairs of the Company by senior management.	To safeguard better governance practices, the affairs of the Company are reviewed and monitored by the Board of Directors through the Managing Director. To ensure better management, development, and effective performance of the Company, KRPs make regular presentations to the Board on matters under their purview.
1.6.e	Ensuring the FC has an appropriate succession plan for senior management.	The Company has established a Board approved succession plan for all the KRPs.
1.6.f	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.	The Managing Director and Chief Operating Officer are called to regular Board Meetings to review policies and monitor the progress towards the corporate objectives. The other KRPs attend Board meetings on invitation and make presentations, which provide the opportunity to share their views and contribute towards the performance of the Company.
1.7	Adherence to the Existing Legal Framework	
1.7.a	Ensuring that the FC does not act in a manner that is detrimental or prejudicial to the interests of, and obligations to, depositors, shareholders and other stakeholders.	A Board approved Governance Framework and Communication policies are in place. The Company operates within the Governance Framework and the laws and directions issued by the regulator.
1.7.b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	The Company adheres to the directions, regulations, rules, and circulars issued by the Central Bank of Sri Lanka. Further, the Company ensures that all employees adhere to the internal policies and procedures. Additionally, the Board approved Code of Conduct for all employees is in place, and the Board regularly monitors compliance with the Code of Conduct.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
1.7.c	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.	Civil liabilities are covered through "Director's and Officer's liability insurance policy. Continuous monitoring is in place to avoid criminal liabilities through implementing a governance framework, recruiting Directors of suitable caliber and obtaining fit & propriety of members annually.
2.	**GOVERNANCE FRAMEWORK**	
2.1	Board shall develop and implement a governance framework in line with the Finance Business Act Directions No.05 of 2021.	A Board approved Governance Framework is in place.
3.	**COMPOSITION OF THE BOARD**	
3.1	The Board's composition shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the Company.	All members of the Board possess vast experience, qualifications, adequate skills, and knowledge in the relevant fields.
3.2	The number of directors on the Board shall not be less than 7 and not more than 13.	The Board consists of nine Directors, which is within the statutory requirement. Mr. P.S. Cumaranatunga (Chairman), Mr. Y.S.H.R.S. Silva (Deputy Chairman), Mr. H.M.A. Seneviratne (Managing Director), Mr. J. Selvaratnam, Mr. J.H. Gunawardena, Mr. D. Sooriyaarachchi, Mr. W.S.C. Perera, Ms. H.S.R. Ranatunga, Mr. M.D.B. Boyagoda were the Directors of the Company during the year 2022.
3.3	The total period of service of a director other than a director who holds the position of Chief Executive Officer/Executive Director shall not exceed nine years, subject to direction 3.4.	The period of service of all Directors of the year 2022 is below nine years.
3.4	Non-Executive directors, who directly or indirectly hold more than 10% of the voting rights or who are appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. Provided, however, the number of non-executive directors eligible to exceed 9 years is limited to one-fourth (¼) of the total number of directors on the Board.	None of the Non-Executive directors of the Company have exceeded nine years of service as at 31st December 2022.
3.5	Executive Directors	
3.5.a	Only an employee of a Company shall be nominated, elected, and appointed, as an Executive Director of the Company, provided that the number of Executive Directors shall not exceed one-third (1/3) of the total number of directors of the Board.	Mr. H. M.A. Seneviratne is the only Executive Director of the Company who currently holds the position of Managing Director.

Section	Corporate Governance Principle	Compliance
3.5.b	A shareholder, who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an executive director or as senior management. Provided however, existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/senior management until the retirement age of the FC and may be reappointed as a non-executive director subject to provisions contained in directions 4.2 and 4.3. Existing executive directors without a contract of employment and functional reporting line need to step down from the position of executive director from the effective date of this direction and may be reappointed as non-executive directors subject to provisions contained in directions 4.2 and 4.3.	In 2022, no such circumstance transpired.
3.5.c	In the event of the presence of the Executive Directors, CEO shall be one of the Executive Directors and may be designated as the Managing Director of the Company.	Mr. H.M.A. Seneviratne is the only Executive Director of the Company who currently holds the position of Managing Director.
3.5.d	All Executive Directors shall have a functional reporting line in the organization structure of the Company.	
3.5.e	The Executive Directors are required to report to the Board through the CEO.	
3.5.f	Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.	Mr. H.M.A.Seneviratne (Managing Director) does not hold any executive directorships or senior management positions in any other Company.
3.6	Non-Executive Directors	
3.6.a	Non-Executive directors (NED) shall possess credible track records and have the necessary skills, competency, and experience to bring independent judgement on the issues of strategy, performance, resources, and standards of business conduct.	The Non-Executive Directors of the Company possess vast experience and skills in the relevant fields.
3.6.b	A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the Company.	None of the Non-Executive Directors are appointed or function as the Executive Directors of the Company.
3.7	Independent Directors	
3.7.a	The number of Independent Directors of the Board shall be at least three or one-third of the total number of directors, whichever is higher.	During the year, the Board comprised of five Independent Non-Executive Directors. The composition of the Board of Directors is published on pages 29 to 33 of the Annual Report.
3.7.b	Independent Directors appointed shall be of the highest caliber, with professional qualifications, proven track records, and sufficient experience.	All Independent Non-Executive Directors of the Company are of the highest caliber with professional qualifications, a proven track records, and sufficient experience in the given fields. A brief profile of their expertise and experience is given on pages 29 to 33.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
3.7.c	A Non-Executive Director shall not be considered independent if such:	
3.7.c.i	Director has a direct or indirect shareholding exceeding 5% of the voting rights of the Company or exceeding 10% of the voting rights of any other Company.	In 2022, no such circumstance transpired.
3.7.c.ii	Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position.	In 2022, no such circumstance transpired.
3.7.c.iii	Director has been employed by the Company or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director.	In 2022, no such circumstance transpired.
3.7.c.iv	Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the Company or its affiliates during the one year preceding the appointment as director.	In 2022, no such circumstance transpired.
3.7.c.v.	Director has a relative, who is a director or senior management of the Company or has been a director or senior management of the Company during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the Company or exceeding 20% of the voting rights of another Company.	In 2022, no such circumstance transpired.
3.7.c.vi	Director represents a shareholder, debtor, or such other similar stakeholder of the FC;	In 2022, no such circumstance transpired.
3.7.c.vii	Director is an employee or a director or has a direct or indirect shareholding of 10% or more of the stated capital in a Company or business organization, in which any of the other directors of the FC is employed or a director;	In 2022, no such circumstance transpired.
3.7.c.viii	Director is an employee or a director or has a direct or indirect shareholding of 10% or more of the voting rights in a Company, which has a transaction with the Company as defined in direction 12.1(c), or in which any of the other directors of the Company has a transaction as defined in direction 12.1(c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC.	In 2022, no such circumstance transpired.
3.7.d.	The nomination committee and Board should determine whether there is any circumstance or relationship, which is not listed in direction 3.7, which might impact a director's independence or the perception of the independence.	In 2022, no such circumstance transpired.

Section	Corporate Governance Principle	Compliance
3.7.e.	An Independent Director shall immediately disclose to the Board any change in circumstances that may affect the status as an Independent Director. In such a case, the Board shall review such director's designation as an Independent Director and notify the Director/DSNBFI in writing of its decision to affirm or change the designation.	Declarations have been obtained from the Directors regarding the status of their independence / non-independence against the specified criteria, and copies of the same are under the custody of the Company Secretary for review. In 2022, no such circumstance transpired.
3.8	Alternate Directors	There were no Alternate Director appointments.
3.9	Cooling off Periods	In 2022, no such appointments were made.
3.10	Common Directorships	
3.10	Director or senior management of a Company shall not be nominated, elected, or appointed as a director of another Company except where such Company is a parent Company, subsidiary Company, or an associate Company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f).	No Directors or Senior Managers held positions in other Finance Companies during the year 2022.
3.11	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a Finance Company shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	As per declarations given by the directors for the year 2022, none of the directors holds office as a director of more than 20 Companies.
4.	ASSESSMENT OF FIT AND PROPER CRITERIA	
4.1	No person shall be nominated, elected, or appointed as a director of the Company or continue as a director of such Company unless that person is a fit and proper person to hold office as a director of such Company in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	The Board shall appoint directors subject to the policy on selection, nomination, appointment, election, and retirement of directors. Further, the policy is in line with the Finance Business Act Direction No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.
4.2	A person over the age of 70 years shall not serve as a director of an FC.	None of the Directors of the Company are above the age of 70 years.
4.3	Notwithstanding provisions contained in 4.2 above, a director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to a maximum of 75 years of age subject to the following;	In 2022, no such appointments occurred.
4.3.a	Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	In 2022, no such appointments occurred.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
4.3.b	Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a).	In 2022, no such appointments occurred.
4.3.c	The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.	In 2022, no such appointments occurred.
4.3.d	The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.	In 2022, no such appointments occurred.
5.	APPOINTMENT AND RESIGNATION OF DIRECTORS AND SENIOR MANAGEMENT	
5.1	The appointments, resignations, or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	The Company conforms to the provisions of Finance Business Act Direction No.6 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons for appointments, resignations, or removals.
6.	THE CHAIR AND THE CHIEF EXECUTIVE OFFICER	
6.1	There shall be a clear division of responsibilities between the Chairperson and CEO and the responsibilities of each person shall be set out in writing.	The roles of the Chairman and the Managing Director are separated and not performed by the same individual.
6.2	The Chairperson shall be an Independent Director, subject to 6.3 below.	The Chairman, Mr. P.S.Cumaranatunga is an Independent, Non-Executive Director. Hence, the appointment of a Senior Director has not arisen. Chairperson's performance has been assessed for the year 2022.
6.3	In the case where the Chairperson is not independent, the Board shall appoint one of the Independent Directors as a Senior Director, with suitably documented Terms of Reference to ensure a greater independent element. The Senior Director will serve as the intermediary for other directors and shareholders. Non-Executive Directors including Senior Directors shall assess the Chairperson's performance at least annually.	
6.4	Responsibilities of the Chairperson	
6.4.a	Provide leadership to the Board;	Chairman's key responsibilities and duties have been approved by the Board. The self-evaluation process ensures that the said requirements are fulfilled. Company Secretary prepares the agenda in consultation with the Chairman, as this function has been delegated to the Company Secretary by the Chairman. The Board approved communication policy is in place for communication with all stakeholders including depositors, creditors, shareholders, and borrowers.
6.4.b	Maintain and ensure a balance of power between the Executive and Non-Executive Directors;	
6.4.c	Secure effective participation of both Executive and Non-Executive Directors.	
6.4.d	Ensure the Board works effectively and discharges its responsibilities	
6.4.e	Ensure all key issues are discussed by the Board in a timely manner	
6.4.f	Implement decisions/directions of the regulator.	

Section	Corporate Governance Principle	Compliance
6.4.g	Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the Company Secretary.	
6.4.h	Not engage in activities involving direct supervision of senior management or any other day-to-day operational activities.	
6.4.i	Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	
6.4.j	Annual assessment of the performance and the contribution during the past 12 months of the Board and the CEO.	
6.5	Responsibilities of the CEO	
	The CEO shall function as the apex executive in charge of the day-to-day management of the FC's operations and business. The responsibilities of the CEO shall include	
6.5.a	Implementing business and risk strategies in order to achieve the FCs strategic objectives;	
6.5.b	Establishing a management structure that promotes accountability, and transparency throughout the FC's operations, and preserves the effectiveness and independence of control functions;	
6.5.c	Promoting, together with the Board, a sound corporate culture within the FC which reinforces ethical, prudent, and professional behavior.	The Board approved functions and responsibilities of the Managing Director are in place. The Managing Director functions as the apex executive in charge of the day-to-day operations of the Company and he acts as a direct liaison between the Board and Management of the Company.
6.5.d	Ensuring the implementation of a proper compliance culture and being accountable for accurate submission of information to the regulator.	
6.5.e	Strengthening the regulatory and supervisory compliance framework.	
6.5.f	Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.	
6.5.g	CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another Company, subject to Direction 3.10.	
7.	MEETINGS OF THE BOARD	
7.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.	Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings are conducted as and when required. 16 Board Meetings were held during the year under review. A Board approved procedure is in place to obtain consent through the circulation of written or electronic resolutions / papers other than those under urgent circumstances.

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Section	Corporate Governance Principle	Compliance
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the board are to be represented in the agenda for scheduled Board Meetings.	A Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
7.3	A notice of at least 3 days shall be given for a scheduled Board Meeting. For all other Board meetings, reasonable notice shall be given.	The Annual Board meeting calendar is scheduled at the end of the previous year enabling the Board of Directors to attend meetings. Directors are given notice of at least 3 days for regular Board Meetings.
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	The views of the Board of Directors on issues under consideration are ascertained and a record of such deliberations are reflected in the minutes.
7.5	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present unless at least one-fourth of the number of directors that constitute the quorum at such meeting are independent directors.	In 2022, no such incidents occurred.
7.6	The Chairperson shall hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary, and at least twice a year.	Two meetings were held only with the participation of the Non-Executive Directors, without the Executive Directors being present.
7.7	A director shall abstain from voting on any Board resolution in relation to a matter in which he/she or any of his relatives or a concern, in which he has a substantial interest, is interested, and he/she shall not be counted in the quorum for the relevant agenda item in the Board meeting.	In terms of the Company's Article 26, there is a requirement in place for the Directors to declare the nature of their interest. Directors' interests (if any) are disclosed to the Board and any Director who has a particular interest in matters set before the Board abstains from participating and voting. Further, there is a Board approved policy on Conflict of Interest in place for directors.
7.8	A director, who has not attended at least two-thirds of the meetings in the period of 12 months, immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance.	The Board of Directors has fully complied with the requirement and each Director of the Board is well-informed and acquainted with their attendance. Further, the Company Secretary monitors attendance. During the year 2022, none of the directors has been absent for three consecutive meetings. Details of the Director's attendance are set out on page 82 of the Annual Report.
7.9	Scheduled Board Meetings and Ad Hoc Board Meetings	
	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where the director cannot attend on short notice, participation through electronic means is acceptable.	Please refer 'Directors' Attendance and Committee Memberships' table given on page 82 of the Annual Report. Further, participation in person or through electronic media is clearly recorded in the minutes.
8.	COMPANY SECRETARY	
8.1.a.	The Board shall appoint a Company Secretary considered to be senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings and to carry out other functions specified in the statutes and other regulations.	In terms of section 221 of the Companies Act No. 07 of 2007, a qualified Company Secretarial services provider (P W Corporate Secretarial (Pvt) Ltd) with adequate experience has been appointed by the Board as the Company Secretary. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures, and other applicable rules and regulations are followed.

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8.1.b.	The Board shall appoint its Company Secretary, subject to the transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a Company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the Company Secretary, such person shall become an employee of the Company and shall not become an employee of any other institution.	The Company would comply with the direction by appointing a Company Secretary considered as Senior Management by 01st July 2024. A transitional period until 01st July 2024 has been granted to comply with the same.
8.2	All directors shall have access to the advise and services of the Company Secretary with a view to ensuring the Board procedures laws, directions, rules, and regulations are followed.	A Board approved procedure is in place to enable all Directors to have access to the advise and services of the Company Secretary and to ensure all Board procedures, applicable laws, rules, directions, and regulations are followed.
8.3	The Company Secretary shall be responsible for preparing the agenda in the event the Chairperson has delegated carrying out such function.	Company Secretary is responsible for the preparation of the agenda, in consultation with the Chairman.
8.4	The Company Secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	Company Secretary maintains the minutes of Board Meetings with sufficient details. Upon a reasonable request, any Director can inspect the minutes. Minutes of the Board meetings with all submissions to the Board are maintained for a minimum period of 6 years.
8.5	The Company Secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.	
8.6	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly include the following:	Minutes of the Board meetings are recorded in sufficient detail.
	(a) a summary of data and information used by the Board in its deliberations;	
	(b) the matters considered by the Board;	
	(c) fact-finding discussions and the issues of contention or dissent including contribution of each individual director.	
	(d) the explanations and confirmations of relevant parties which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; directions.	
	(e) the Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted;	
	(f) the decisions and Board resolutions.	
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Minutes are available for the inspection of the Directors. A Board approved procedure is available to inspect the minutes.

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9.	DELEGATION OF FUNCTIONS BY THE BOARD	
9.1	The Board shall approve a DA and give clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC.	The Board approved delegation authority limits is in place.
9.2	In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	Board sub-committees are in operation.
9.3	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.	Asset and Liability Committee is in operation.
9.4	The Board shall not delegate any matters to a Board Sub-committee, Executive Directors, or Senior Management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board's capacity to perform its duties has not been impacted by its delegation of authority.
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Company.	The delegation process is periodically reviewed to ensure it fulfills the demands of the Company.
10.	BOARD SUB-COMMITTEES	
	A transitional period until 01.7.2024 will be granted. However, during the transitional period provisions contained in "Section 8: Board Appointed Committees" of the Finance Companies (Corporate Governance) Direction No.03 of 2008 will be applicable.	
	Board Sub-Committees	
	FCs with asset base of more than Rs. 20 bn	
	Shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee.	In terms of the FBAD No.05 of 2021, the Company has in operation a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Nomination Committee (BNC), Board Human Resource and Remuneration Committee (BHRRC), and Board Related Party Transactions Review Committee (BRPTRC). In addition, Board Corporate Governance Committee (BCGC), Board Credit Committee (BCC), and Board IT Committee (BIT) have been formed.
	Meetings - Meetings shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually.	There were 12 BAC meetings and 07 BIRMC meetings held during the year 2022, which comply with the requirements. Please refer 'Directors' Attendance and Committee Memberships' table given on page 82 of the Annual Report.
10.1.b	Each Board sub-committee shall have a written term of reference specifying clearly its authority and duties.	Written Term of References clearly specifying the authority and duties are in place for each Sub-Committee.
10.1.c	The Board shall present a report on the performance of duties and functions of each Board Sub-Committee, at the Annual General Meeting of the Company.	Performance, duties, and functions of all subcommittees are disclosed on pages 95 to 108 of the Annual Report.

Section	Corporate Governance Principle	Compliance
10.1.d	Each sub-committee shall appoint a Secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records, and carry out such other such secretarial functions under the supervision of the Chairperson of the committee.	The Company Secretary is the Secretary to the Board Nomination Committee, Board Human Resources and Remuneration Committee, and Board Related Party Transaction Review Committee. Further, the Head of Compliance, Head of Internal Audit, and Head of Risk are the secretaries to the Board Corporate Governance Committee, Board Audit Committee, and Board Integrated Risk Management Committee respectively. A qualified Secretary acts as the secretary to the Board Credit Committee and Board IT Committee. They discharge their secretarial functions under the supervision of the Chairperson of the subcommittees. Performance, duties, and functions of all subcommittees are disclosed on pages 95 to 108 of the Annual Report. Minutes of all of the above Committees are submitted to the Board for their review.
10.1.e	Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge, and experience relevant to the responsibilities of the committees.	Members of all Board subcommittees consist of Board members and the performance, duties, and functions of all subcommittees are disclosed on pages 95 to 108 of the Annual Report.
10.1.f	The Board may consider the occasional rotation of members and of the Chairperson of Board sub-committees to avoid undue concentration of power and promote new perspectives.	When necessary, the Chairs and members of the Board's subcommittees will be taken into consideration for rotation.
10.2	Board Audit Committee (BAC)	
	The following shall apply in relation to the Board Audit Committee.	
10.2.a	The Chairperson of the committee shall be an independent director who possesses qualifications and experience in accountancy and/or audit.	The Board appointed Mr. M.D.B. Boyagoda as the Chairman of the Board Audit Committee w.e.f. 01st June 2020. Mr. M.D.B. Boyagoda is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA-UK), and the Chartered Global Management Accountants (CGMA). He graduated from the University of Sri Jayawardenepura, Sri Lanka with a Degree in BSc Business Administration specializing in Finance.
10.2.b	The Board members appointed to the BAC shall be Non-Executive Directors and the majority shall be Independent Directors with the necessary qualifications and experience relevant to the scope of the BAC.	All members of the Board Audit Committee are Independent Non-Executive Directors. Members are Mr. M.D.B. Boyagoda, Mr. P.S. Cumaranatunga, Mr. J.H. Gunawardena and Ms. H.S.R. Ranatunga. All of them have expertise and knowledge in the fields of banking, finance, leasing, information technology, etc.
10.2.c	The secretary to the Board Audit Committee shall preferably be the Chief Internal Auditor (CIA)	Head of Internal Audit functions as the Secretary of the Audit Committee.
10.2.d	External Audit Function	
	i. The BAC shall make recommendations on matters in connection with the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the service period, the audit fee, and any resignation or dismissal of the auditor.	The Auditor's appointments, service periods, and fees are determined and recommended by the BAC at the end of each financial year.

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	ii. Engagement of an audit partner shall not exceed five years, and the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.	E&Y functions as the External Auditor of the Company. The Company will adhere to the aforesaid section once it takes effect on 01st July 2024.
	iii. The audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.	E&Y functions as the External Auditor of the Company. The Company will adhere to the aforesaid section once it takes effect on 01st July 2024.
	iv. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	The BAC obtains representation from the External Auditors on their independence and that the audit is carried out in accordance with the applicable standards and best practices.
	v. Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity.	There is a separate Board approved policy for the provision of non-audit services by the External Auditor. During the year 2022, the External Auditor provided the following non-audit services all of which conforms with the governance rules and requirements. - Post Implementation Review of ECL model in line with SLFRS 09. - Report on Internal Controls over financial reporting for the year ended 31st December 2022. - Report on Corporate Governance for the year ended 31st December 2022.
	vi. The BAC shall, before the Audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including (i) an assessment of the Company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.	The Board Audit Committee has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with Sri Lanka Auditing Standards. The Audit Engagement Letter for the year ending 31st December 2022 has been submitted to the Board Audit Committee.
	vii. The BAC shall review the financial information of the Company's, in order to monitor the integrity of the Financial Statements of the Company in its Annual Report, Accounts and Periodical Reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Company's Annual Report and Accounts and Periodical Reports before submission to the Board, the committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Quarterly Financial Statements as well as year-end Financial Statements are discussed and recommended to the Board for approval by the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit judgements in the Financial Statements, going concern assumption, and compliance with Accounting Standards and other legal requirements take place, and required clarifications are obtained in respect to all areas before being recommended for Board's approval.

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	viii. The BAC shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of senior management, if necessary.	The Board Audit Committee discusses issues, problems, and reservations arising from the interim and final audits with the External Auditors. During the year the Committee has held two meetings with the External Auditors, without the Executive Management being present, to discuss any matters (if any) the auditor may wish to discuss.
	ix. The BAC shall review the External Auditor's Management Letter and the Management's response thereto within 3 months of submission of such, and report to the Board.	The Committee has reviewed the External Auditor's Management letter and management responses thereto, relating to the audit for the year ended 31st December 2021.
10.2.e	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	The effectiveness of the Company's internal control mechanism has been certified by the Directors on pages 119 to 120 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting".
10.2.f	The BAC shall ensure that the Senior Management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to the Internal Audit function of the Company.	BAC monitors this through regular reporting from the Internal Audit Department.
10.2.g	Internal Audit function:	
	i. The Committee shall establish an Independent Internal Audit function, either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the Company's internal control, risk management, governance systems and processes	There is an in house Internal Audit Department.
	ii. The Internal Audit Function shall have a clear mandate, be accountable to the BAC, and be independent of the audited activities. It shall have sufficient expertise and authority within the Company to carry out their assignments effectively and objectively.	There is a Board approved Internal Audit Charter that defines the purpose, authority and responsibility of the Internal Auditor. The said mandate establishes the independence of the department too. The Board Audit Committee has reviewed and approved the Annual Internal Audit Program. Internal Audit Reports, with the management comments, have been discussed at length, and action is taken to rectify the same.
	iii. The BAC shall take the following steps with regard to the Internal Audit Function of the Company:	
	(i) Review the adequacy of the scope, functions and skills and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	Board Audit Committee has discussed the adequacy of the scope, functions, and resources of the Internal Audit Department.

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	(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit ;	The Board Audit Committee has reviewed and approved the Annual Internal Audit Program. Internal Audit Reports, with the management comments, have been discussed at length, and action is taken to rectify the same.
	(iii) Assess the performance of the head and senior staff members of the Internal Audit Department;	The Board Audit Committee has carried out the performance appraisal of the Head of Internal Audit for the year 2022 .
	(iv) Ensure that the Internal Audit Function is independent and activities are performed with impartiality, proficiency, and due professional care;	In terms of the Organization Chart of Siyapatha Finance PLC, the Head of Internal Audit reports directly to the BAC and the audit work has been performed with impartiality proficiency and due care.
	(v) Ensure the Internal Audit Function carries out a periodic review of the Compliance Function and regulatory reporting to regulatory bodies.	BAC reviews the annual compliance review conducted by Internal Audit Function.
	(vi) Examine the major findings of internal investigations and management's responses thereto. ;	There is regular reporting to the BAC on the status of investigations.
10.2.h	Committee shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly.	BAC reviews on a quarterly basis the progress of implementation of recommendations of CBSL on-site investigation report.
10.2.i	Meetings of the Committee	
	i. The committee shall meet as specified in direction 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Every BAC meeting is duly recorded and minutes are submitted to the Board for its information.
	ii. Other Board members, senior management, or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview.	Members of the Board Audit Committee, the Head of Internal Audit, and the Head of Finance attend the meetings. Managing Director and Chief Operating Officer attend by invitation.
	iii. BAC shall meet at least twice a year with the external auditors without any other directors / senior management / employees being present.	Two meetings were held with the External Auditors without any other directors / senior management being present.
10.3	Board Integrated Risk Management Committee (BIRMC)	
	The following shall apply in relation to the BIRMC	
10.3.a.	The Committee shall be chaired by an Independent Director. The Board members appointed to BIRMC shall be Non-Executive Directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with Senior Management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	The Committee consisted of five Non-Executive Directors. The Managing Director and Head of Risk may attend the meetings upon invitation. The Committee closely works with Key Responsible Personnel and makes decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
10.3.b	The secretary to the committee may preferably be the CRO.	Head of Risk functions as the Secretary to the BIRMC.

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10.3.c	The committee shall assess the impact of risks, including credit, market, liquidity, operational and strategic, compliance and technology to the Company at least once on two monthly basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board;	The Committee has an appropriate process to assess the impact of all risks periodically through identified risk indicators and management information. Further, the Committee make recommendations on the risk strategies and the risk appetite to the Board.
10.3.d	Developing the Company's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns throughout the FC.;	The Company's risk appetite is developed through a Risk Tolerance Limit Statement, which articulates the individual and aggregate level and types of risk that Siyapatha Finance PLC will accept or avoid, in order to achieve its strategic business objectives. The Risk Appetite is monitored via the Risk Register and includes quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation. Compliance risks as well as money laundering are also discussed at the meetings.
10.3.e.	The BIRMC shall review the Company's risk policies including RAS, at least annually.	All policies including the Risk policies are reviewed by BIRMC on an annual basis.
10.3.f	The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	In fulfilling its responsibilities, the Committee reviewed the adequacy and effectiveness of Management Committees to manage risks within quantitative and qualitative risk limits. BIRMC assessed the adequacy and effectiveness of the Assets & Liabilities Committee (ALCO) to address specific risks.
10.3.g	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	BCP is been reviewed by the BIRMC and the position is updated at meetings.
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO.	BIRMC assessed the performance of the Head of Compliance and Head of Risk for the year 2022.
10.3.i	Compliance function	
10.3.i.i	BIRMC shall establish an independent compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business' operations.	The BIRMC has established an independent Compliance Function.

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10.3.i.ii	For a Company with an asset base of more than Rs. 20 bn, a dedicated Compliance Officer considered to be Senior Management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.	A Compliance Officer has been appointed.
10.3.i.iii	For FCs with an asset base of less than Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	Not applicable.
10.3.i.iv	The responsibilities of a compliance officer would broadly encompass the following:	
	i) Develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements;	Board approved policies and procedures are in place.
	ii) Ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture;	Board approved Compliance policy is in place and available on the intranet which is accessible by all employees of the Company.
	(iii) Ensures that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards;	Periodic reviews are conducted to assess the level of compliance with regulatory rules and internal compliance standards.
	(iv) Understand and apply all new legal and regulatory developments relevant to the business of FC;	The Company implements all new legal and regulatory developments that are applicable to its business.
	v) Secure early involvement in the design and structuring of new products and systems, to ensure that they conform to regulatory requirements, internal compliance, and ethical standards	Board approved new product policy is available to streamline the process of designing or redesigning a product in the Company.
	vi) Highlight serious or persistent compliance problems and where appropriate, work with the management to ensure that they are rectified within an acceptable time-frame, and	Compliance Audits are carried out periodically and action is taken to rectify if deviations are noted.
	vii) Maintain regular contact and a good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with the highest integrity	With the regulators, a positive working relationship is upheld. There is maintenance of timely reporting and communications.
10.3.j	Risk management function	
10.3.j.i	BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC.	The Company has established an Independent Risk Management function.

Section	Corporate Governance Principle	Compliance
10.3.j.ii	For FCs with an asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO, considered to be senior management, shall carry out the risk management function and report to the BIRMC periodically.	A separate department for Risk Management Function is established, which is headed by the Head of Risk. Reports / observations are submitted to the BIRMC.
10.3.j.iii	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	The Company has established Risk Management policies with relevant RAS and is in line with the strategic objectives of the Company.
10.3.j.iv	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers: a) various potential risks and frauds b) possible sources of such risks and frauds; c) mechanism of identifying, assessing, monitoring and reporting of such risks and frauds; includes quantitative and qualitative analysis covering stress testing. d) effective measures to control and mitigate risks at prudent levels; and e) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.	Risk Management controls are functioning in an integrated manner in the Company as required by the direction. A stress testing policy is established and testing results are presented at the BIRMC meetings periodically. The Risk Register has identified 89 various potential risks which are discussed at the Committee level. In addition, R& CSA reviews are carried out periodically to identify the potential risks in the Company.
10.3.j.v	The chief risk officer shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc, and make recommendations on risk management.	Head of Risk is a part of the strategic planning session of the Company.
10.3.j.vi	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	The Risk Register is submitted to the BIRMC on a quarterly basis.
10.3.j.vii	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	The Board of Directors have the ultimate responsibility for the risk management of the Company. Minutes of the BIRMC meetings and Risk Trajectory is tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on significant issues raised and decisions taken at the committee meetings, enabling the Board to make correct decisions. The Risk Trajectory Report based on discussions at the BIRMC is submitted to the subsequent Board Meeting.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
10.4	NOMINATION COMMITTEE	
	The following shall apply in relation to the Nomination Committee:	
10.4.a.	The committee shall be constituted of Non-Executive Directors and preferably the majority may be Independent Directors. An Independent Director shall chair the committee. The CEO may be present at meetings by invitation of the committee.	The committee is comprised of Non-Executive Directors and two third of the directors are independent. The members are Mr. D. Sooriyaarachchi (Chairman), Mr. Y.S.H.R.S. Silva and Mr. P.S. Cumaranatunga.
10.4.b	Secretary to the nomination committee may preferably be the Company Secretary.	Secretary to the committee is the Company Secretary.
10.4.c	The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management is to be appointed with the recommendation of CEO, excluding CIA, CRO and Compliance officer.	A Board approved policy for the selection, nomination, appointment, and election of directors is in place. Selection and appointment of KRPs are carried out with the recommendation of the Board Nomination Committee and in accordance with the Recruitment policy.
10.4.d	The committee shall ensure that directors and senior management are fit and proper persons to perform their functions as per the FBA (Assessment of Fitness and Propriety of Key Responsible Persons).	The Committee ensures that this has complied with the terms of FBA (Assessment of Fitness and Propriety of Key Responsible Persons)
10.4.e	The selection process shall include reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfil their responsibilities on the Board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.	The selection process is carried out to conform with the stated section.
10.4.f	The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.	The composition of the Board is not in any manner dominated by an individual or a small group of individuals.
10.4.g	The committee shall set the criteria, such as qualifications, experience, and key attributes required for eligibility, to be considered for the appointment to the posts of CEO and senior management.	The qualification and experience of MD and senior management have been documented in job descriptions (JDs) which were recommended by the BHRRC and approved by the Main Board.
10.4.h	Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the Company Secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent.	The Company conforms to the stated section.

Section	Corporate Governance Principle	Compliance
10.4.i	The committee shall consider and recommend (or not recommend) the re-election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	The Company conforms to the stated section.
10.4.j	The committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and senior management.	With the recommendation of BHRRC, the Succession of the senior management has been approved by the Board. Further, a Management Development Plan (MDP) and Individual Development Plan (IDP) have been identified to enhance the expertise of the competencies of the senior management. This is considered at the BNC and BNC is responsible for the selection, nomination, appointment, election, and retirement of KRPs.
10.4.k	A member of the Nomination Committee shall not participate in decision-making relating to their own appointment/re-appointment and the Chairperson of the Board should not chair the Committee when it is dealing with the appointment of the successor.	Members of the Board Nomination Committee is not involved in the decision-making process for their own appointment or re-appointment. Moreover, the Board Chairperson abstains from the meeting when the topics of discussion concern the appointment of the successor.
10.5	Human Resources and Remuneration Committee	
	The following shall apply in relation to the Human Resources and Remuneration Committee:	
10.5.a	The committee shall be chaired by a Non-Executive Director and the majority of the members shall consist of Non-Executive Directors.	The Committee is comprised of three Independent Non-Executive Directors and is chaired by Mr.D.Sooriyaarchchi. Other members of the committee are Mr. S.Cumaranatunga and Ms. H. S. R. Ranatunga.
10.5.b	The secretary to the Human Resource and Remuneration Committee may preferably be the Company Secretary.	The Company Secretary functions as the secretary to the committee.
10.5.c	The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Executive Directors and senior management of the FC and fees and allowances structure for Non-Executive Directors.	The Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the Executive Directors and senior management are decided by the BHRRC.
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	The Remuneration and Benefits Policy has been formulated and developed to achieve fair and equitable benefits with transparent guidelines which integrate with the market-related modern remuneration practices. Further, the Remuneration and Benefits Policy is reviewed annually by considering the material changes which are to be included in the policy.
10.5.e	The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances, and other financial incentives for all employees of the FC. The policy shall be subject to periodic review by the Board, including when material changes are made.	The remuneration and benefits policy is reviewed annually. The reviewed policy is recommended by the BHRRC and approved by the main Board.

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Section	Corporate Governance Principle	Compliance
10.5.f	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests, and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take an excessive risk or to act in self-interest.	The remuneration structure is in line with the business strategy, objectives, values, long-term interests, and cost structure of the Company. It also includes measures to prevent conflicts of interest.
10.5.g	The committee shall review the performance of the senior management (excluding Chief Internal Auditor, Compliance Officer, Chief Risk Officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits, and other payments of performance-based incentives.	The performance of the senior management excluding the Head of Audit, Head of Risk and Head of Compliance has been reviewed by the BHRRC. Financial benefits have been decided based on their performances.
10.5.h	The committee shall ensure that the senior management shall abstain from attending committee meetings when matters relating to them are being discussed.	The committee adheres to the stated section.
11	INTERNAL CONTROLS	
11.1	FCs shall adopt well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines, and adequate operating procedures in order to mitigate operational risks.	The Board Audit Committee assists the Board in assessing the adequacy and the integrity of the Internal Controls System and the Management Information System and the financial reporting processes of the Company. Internal Audit Department helps the process by carrying out audits to assess the internal controls over financial reporting and management information systems. Board reviews the adequacy and integrity of the MIS through the critical management information reports submitted by the Internal Audit Department of the Company. Further, the External Auditors were engaged in providing assurance on the 'Directors' Responsibility Statement on Internal Controls over Financial Reporting included in the Annual Report', and their opinion is submitted to the Board.
11.2	A proper internal control system shall: a) promote effective and efficient operations; b) provide reliable financial information; c) safeguard assets; d) minimize the operating risk of losses from irregularities, fraud, and errors; e) ensure effective risk management systems; and f) ensure compliance with relevant laws, regulations, directions, and internal policies.	
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	
12.	RELATED PARTY TRANSACTIONS	
12.1	Board shall establish a policy and procedures for related party transactions, which covers the following.	
12.1.a	All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the Chairperson shall be an Independent Director and the members shall consist of Non-Executive Directors.	The Board has established a Board Related Party Transactions Review Committee, in conformity with the Direction.

Section	Corporate Governance Principle	Compliance
12.1.b	All related party transactions shall be prior reviewed and recommended by the RPTRC.	A Board approved mechanism is in place in this regard.
12.1.c	The business transactions with a related party that is covered in this Direction shall be the following: i. Granting accommodation; ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable; iii. Providing financial or non-financial services to the FC or obtaining those services from the FC. iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to sharing proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.	There is a documented process approved by the Board which speaks on types of related party transactions for the Company to avoid any conflicts of interest that may arise from any transaction with the related parties. All related party transactions have been disclosed in the Financial Statements. No accommodation has been granted to Directors and/or their close relatives during the year 2022.
12.2	The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises. a) Directors and senior management. b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC. c) Subsidiaries, associates, affiliates, holding Company, ultimate parent Company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa d) Directors and senior management of legal persons in paragraph (b) or (c). e) Relatives of a natural person described in paragraph (a), (b) or (d). f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.	The Board is well aware of the requirement of identification of related party transactions and a Board approved Related Party Transaction Guide is in place which discusses categories of related parties, and aids the Company to avoid any conflicts of interest that may arise from any transaction of the Company.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
12.3	The Committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, "more favorable treatment" shall mean: a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FC's regulatory capital, as determined by the committee. b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counter-party; c) Providing preferential treatment, such as favourable terms, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the FCs and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	There is a documented process approved by the Board which clearly defines related party transactions and ensures that the Company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than what is accorded to other constituents of the Company carrying out similar transactions with the Company. The Company has a detective system that has been developed in-house to monitor all RPT transactions where the Company inputs details of NIC numbers of related parties and Business Registration numbers of related party concerns to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Company carrying on the same business.
13.	GROUP GOVERNANCE	
13.1	Responsibilities of the FC as a Holding Company.	The Company is a fully owned subsidiary of Sampath Bank PLC. Further, the Company does not have subsidiaries or associates.
13.2	Responsibilities as a Subsidiary	
	If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.	The Company is a fully owned subsidiary of Sampath Bank PLC. The Company fulfills its own legal and governing obligations.
14.	CORPORATE CULTURE	
	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, the integrity of reporting, protection and proper use of Company assets and fair treatment of customers.	The Company has an internally developed Code of Conduct for its directors and this Code covers the areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behavior, etc. Further, the Code of Conduct is available for all employees including Corporate and Senior Management. This Code focuses mainly on the following areas: Fair dealing, protection and proper use of the Company assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination and harassment, health and safety, discipline, etc.

Section	Corporate Governance Principle	Compliance
14.2	The FC shall maintain records of breaches of the code of conduct and address such breaches in a manner that upholds high standards of integrity.	The Company maintains records of breaches of the Code of Conduct. If any breach of the Code of Conduct is reported, the disciplinary procedure is implemented and subsequent actions are taken as per the gravity of such incidents.
14.3	A FC shall establish a Whistle Blowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confident manner and without the risk of reprisal. The BAC shall review the policy periodically.	A Board approved Whistle Blowing Policy is in place. All employees are encouraged to raise any matter which they genuinely believe, constitutes a potential or existing wrongdoing such as a breach of the Code of Ethics of the Company. Further, BAC reviews the policy on an annual basis.
15.	CONFLICTS OF INTEREST	
15.1.a	Relationships between the directors shall not exercise undue influence or coercion. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has a substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	The Board is well aware of the requirement of identification of related party transactions and a Board approved Related Party Transaction Guide is in place which speaks on categories of related parties, and aids the Company to avoid any conflicts of interest that may arise from any transaction of the Company.
15.1.b	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall; i. Identify circumstances that constitute or may give rise to conflicts of interests. ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest. iii. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest. iv. Implement a rigorous review and approval process for directors and senior management to follow before they engage in certain activities that could create conflicts of interest. v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and vi. Articulate how any non-compliance with the policy is to be addressed.	A Policy on managing conflicts of interest is in place and the policy is reviewed periodically.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
16.	**DISCLOSURES**	
16.1	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that at least the following disclosures are made in the Annual Report of the FC.	Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards. Further, such statements are published in the newspapers in Sinhala, Tamil and English.
	i. Financial Statements- In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include, • A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. • A statement of responsibility of the Board in preparation and presentation of financial statements.	This is being disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company" appearing on pages 111 to 118 of the Annual Report.
	ii. Chairperson, CEO and Board Related Disclosures • Name, qualification and a brief profile. • Whether executive, non-executive and/or independent director. • Details of the director who is serving as the senior director, if any. • The nature of expertise in relevant functional areas. • Relatives and/or any business transaction relationships with other directors of the company. • Names of other companies in which the director/ CEO concerned serves as a director and whether in an executive or non-executive capacity. • Number/percentage of board meetings of the FC attended during the year; and • Names of board committees in which the director serves as the Chairperson or a member.	Details of the Directors including names and transactions with the Finance Company are given on pages 29 to 33 of the Annual Report. Declaration was obtained form the Board of Directors of the Company and there is no business relationships with other Directors of the Company.

Section	Corporate Governance Principle	Compliance
	iii. Appraisal of Board Performance • An overview of how the performance evaluations of the Board and its committees have been conducted	A process is in place for the annual self-assessments of Directors to be undertaken by each Director and the records of such assessments are maintained by the Company Secretary. The summary of the self-assessment is submitted to the Board enabling Directors to discuss relevant matters if any.
	iv. Remuneration • A statement on the remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management level and mix of remuneration (financial and non-financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation) • The aggregate values of remuneration paid by the FC to its directors and senior management.	Performance driven remuneration and increments to the remuneration package shall depend on achievement of agreed performance standards or financial benchmarks which have been set as per the Annual Strategic Plan and the Budget. All employee's annual promotions, increments, bonus are directly in relation with the employee's performance, contribution, commitment, professional conduct and behavior. The remuneration structure of the staff, Senior Management and Executive Directors shall be in line with the business strategy, objectives, values, long term interest, cost structure of the Company, incorporating prevention of conflict of interest in particular incentives embedded within the remuneration structures that does not incentivize employees to take excessive risk or act in self-interest. Aggregate values of remuneration paid for: Senior Management Remuneration - Rs.92,727,033.00 Directors fees are given in Note 44.3 of the financial statement.
	v. Related Party Transactions • The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. • Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FC's core capital. • The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC.	Details of the Directors including names and transactions with the Finance Company are given on pages 29 to 33 of the Annual Report. Declaration was obtained form the Board of Directors of the Company and there is no business relationships with other Directors of the Company. The nature of relationship if any between the Chairperson and the CEO and the relationship among members of the Board. Total of net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the FCs core capital. Net accommodation for Directors – Nil Net accommodation for Senior Management - Rs.16,153,010.53 The aggregate values of the transactions of the FC with senior Management is follows; Deposits – Rs.74,710,798.10
	vi. Board Appointed Committees • The details of the chairperson and members of the board committees and attendance at such meetings.	Please refer 'Directors' attendance and Committee Memberships' tables are given on page 82 of the Annual report.

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Section	Corporate Governance Principle	Compliance
	vii. Group Structure • The group structure of the FC within which it operates. • The group governance framework	The Company is a fully owned subsidiary of Sampath Bank PLC. The Company fulfills its own legal and governing obligations.
	viii. Director's Report - A report, which shall contain the following declarations by the Board • The FC has not engaged in any activity, which contravenes laws and regulations. • The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested. • The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.	Given on pages 111 to 118 of the Annual Report.
	ix. Statement of Internal Control • A report by the Board on the FC's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. • The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. • A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. • A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions.	Given on pages 119 to 124 of the Annual Report.

Section	Corporate Governance Principle	Compliance
	x. Corporate Governance Report • Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.	The Corporate Governance Report is set out on pages 35 to 82 of the Annual Report of the Company. The Company has obtained an independent assurance report from the External Auditors over compliance with Finance Business Act Direction No. 05 of 2021 on Corporate Governance.
	xi. Code of Conduct • FC's code of business conduct and ethics for directors, senior management and employees. • The Chairperson shall certify that the company has no violations of any of the provisions of this code.	A Board approved Code of Conduct for directors and for all employees are in place. Please refer the Chairperson's message on pages 07 to 09 that the Company has no violations of any of the provisions of this code.
	xii. Management Report • Industry structure and developments • Opportunities and threats • Risks and concerns • Sustainable finance activities carried out by the company • Prospects for the future	Please refer 'Management Discussion and Analysis' on pages 13 to 25 and Managing Director's Review on pages 10 to 12.
	xiii. Communication with Shareholders • The policy and methodology for communication with shareholders. • The contact person for such communication.	The Board approved Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholders, and Borrowers. The Board of Directors, officers, and employees comply with the policy in order to ensure effective communication for the best interests of all stakeholders. The Company Secretary shall communicate with the shareholders through the Annual report, Quarterly Reports, and by notices issued to the shareholders.

CORPORATE GOVERNANCE REPORT

The Code of Best Practice on Corporate Governance 2013 was issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1	THE BOARD The Board of Directors at Siyapatha Finance PLC (the "Company") represents professionals from different disciplines such as Legal, Marketing, Management, Finance, Engineering, Information Technology and they bring with them a wealth of business experience to provide leadership to the Company.		
A.1.1	Board meetings	Complied	Board meetings are planned well ahead and dates of the monthly meetings are finalized at the end of the previous year. Board meetings are mainly focused on reviewing the performance of the Company and more on strategic planning and the Company's future directions. Key officers in their monthly presentations to the Board, focus 100% on their performances and future plans to achieve the strategic goals. Special Board meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders. During the reviewed period 16 Board meetings were held. Please refer 'Directors' attendance and Committee Memberships' table given on page 82 of the Annual report.
A.1.2	Responsibilities of the Board	Complied	The Board while acting in line with the Company's values is responsible for the formulation of a sound business strategy for the organization. The Management formulates three years strategic plan which addresses future challenges, which would be tabled, discussed, and approved by the Board. The Board takes necessary steps to fulfill the duties entrusted to them by securing the integrity of the information, managing risks, and implementing an effective internal control system. In this process, compliance ensures that all applicable laws and regulations and adherence to the Company's ethical standards and corporate values are met to ensure that all stakeholders' interests are taken into consideration in the corporate decision-making process.
A.1.3	Agreed procedure on seeking independent professional advice	Complied	A Board approved policy is in place for the directors to seek independent professional advice as and when required. The Board sub-committees advise the Board on various matters under their purview, when necessary.
A.1.4	Advice and services of the Company Secretary	Complied	A clearly formulated and approved policy by the Board is in place for the Board members to have full access to the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with. Legal matters for which the Board needs clarification are referred to the Company Secretary. She provides such information after obtaining necessary professional advice whenever required.
A.1.5	Independent judgement of directors	Complied	All directors are free to bring independent judgement to aid with the decision-making of the Company and for the decisions taken by the Board on issues of strategy, performance, resources, and standards of business conduct. Different arguments and ideas are recorded in detail by the Company Secretary with a view to indicate the rationale in which decisions are arrived at.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1.6	Dedicating adequate time and effort by the directors	Complied	All directors of the Company dedicate adequate time and effort at Board and Committee meetings to fulfill their duties. Further, they also spend their time before and after the meetings, to ensure that the duties and responsibilities owed to the Company are discharged according to the highest standards.
A.1.7	Training for new and existing directors	Complied	Directors have recognized the need for continuous training and take part in professional development as they consider it necessary in carrying out their duties as directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programmes relevant to the Board are communicated to the Board by the Company Secretary for the director's participation.
A.2	CHAIRMAN AND MANAGING DIRECTOR Board of Directors does not intervene with the Company's day-to-day business and there is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company by the Executive Management, in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board to drive toward the Company's Strategic Vision and to ensure the effectiveness of the Board. The Managing Director's role is to conduct the business operations of the Company with the help of the Corporate and Senior Management. Hence, the roles of the Chairman and the Managing Director are clearly distinct from one another.		
A.2.1	Separation of the roles of Chairman & Managing Director	Complied	There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The Managing Director's role is primarily to conduct the business operations of the Company with the help of corporate management. The roles of the Chairman and the Managing Director are clearly distinct from one another. Chairman and the Managing Director positions are held by two individuals and the functions of the Chairman and the Managing Director are clearly documented, defined, and separated by the Board, thereby preventing unfettered powers for decision making being vested in one individual.
A.3	CHAIRMAN'S ROLE Chairman is responsible to ensure that all Board members make a full contribution to the Board's affairs and ensure that the Board acts as a team while discharging Board functions. He provides leadership to the Board and effectively manages the Board while preserving order and facilitating the effective discharge of Board functions.		

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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.3.1	Role/functions of the Chairman	Complied	The following functions of the Chairman were approved by the Board. • To provide leadership to the Board. • Maintain and ensure a balance of power between the Executive and Non-Executive Directors. • Secure effective participation of both Executive and Non-Executive Directors. • To ensure that the Board works effectively and discharges its responsibilities. • To ensure that all key issues are discussed by the Board in a timely manner. • To implement decisions / directions of the regulator. • Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and maintaining minutes in an orderly manner to the Company Secretary. • Not engage in activities involving direct supervision of senior management or any other day-to-day operational activities. • Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board. • Annual assessment of the performance and the contribution during the past 12 months of the Board.
A.4	FINANCIAL ACUMEN The Code of Best Practice requires that the Board comprises members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Company has met the above requirement as four Board members out of Nine directors are qualified accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.		

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A 4	Financial acumen and knowledge	Complied	The Chairman of the Audit Committee, Mr. M.D.B. Boyagoda is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA UK) and a Chartered Global Management Accountants (CGMA) qualification. He graduated from the University of Sri Jayawardenepura, with a Degree in BSc Business Administration specializing in Finance. Mr. P.S. Cumaranatunga is an Associate member of the Chartered Institute of Management Accountants of UK (ACMA, UK), holds a Chartered Global Management Accountants (CGMA) qualification, a Certified Practising Accountants (CPA) and is a Member of the Chartered Institute of Marketing (DipMMCIM). Mr. H.M.A. Seneviratne is a Fellow member of the Institute of Chartered Accountants of Sri Lanka (FCA), graduated in Business Administration from the University of Sri Jayawardenepura, and a holder of a Master's Degree in Business Administration (MBA) from the University of Colombo. Ms. H.S.R.Ranatunga is a Fellow member of the Chartered Institute of Management Accountants, UK (FCMA-UK), the Chartered Global Management Accountants (CGMA), has a Master Degree in Business Administration (MBA) from the Postgraduate Institute of Management, University of Sri Jayawardenepura and MA in Economics from the University of Colombo. These members of the Board have the ability to offer to advice & guidance on matters of finance to the Board.
A.5	BOARD BALANCE The Code requires that a balance is maintained between the Executive and Non-Executive Directors (NEDs) thus no individual or a small group of individual directors is able to dominate the Board's decision making.		
A.5.1	Presence of a strong team of Non-Executive Directors (NEDs)	Complied	Eight out of nine directors of the Board are NEDs which complies with the minimum number prescribed by this Code, which is a minimum of two NEDs or NEDs equivalent to one-third of the total number of directors, whichever is higher. This ensures that the views of Non-Executive Directors are taken into consideration in Board decisions.
A.5.2 & A.5.3	Independence of NEDs	Complied	Five out of eight NEDs are independent which complies with the minimum prescribed by this Code which is at a minimum two NEDs or NEDs equivalent to one-third of NEDs appointed to the Board of Directors whichever is higher should be 'independent'.
A.5.4	Annual declaration of NEDs	Complied	Every NED of the Company has made written declarations as to their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H of this Code.
A.5.5	Annual declaration by the Board on the independence of directors	Complied	The Board has determined the independence of directors based on the declarations submitted by the NEDs as to their independence as a fair representation and will continue to evaluate their independence on this basis annually in line with CBSL directions, the SEC and the Code of Best Practice. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-Executive Directors are: Mr. P.S.Cumaranatunga,Mr. J.H.Gunawardena, Ms. H.S.R. Ranatunga, Mr. M.D.B. Boyagoda and Mr. D. Sooriyaarachchi

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.5.6	Alternate Director	Complied	At present, there are no alternate Directors.
A5.7 & A5.8	Requirement to appoint a 'Senior Non-Executive Director' and make himself available for confidential discussions.	Complied	The current Chairman of the Company is an Independent Non-Executive Director. Hence, the requirement to appoint a 'Senior Non-Executive Director' has not arisen.
A5.9	Chairman holds meetings with NEDs only without EDs	Complied	During the year the Chairman met the Non-Executive Directors, twice in the absence of the Managing Director.
A.5.10	Recording of concerns in Board minutes	Complied	Deliberations raised by the Directors are part of the Board Meetings and such information is adequately detailed by the Company Secretary in the minutes. The Company Secretary minutes as to how the decision had arrived at all times. All minutes are kept in a detailed manner.
A.6	SUPPLY OF INFORMATION The Code requires the Company's management to submit timely information to the Board with sufficient information for making decisions that would enable it to discharge its duties.		
A.6.1	Obligation of the Management to provide appropriate and timely information to the Board	Complied	The Executive Management of the Company should ensure that the directors are provided with adequate information in a timely manner and make every effort to provide the information, as early as possible. The Board Papers are prepared by the Executive Management of the Company to provide adequate information to the Board enabling it to deliberate on all key issues concerning the Company. Directors are free to raise inquiries/ concerns for additional information, where necessary. In addition, key members of the Executive Management make their presentations at every Board meeting on their performance and issues of importance during the reviewed period. The Chairman ensures that all directors are briefed adequately on issues arising at Board meetings.
A.6.2	Adequate time for Board meetings	Complied	According to the Articles of Association of the Company, all Board members are given notice well ahead of the meeting, and all minutes of previous meetings, agenda, and Board Papers are dispatched in advance. Further, adequate notice is given to all directors prior to emergency/special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at the meetings.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.7	APPOINTMENT TO THE BOARD Company has a formal and transparent procedure in place to appoint new Directors.		
A.7.1& A.7.2	Presence of a Nomination Committee and annual assessment of the composition of the Board.	Complied	Siyapatha has set up its own Board Nomination Committee. The Committee is authorized to implement a procedure to assess the skill, knowledge, and experience required for the selection and appointment of new directors and the Managing Director for the Company. The final decision is taken by the Board in terms of the procedure approved by the Board to appoint new directors which is a formal and transparent procedure. The Board assesses the composition of the Board to ensure that the combined knowledge and experience of the Board match the strategic demand of the market.
A.7.3	Disclosure of information to shareholders upon appointment of New Directors	Complied	All new appointments to the Board are communicated to the shareholders via the Colombo Stock Exchange in the English language, together with brief resumes of such Directors. Such announcements set out the fields of the respective Director's expertise, his/her directorships in other companies, and the number of shares he/she holds in the Company, whether he/she is appointed as an Executive Director or a Non-Executive Director, and whether as an Independent Director or as a Non-Independent Director. There are no such appointments to the Board in this manner during the year under review.
A.8	RE-ELECTION The Code requires all Directors to submit themselves for re-election, at regular intervals and at least once every three years.		
A.8.1 & A.8.2	Re-election of Non-Executive Directors including Chairman and Directors	Complied	The procedure adopted by the Company to re-elect by rotation is in compliance with Articles 24(7), 2(8) and 3(9) of the Articles of Association. In accordance with articles, at least one-third of the Directors retire at the AGM.
A.9	APPRAISAL OF BOARD PERFORMANCE The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.		
A.9.1 & A.9.2	Annual appraisal of the Board's performance and the performance of its Sub-Committees.	Complied	The performance of the Board is evaluated by the Chairman and the directors. The Board subcommittees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement and being in line with good governance.
A.9.3	Disclosure of criteria used for performance evaluation	Complied	The Company Secretary and the Board subcommittee secretaries submit the self-evaluation questionnaire to each director and obtain their individual responses. A summary of the responses is submitted to the Board for further action if deemed necessary.
A.10	DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS The Code requires that details of directors be disclosed in the Annual Report for information of the shareholders.		

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.10.1	Disclosures on Directors in the Annual Report	Complied	The following details pertaining to each director are disclosed in the Annual Report (a) Brief profile with expertise and experience - pages 29 to 33. (b) Other business interests - pages 111 to 118. Remuneration - Note 44.3 on page 209. Status of independence -pages 29 to 33. Details of Board Meetings and Board Committee Meetings held during the year - page 82.
A.11	APPRAISAL OF MANAGING DIRECTOR The Code requires the Board to assess the performance of the Managing Director at least annually to ascertain the degree to which the Managing Director met the pre-set financial and non-financial targets.		
A.11.1 & A11.2	Setting annual targets and the appraisal of the performance of the CEO/Managing Director	Complied	At the beginning of each financial year, the Board discusses the 3-year rolling budget with the Managing Director to be achieved by the Managing Director within the course of that year. Assessment of the performance of the Managing Director is carried out by the Board on an ongoing basis to ensure that the performance of the Company is achieved.
B.	DIRECTORS' REMUNERATION		
B.1	REMUNERATION PROCEDURE This principle ensures that the Company has a well-established formal and transparent procedure in place for developing an effective remuneration policy to avoid potential conflict of interest.		
B.1.1	Establishment of a Remuneration Committee	Complied	The Company has a Board Human Resources and Remuneration Committee which has the power to evaluate, assess, and decide matters that may affect the Human Resources Management of the Company.
B.1.2	Composition of the Remuneration Committee	Complied	As prescribed in this code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors, and the Chairman of the Committee is appointed by the Board.
B.1.3	Chairman and the Members of the Committee	Complied	Please refer to 'Board Human Resources and Remuneration Committee Report' on page 97 for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
B.1.4	Determination of the remuneration of Non-Executive Directors, including members of the Remuneration Committee	Complied	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
B.1.5	Ability to consult the Chairman and/ or the Managing Director and to seek professional advice by the Committee	Complied	The Committee has the authority to seek internal and external independent professional advice on all matters falling within the purview of the Committee at the Company's expense.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
B.2	LEVEL AND MAKE-UP OF REMUNERATION The Company ensures that the remuneration of Non-Executive Directors is at a satisfactory level to attract and retain the services of directors.		
B.2.1	Remuneration packages of Executive Directors	Complied	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
B.2.2	Competitiveness of levels of remuneration	Complied	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
B.2.3	Comparison of remuneration with other companies in the Group	Not Applicable	The Board HR& Remuneration Committee, where necessary, reviews the Company's remuneration levels in relation to the industry standards of the country.
B.2.4	Performance-based remuneration of Executive Directors	Complied	During the year under review, the Company did not provide performance-based remuneration for Executive Director.
B.2.5	Executive Share Options	Not Applicable	No Executive Share Options were granted during the year.
B.2.6	Designing the performance-related remuneration of Executive Directors.	Complied	The Board approved a challenging but transparent set of targets for the Managing Director. These targets are intended to provide the highest value to all stakeholders.
B.2.7 & B.2.8	Early termination of Executive Directors	Not arisen	This is in line with the contract of appointment.
B.2.9	Levels of remuneration of Non-Executive Directors	Complied	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
B.3	DISCLOSURE OF REMUNERATION The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.		
B.3.1	Disclosure of Remuneration	Complied	Please refer to 'Board Human Resources and Remuneration Committee Report' in page 97 for disclosure of the names of the Remuneration Committee members and the Remuneration Policy of the Company. Please refer Note 44.3 to the Financial Statements for the aggregate remuneration paid to Directors.
C.	RELATIONS WITH SHAREHOLDERS		
C.1	CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS The Code requires the Board to use the AGM to communicate with shareholders and encourage their active participation. Since the Company is a 100% owned subsidiary of the Parent Company, all Company information is routed through the Directors representing the Parent Company's interest.		
C.1.1	Use of Proxy Votes	Complied	The Parent Company holds 99.99% of the shares.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
C.1.2	A separate resolution at the AGM on each substantially separate issue and adoption of Annual Report Accounts.	Complied	The Parent Company holds 99.99% of the shares. Refer to shareholding on page 26 to 28. Adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance, and the Financial Statements together with the Report of the Auditors thereon are considered separately.
C.1.3	Availability of Board Subcommittee Chairpersons.	Complied	Board Subcommittee Chairpersons are available at the AGM, to answer any questions raised at the AGM.
C.1.4 & C1.5	Adequate Notice of AGM to shareholders together with a summary of the procedure governing voting.	Complied	Annual Reports are dispatched to all shareholders of the Company, whereas a form of proxy together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.
C.2	COMMUNICATION WITH SHAREHOLDERS The Code requires effective communication with shareholders. The Company is a fully owned subsidiary of Sampath Bank PLC.		
C.2.1	Channel to reach all shareholders of the Company	Complied	By circular to shareholders and notice of shareholder meetings.
C.2.2	Policy and methodology for communication	Complied	By circular to shareholders and notice of shareholder meetings.
C.2.3	Implementation of the policy and methodology for communication with shareholders	Complied	By circular to shareholders and notice of shareholder meetings.
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Complied	The main contact person is the Company Secretary.
C.2.5	Process to make all directors aware of major issues and concerns of shareholders	Complied	Any major issue of concern of shareholders are informed to Board Members by the Company Secretary.
C.2.7	Process responding to shareholder matters	Complied	The Company is a fully owned subsidiary of Sampath Bank PLC.
C.3	MAJOR AND MATERIAL TRANSACTIONS The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company if entered into.		
C.3.1	Disclosures on proposed major, transactions	Not Applicable	There were no major transactions involving the acquisition or disposal of assets greater than half of the net asset value of the Company.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.	ACCOUNTABILITY AND AUDIT		
D.1	FINANCIAL REPORTING This Principle requires the Board of the Company to present a balanced and understandable assessment of the company's financial position, performance, and prospects.		
D.1.1	Board's Responsibility for Statutory and Regulatory Reporting	Complied	The Board is well aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner and a statement to this effect is given on pages 111 to 118 of this Annual Report. The Company has complied with the requirements of the Companies Act No. 07 of 2007, the Finance Leasing Act, No. 56 of 2000, the Finance Business Act, No. 42 of 2011, and amendments thereto, in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards. Further, the Company has complied with the reporting requirements prescribed by regulatory authorities such as the Central Bank of Sri Lanka and the Colombo Stock Exchange.
D.1.2	Declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the state of affairs of the Company on pages 111 to 118 contains the declarations as required by the Code.
D.1.3	Statements by Directors' and Auditors' on responsibility for financial reporting	Complied	The 'Responsibility for Financial Statements for the preparation and presentation of financial statements is given in Note 2.2 on page 130 of the Annual Report. Please also refer pages 122 to 124 for the Independent Auditor's Report.
D.1.4	Management Discussion and Analysis	Complied	Please refer to 'Management Discussion and Analysis' (MD&A) set out on pages 13 to 25 presented as an integrated report covering all aspects referred to in the code.
D.1.5	Declaration by Board on the going concern of the business	Complied	Please refer to 'Annual Report of the Board of Directors on the state of affairs of the Company' and Note 2.10 Estimates and Assumptions to the Audited Financial Statements on page 131.
D.1.6	Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	Not applicable	No such event occurred during the financial year.
D.1.7	Declaration by Board on Related Party Transactions	Complied	Each Director and KRP have declared their interest in transactions with the Company during the year ended 31st December 2022, if any. Internal controls are placed within the Company to identify, record, and disclose related party transactions. All Related Party Transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in Note 45 to the Audited Financial Statements.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.2	INTERNAL CONTROL The Code requires the Company's Board to ensure that an effective system of internal controls, which safeguards the Company's assets to protect the interest of shareholders is in place.		
D.2.1	Directors to conduct an annual review of internal controls	Complied	The Company obtained the External Auditor's Certification on the Directors Responsibility Statement on Internal Control over Financial Reporting included in the Annual Report.
D.2.2	Need for an Internal Audit Function	Complied	The Company has established an Internal Audit Function headed by the Head of Internal Audit who is independent and reports directly to the Board Audit Committee. The Board Audit Committee exercises oversight over the same. The Board Audit Committee reviews the Internal Audit function at regular intervals.
D.3	AUDIT COMMITTEE The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting, and internal control principles and maintaining an appropriate relationship with the Company's External Auditor.		
D.3.1	Composition of the Audit Committee	Complied	Details of the members, are given on the 'Board Audit Committee Report' on pages 95 to 96.
D.3.2	Duties of the Audit Committee	Complied	As stated in the report of the Board Audit Committee of the Company, it regularly reviews the scope of the External Auditors, results, and effectiveness of the audit. It also ensures that non-audit services provided by External Auditors do not affect their independence.
D.3.3	Terms of Reference of the Audit Committee	Complied	Terms of Reference of the Board Audit Committee are in place and approved by the Board of Directors. This clearly explains the purpose of the committee, its duties, and responsibilities, together with the scope and functions of the committee. The committee mainly deals with matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit, and risk management procedures of the Company.
D.3.4	Disclosure of names of the members of the Audit Committee	Complied	Names and composition of the members of the Audit Committee are given under Audit Committee Report on pages 95 to 96.
D.4	CODE OF BUSINESS CONDUCT AND ETHICS The Code requires the Company to adopt an internal Code of Conduct and Ethics to be adhered to by all directors and members of the senior management of the Company.		
D.4.1	Disclosures on the presence of Code of Business Conduct and Ethics.	Complied	The Company has an internally developed a Code of Conduct for its directors and this Code covers the following areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc. Further, the Code of Conduct is available for all employees including Corporate and Senior Management. This Code focuses mainly on the following areas: Fair dealing, protection and proper use of the Company assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination, and harassment, health, and safety, discipline, etc.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer to the Chairman's message for details on pages 7 to 9.
D.5	CORPORATE GOVERNANCE DISCLOSURES Directors of the Company disclose annually the Company's adherence to the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka (CBSL). Finance Business Act Directions No. 05 of 2021 on Corporate Governance, Finance Business Act Directions No.06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons, Section 7.10 of the Listing rules of the Colombo Stock Exchange on Corporate Governance.		
D.5.1	Annual Corporate Governance Report in the Annual Report	Complied	Corporate Governance reports is given on pages 35 to 82 in the Annual Report.
SECTION 2 : SHAREHOLDERS			
E.	INSTITUTIONAL INVESTORS		
E.1	SHAREHOLDER VOTING Due to the Parent Company holding 100% of the equity of the Company, the requirement of disclosures to institutional investors has not arisen from an equity point of view. In the event such a need arises from the perspective of accountability and transparency, all material disclosures would be made to strengthen the positive relationship between management and institutional investors.		
E.1.1	Communication with shareholders	Complied	Parent Company holds 100% of shares and is the only institutional investor. All required information to the Parent Company is provided in a timely manner.
E.2	EVALUATION OF GOVERNANCE DISCLOSURES The Code requires the Company to encourage institutional investors to give due weight to all relevant factors drawn to their attention.		
E.2.1	Encourages Institutional Investors to give due weight to relevant governance arrangements	Complied	Sampath Bank PLC as the only institutional investor and is kept apprised of the Company's governance practices through the Annual Report to ensure that due weightage is given to good corporate governance.
F.	OTHER INVESTORS;		
F.1	INVESTING/DIVESTING DECISION		
F.1.1	Seek independent advice in investing or divesting decisions.	Not applicable	Sampath Bank PLC owns 100% of the Company shares.
F.2	SHAREHOLDER VOTING		
F.2.1	Encourage voting by Individual Investors in general meetings	Complied	The Parent Company and subscribers/shareholders use its voting rights at the AGMs.
G.	SUSTAINABILITY REPORTING Sustainability is a business approach that creates long-term stakeholder value. It focuses on managing risks arising from economic, environmental, and social aspects. Sustainability reporting aims towards the goals of sustainable development in the context of business strategy and activities.		

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
G.1.1	Economic Sustainability	Complied	Please refer to 'Management Discussion and Analysis' on pages 13 to 25.
G.1.2	The Environment	Complied	This is covered in the 'Management Discussion and Analysis' on pages 13 to 25.
G.1.3	Labour Practices	Complied	Please refer 'Management Discussion and Analysis' on pages 13 to 25.
G.1.4	Society	Complied	Please refer 'Management Discussion and Analysis' on pages 13 to 25.
G.1.5	Product and Service Responsibility	Complied	Please refer to 'Management Discussion and Analysis' on pages 13 to 25.
G.1.6	Stakeholder Identification, Engagement & Effective Communication	Complied	Please see the contents of the 'Management Discussion and Analysis' on pages 13 to 25.
G.1.7	Sustainable Reporting & Disclosure	Complied	Please see the contents of the 'Management Discussion and Analysis' on pages 13 to 25.

Corporate Governance Report

STATEMENT OF COMPLIANCE UNDER SECTION 7.10 OF THE RULES OF THE CSE ON CORPORATE GOVERNANCE

Rule No.	Applicable Requirement	Compliance Status	Comment
Non-Executive Directors			
7.10.1(a)	2 or 1/3 of the total number of Directors should be Non-Executive Directors whichever is higher.	Complied	The Board consists of eight (8) NED's out of a total number of nine (9) directors.
Independent Directors			
7.10.2 (a)	2 or 1/3 of Non-Executive Directors appointed to the Board whichever is higher shall be independent	Complied	The Board comprises five Independent Non-Executive Directors during the year 2022.
7.10.2(b)	Submission of declarations annually, declaring the independence of directors	Complied	Declarations have been obtained from the directors regarding their independence/non-independence status against the specified criteria, and copies of the same are under the custody of the Company Secretary for review.

Rule No.	Applicable Requirement	Compliance Status	Comment
Disclosure Relating To Directors			
7.10.3(a)	The Board shall annually determine the independence or non-independence of Directors.	Complied	The Board is well aware of the requirement and the Board evaluates the independence of directors.
	Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on pages 29 to 33 of the Annual Report.
7.10.3(b)	The basis for the Board's determination of Independent Directors,if criteria specified on independence is not met.	Complied	The Board determines the independence of directors based on the criteria set out in the CSE Listing Rule No. 7.10.4. The requirement is met.
7.10.3(c)	Publish a brief resume of each Director	Complied	Profiles of each director have been published on pages 29 to 33 of the Annual Report.
7.10.3(d)	Provide a brief resume of new Directors appointed to the Board	Complied	There were no new appointments to the Board during the year 2022.
Criteria For Defining Independence			
7.10.4 (a-h)	Determination of Independence	Complied	The Board has met the criteria of defining independence which is in line with CSE and CBSL Directions on Corporate Governance.
Remuneration Committee			
7.10.5(a)	Composition	Complied	During the year under review, the Board HR & Remuneration Committee comprised of Mr. D. Sooriyaarachchi (Chairman), Mr. P. S. Cumaranatunga, and Ms. H.S.R. Ranatunga.
7.10.5(b)	Recommendation on Remuneration for Executive Directors, CEO and/or equivalent position	Complied	In terms of the Remuneration and Benefits Policy of the Company, the salaries, allowances, and other financial benefits related to the directors and senior management are decided by the BHRRC.
7.10.5(c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report on pages page 97 under HR & Remuneration Committee Report.
	Remuneration Policy	Complied	Policy is given in HR& Remuneration Committee Report on page 97.
	Aggregated remuneration paid to Directors	Complied	Published in the Annual Report of the Board of Directors on the state of affairs of the Company on pages 111 to 118 of the Annual Report.
Audit Committee			

CORPORATE GOVERNANCE REPORT

Rule No.	Applicable Requirement	Compliance Status	Comment
7.10.6(a)	Composition and Role of the Audit Committee	Complied	All members of the Board Audit Committee are Independent, Non-Executive Directors and the Committee comprises of Mr. M.D.B. Boyagoda (Chairman), Mr. P.S. Cumaranatunga, Mr. J.H. Gunawardena, and Ms. H.S.R. Ranatunga. Please refer to the contents of the Board Audit Committee Report on pages 95 to 96 for the role of the Audit Committee.
	Chairman of the Audit Committee	Complied	The Board appointed Mr. M.D.B. Boyagoda as the Chairman of the Board Audit Committee w.e.f. 01st June 2020. Mr. M.D.B. Boyagoda is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, anAssociate Member of the Chartered Institute of Management Accountants of UK (CIMA-UK), and the Chartered Global Management Accountants (CGMA). He graduated from the University of Sri Jayawardenepura, Sri Lanka with a Degree in BSc Business Administration specializing in Finance.
	Attendance at Audit Committee Meetings	Complied	Members of the Board Audit Committee, the Head of Internal Audit, and the Head of Finance attend the meetings. Managing Director and Chief Operating Officer attend by invitation.
7.10.6(b)	i) Preparation, presentation, and adequacy of disclosures in the financial statements of the Company in accordance with Sri Lanka Accounting standards.	Complied	The Company is in compliance with Sri Lanka Accounting Standards (SLFRS&LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 2.1 on page 130 to the Audited Financial Statements under Statement of Compliance.
	ii.) Compliance with financial reporting requirements, information requirements of the Companies Act, and other relevant financial reporting-related regulations and requirements.	Complied	The Company is in compliance with the requirements of the Companies Act No. 7 of 2007. This fact is stated in Note 2.1 on page 130 to the Audited Financial Statements under Statement of Compliance.
	iii) Process to ensure that the Company's internal control and risk management are adequate to meet the requirements of the Sri Lanka Auditing standards.	Complied	The Auditor's certification on the Directors Responsibility Statement on Internal Controls over Financial Reporting included in the annual report has been obtained. The Company assesses the internal controls via Risk & Control Self Assessment (R&CSA) process.
	iv) Assessment of the independence and performance of the Company's external auditors	Complied	The Board Audit Committee (BAC) assesses the independence of External Auditors and their performance. The Board Audit Committee regulatory reviews the scope of the External Auditors and the effectiveness of the audit. Furthermore, the committee ensures that non-audit services provided by External Auditors do not affect their independence.

Rule No.	Applicable Requirement	Compliance Status	Comment
	v) Recommendations to the Board pertaining to the appointment, reappointment and to approve the remuneration and terms of engagement of the external auditor.	Complied	The Board Audit Committee makes recommendations to the Board for appointment of the External Auditor for audit and non-audit services, their service period, audit scope and audit fee.
7.10.6(c)	Names of Directors comprising the Audit Committee.	Complied	Published in the Annual Report on pages 95 to 96 under Audit Committee Report.
	Determination of the independence of the Auditors and the basis for such determination	Complied	
	Report of the Audit Committee setting out the manner of compliance by the Company	Complied	Please refer the report of the Audit Committee, published on pages 95 to 96 of the Annual Report.

On behalf of the Board Corporate Governance Committee

H. S. R. Ranatunga
Chairperson - Board Corporate Governance Committee

27th February 2023

CORPORATE GOVERNANCE REPORT

Directors' Attendance and Committee Memberships

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transaction Review Committee	Board Nomination Committee	Board IT Committee
Mr. P.S. Cumaranatunga	16/16	12/12	6/7	-	9/9	-	-	3/3	-
Mr. Y.S.H.R.S. Silva	15/16	-	-	-	-	-	-	2/2	-
Mr. H.M.A. Seneviratne	16/16	-	3/3	15/15	-	4/5	3/4	-	10/11
Mr. J. Selvaratnam	15/16	-	7/7	15/15	-	5/5	4/4	1/1	-
Mr. J.H. Gunawardena	14/16	10/12	7/7	-	-	4/5	4/4	-	-
Mr. D. Sooriyaarachchi	16/16	-	-	-	9/9	-	3/4	3/3	10/11
Mr. W.S.C. Perera	16/16	-	1/1	15/15	-	-	-	-	11/11
Ms. H.S.R. Ranatunga	16/16	12/12	-	15/15	9/9	5/5	4/4	-	-
Mr. M.D.B. Boyagoda	16/16	12/12	7/7	-	-	5/5	4/4	-	11/11
Total No of Meetings	16	12	07	15	09	05	04	03	11

Directors' Attendance for the Year 2022

1. The Board Audit Committee had 10 meetings during the year 2022 and two (2) separate Board Audit Committee meetings were held with the External Auditors without any other Directors & Senior Manager being present.
2. The Chairperson of the Board held two meetings with the Non-Executive Directors only, without the executive directors being present.

Directors' Attendance and Committee Memberships

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transaction Review Committee	Board Nomination Committee	Board IT Committee
Mr. P. S. Cumaranatunga	C[16]	M[12]	M[6]	-	M[9]	-	-	C[3]	-
Mr. Y.S.H.R.S. Silva	M[15]	-	-	-	-	-	-	M[2] [1]	-
Mr. H.M.A. Seneviratne	M[16]	-	M[3] [4]	M[15]	-	M[4]	M[3]	-	M[10]
Mr. J. Selvaratnam	M[15]	-	M[7]	C[15]	-	M[5]	M[4]	M[1] [2]	-
Mr. J.H. Gunawardena	M[16]	M[10]	C[7]	-	-	M[4]	M[4]	-	-
Mr. D. Sooriyaarachchi	M[16]	-	-	-	C[9]	-	C[3]	M[3]	M[10]
Mr. W.S.C. Perera	M[16]	-	M[1] [3]	M[15]	-	-	-	-	C[11]
Ms. H.S.R. Ranatunga	M[16]	M[12]	-	M[15]	M[9]	C[5]	M[4]	-	-
Mr. M.D.B. Boyagoda	M[16]	C[12]	M[7]	-	-	M[5]	M[4]	-	M[11]
Total No of Meetings	16	12	07	15	09	05	04	03	11

(C - Chairman / Chairperson, M - Member)

1. Mr. Y. S.H.R.S. Silva was appointed as a member of the Board Nomination Committee with effect from 26th April 2022.
2. Mr. J. Selvaratnam stepped down as a member of the Board Nomination Committee with effect from 26th April 2022.
3. Mr. W.S.C. Perera was appointed as a member of the Board Integrated Risk Management Committee with effect from 25th October 2022.
4. Mr. H. M. A. Seneviratne stepped down as a member of the Board Integrated Risk Management Committee with effect from 24th May 2022, in order to comply with the Finance Business Act Directions No. 05 of 2021.

RISK MANAGEMENT

Siyapatha Finance follows risk management with the main objective of developing and undertaking an enterprise-wide approach towards inculcating the best practices developed thus far in the industry. The activities are approached with the intention of enabling business objectives as well as in pursuit of fulfilling stakeholder expectations. The Company's risk management is underpinned by a comprehensive Integrated Risk Management Framework, which is periodically reviewed and strengthened to remain resilient in an increasingly challenging environment. The risk culture, which is defined and overlooked by the Board of Directors, clearly defines the governance structure and the processes for identifying, measuring, monitoring and controlling the Company's risk exposures. Permeating across all levels of the organization, the risk framework defines the risk conscious culture in the Company. The risk policies and procedures were reviewed and revised during the year in line with the rapid changes in the industry. The risk management process was also reviewed to aid the management of the impacts created by the economic crisis faced during the year.

Risk landscape in 2022 and beyond. International impact

The consequences of the Russia-Ukraine war are likely to have prolonged adverse effects on the global political stability and the security of the region. In addition, the pressures due to rising inflation and increasing debt may jeopardize global prospects of economic rebound and would have a major impact on developing countries, which are just rising from the repercussions of the Covid 19 pandemic. During, financial year 2021 we experienced the continued impacts of the pandemic which adversely affected the world economy, health, politics, and the global climate. The slowdown which commenced from one of the largest economies of the world i.e. China, had its roots spreading rapidly across the globe. The aftermath of the Covid 19 impact will be carried forward to the future too despite most counties now having overcome the worst of its impact. The epidemic has claimed many lives worldwide and presented an unprecedented challenge to the world in terms of public health, food systems and services. The economic and social devastation wrought by the plague is catastrophic: millions of people are at risk of falling into poverty. The only option to control this catastrophic epidemic was to have the population fully vaccinated. Rich countries have completed the final stages of this vaccination process, but poor countries still have disparities in obtaining these vaccines. At the time of writing this report the total global cases stood at around 20.8 million.

Meanwhile, the increasing inflation around the world has impacted many countries and will continue during financial year 2023 too. This will result in a slowdown of global growth as well as the free function of the trade among countries. Increasing energy and transport prices will severely impact businesses, which would have to absorb a greater share of these costs in order to keep the goods and services affordable for general public. This will in turn affect the equity markets and other commodity markets, creating a decline during the years to come. However, we saw the gold market picking up towards the latter part of the year and settling towards the end of the year. Many investors were seen to be looking for safer havens to park their funds until the crisis comes to an end, hence activities were not that aggressive. Since global trading activities were limited the circulation of money slowed down during the year. Though the travel bans were lesser, tourist movements were not that aggressive and many countries which were depending on the same were severely impacted during the year. Some countries tried promoting local tourism but it was not that effective when compared to the amount of foreign currency inflow from the tourists. Many countries had to introduce financial stimulation packages to review the industries or introduce moratoriums for debt repayments to banks and finance companies. Many analysts are positive about 2023 with the improvements in economic activities, but a clear timeline is not predicted to completely overcome the crisis.

The broader implications of the Russia Ukraine war could transcend economic and social outcomes to include the impact on the rising militant related activities around the world. Frustration stemming from the high cost of living, food insecurity, and unemployment has increased anti-government sentiments in many parts of the globe. In the meantime, the cold battle between China and United States of America to win the trade war also continues on the frontlines. This would also impact the supply chains of the other routes in trading transactions for many regions.

Local impact; the crisis management

Budget 2023

The following is a synopsis of the Budget Speech 2023 titled "Sri Lanka, Towards a New Beginning" presented in Parliament on 14th November 2022.

In his speech, the President expresses hope that the negotiations with IMF and the dialogue on debt restructuring will lead to positive outcomes. The President also expresses confidence that the rise in inflation can be controlled and the rupee will continue to strengthen, thus stabilizing the economy within the next year.

Sri Lanka Budget Focus – 2023

This economy will be led by the private sector while the government focuses on regulating economic activities, investing in infrastructure, correcting market failures, maintaining law and order, taking care of

RISK MANAGEMENT

poor and vulnerable groups and ensuring equitable benefits for all sections of society.

This new economy will comprise of three components,

(a) An export oriented competitive economy.

(b) An environmentally friendly green and blue economy.

(c) A digital economy which is expected to be achieved through economic reforms, reorganization and economic modernization.

From this new approach, the government expects to achieve the following goals:

- High economic growth of 7% to 8% (though the net growth is a negative, there will be an improvement)
- Increasing international trade as a percentage of GDP by more than 100%.
- Annual growth of USD 3 Bn from new exports from 2023 to 2032.
- Foreign direct investment of more than USD 3 Bn in the next 10 years.
- Creating an internationally competitive workforce with high skills in the next 10 years.

Expenditure rationalization / State sector

- Sri Lankan Airlines, SLT, Colombo Hilton, Waters Edge and SLIC will be restructured.
- Selected SOE debt will be taken to the Government Balance Sheet (B/S) to strengthen the B/Ss of such SOEs.
- A Presidential Commission will be appointed to advice on public sector reforms.
- Government will no longer bear employment taxes of state sector employees.

Below are some of the budget proposals that are important and can create business opportunities for banks and non-banking financial institutions.

Industry

- ♦ Four new economic zones to be established.
- ♦ New agency to promote investment and external trade by combining BOI, EDB and SLECIC.
- ♦ Three-year logistics infrastructure development programme to be implemented.
- ♦ Creating blue and green financing space.

Welfare

- ♦ Health and 'loss of employment' insurance coverage for private sector employees.

Customs Duty on Imports

Rate changes: The existing three band tariff system of 0%, 10% and 15% will be revised as a three-band tariff system of 0%, 15% and 20%.

Release of vehicles seized at the Sri Lanka Customs owing to non-payment of applicable taxes and other reasons:

- ♦ Any vehicle imported to Sri Lanka on or after 22nd May 2020 but prior to 12th November 2021 and not removed from the Sri Lanka Customs due to restrictions and prohibitions set out in the Regulations made under the provisions of the Import and Export (Control) Act, No.1 of 1969.
- ♦ Any vehicle propelled electrically, imported prior to 12th November 2021 and not removed from the Sri Lanka Customs due to non-payment of applicable taxes.

An Export Oriented Competitive Economy

- ♦ New economic zones to be set up in the Western Province, North Western Province, Trincomalee and Hambantota to attract foreign investments.
- ♦ Phase out para-tariffs and levies and replace with revisions to customs import duty in order to reduce barriers to international trade.
- ♦ Underutilized state lands to be leased out on long-term basis for export crop cultivation, by implementing laws to facilitate the process.

Other

- ♦ Incentivize the use of and the assembly of electric cars. Special tax concessions for entities that assemble motor vehicles with a local value addition of at least 25%.
- ♦ Empower unemployed youth as Agricultural Entrepreneurs.
- ♦ Transform farmers into agro-entrepreneurs via 10 agro entrepreneurship villages and create greater employment opportunities.
- ♦ Introduce a new Financial Asset Management Companies Act to enable banks and finance companies to separate and transfer their non-performing bad assets to an asset management company.
- ♦ Establish a Microfinance and Credit Regulatory Authority.

According to the regulatory reports published, the following changes have taken place in the economy.

- ♦ Headline inflation, as measured by the year-on-year (Y-o-Y) change in the National Consumer Price Index (NCPI, 2013=100) which followed an increasing trend since October 2021, declined to 70.6% in October 2022. Similarly, food Inflation decreased to 80.9%, while the Non-Food Inflation decreased to 61.3%. Furthermore, the NCPI measured on an annual average basis, increased to 42.2% in October 2022 from 36.9% in September 2022.

- During the January to October 2022 period, tea production recorded a decline, on Y-o-Y basis, attributing to the shortages in required fertilizers. Rubber production also declined due to the combined impact of adverse weather conditions in rubber growing areas, the spread of fungal disease and fertilizer shortages. Meanwhile, benefiting from the lagged effect of favourable weather conditions prevailed in 2021 and thus far in 2022, coconut production recorded a notable increase.
- During the seven months ended July 2022, government revenue increased to LKR 1,093 Bn compared to LKR 800 Bn recorded in the corresponding period of 2021.
- During the period from January to July 2022, total expenditure and net lending increased to LKR 2,103 Bn compared to LKR 1,814 Bn recorded in the corresponding period of 2021.
- During the seven months ended July 2022, domestic financing decreased to LKR 1,053 Bn compared to LKR 1,205 Bn in the corresponding period of 2021. Foreign financing recorded a net repayment of LKR 43 Bn during the period from January to July 2022, compared to the net repayment of LKR 190 Bn recorded in the corresponding period of 2021.
- Outstanding central government debt increased to LKR 24,671 Bn by end July 2022 from LKR 17,589 Bn as at end 2021. By end July 2022, total outstanding domestic debt amounted to LKR 13,049 Bn while the rupee value of total outstanding foreign debt amounted to LKR 11,622 Bn.

The political instability, social conflict, and economic uncertainty of 2022 posed serious challenges for businesses across the country. Though the spread of Covid19 virus was successfully controlled in the first quarter of 2021, we saw that the deficiency of the foreign currency to finance imports and repayment of debt lead to a major crisis from mid 2022. This was a very unprecedented impact the country faced which ended up in a politically unstable country. The second and third quarters were the worst period of the crisis, during which time the country was facing shortfall of many essential need including the shortage of energy sources. The country's economy was severely affected and the public went on to the streets demanding the supply of these basis needs.

Risk Management at Siyapatha Finance PLC

At Siyapatha Finance PLC, risk management is developed alongside the strategic concepts to ensure that growth is balanced with respective controls and monitoring. Risk Management is considered to be of utmost importance since it forms an integral part of policy formulation and business sustainability. As a financial intermediary, robust risk management practices ensure that depositors and investors are protected and the interests of other key stakeholders are safeguarded. The Company firmly believes that sound risk management practices are critical for long term growth.

The Company's objective is to strengthen the going concern of the entity by adding maximum sustainable value to all activities by considering the potential vulnerabilities of all the factors that can adversely affect the business operation.

The risk management strategy of the Company is integrated with the business strategy of the Company. The Company's risk management process encompasses risk identification, evaluation, mitigation, monitoring and facilitating timely and effective action.

Some of the emerging risks which arise in the current context are identified below. While we focus mainly on business development, strategies are developed to curtail risks such as;

- The considerable impact from market activities including liquidity constraints and upward interest rate revisions.
- Reputation risk threats arising due to instantaneous communication methodologies such as social media etc. Any impact on the reputation would change the strategy of the company.
- Technological risks arising due to new product developments by competitors which would disrupt the usual business carried out by the company. Additionally, threats from hackers could also hinder business activities. Hence with the expected growth and development of new technological tools, the company should make sure that proper protective mechanisms are embodied within these new developments.
- The Human capital would become an imperative asset for the company in time to come hence retention of such talent should be emphasized on.
- The overall economic position of the external environment and its impact to the stakeholders.
- Political instability could change the strategy of the Company and may result in a deviation from the original plans.
- The impact on the industries which could change the outcome of the results of the performance of the Company. This would in turn affect the NPA position of the Company.
- In addition to the above,the overall objectives and strategies specific to the risk management division of the company are broadly depicted in following table.

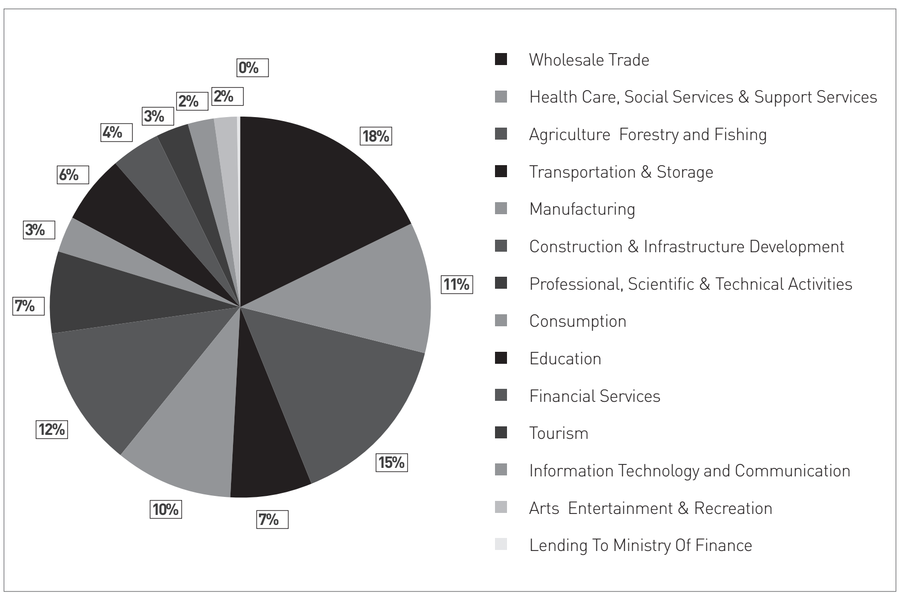
RISK MANAGEMENT

Strategies	Action Plan
1. Adoption of a risk-based approach.	1. Conduct / review risk rating for customers / products / branches.
2. Looking at the economic and industry environment risks which may impact the company.	2. Identify areas to penetrate
3. Managing the credit risk / NPA.	3. Developing the credit risk evaluating process
4. Adoptation to the Risks in market operations.	4. Analysis of funding process and reprising impact on ALM.
5. Continuously monitor operational risks associated with proposed strategy and take actions.	5. Introducing a transaction monitoring system.
6. Identify and mitigate other residual risks which may impact.	6. Conducting training on related areas to enhance knowledge of staff.
7. Checking the risk and controls of the Branches and Departments.	7. Working closely with other control groups such as compliance and audit for better monitoring
8. Take action to Risk rate the reviews of all Company policies influencing the strategies. .	8. Conducting Risk & Control Self-Assessment for all Branches and Departments.
9. Checking of operational losses of the Branches.	9. All policies should be referred through BIRMC.
10. Checking the risk on gold loans.	10. Directly contacting the branch
11. Risk review of the outsourced activities.	11. BOI / Branch manager role to be enhanced.
12. Monitor the Liquidity and Interest Rate Risks (IRR) and take precautionary actions	12. Calculating stress testing monthly.
	13. Collecting data from each Department and risk rate

Admidst the challenging environment of Financial Year 2022, the Company managed to control the credit risk impact with continuous monitoring coupled with a robust action plan on recovery. The escalating credit risk was a common concern in the industry and was controlled within the Company through the appointment of segregated teams to monitor the tickets. We were able to identify the affected segments in the portfolio and take action accordingly to prevent any adverse impact to the Company. The activities were well managed during the first half of the year, subsequent to the recovery from the pandemic. However, the situation has now changed and during the last two months, recovery rates have been rather dull due to the economic recession.

In addition to credit risk monitoring, the Company also takes precautionary action on managing market, operational, legal, compliance and reputational risks. The Risk and Contorl Self Assessment (R & CSA) process was introduced during the year 2020 and is now implemented across the Company. In addition, the risk grid and tolerance limits were redefined to suit the present market conditions and monitoring.

The Operational Risk Management framework describes the approach to operational risk management followed by Siyapatha Finance PLC. The purpose of this document is to establish an explicit operational risk management process that results in the identification, assessment and /or measurement, monitoring and control / mitigation of operational risk including Information Technology (IT) risk which is associated with the use and operation of information technology.

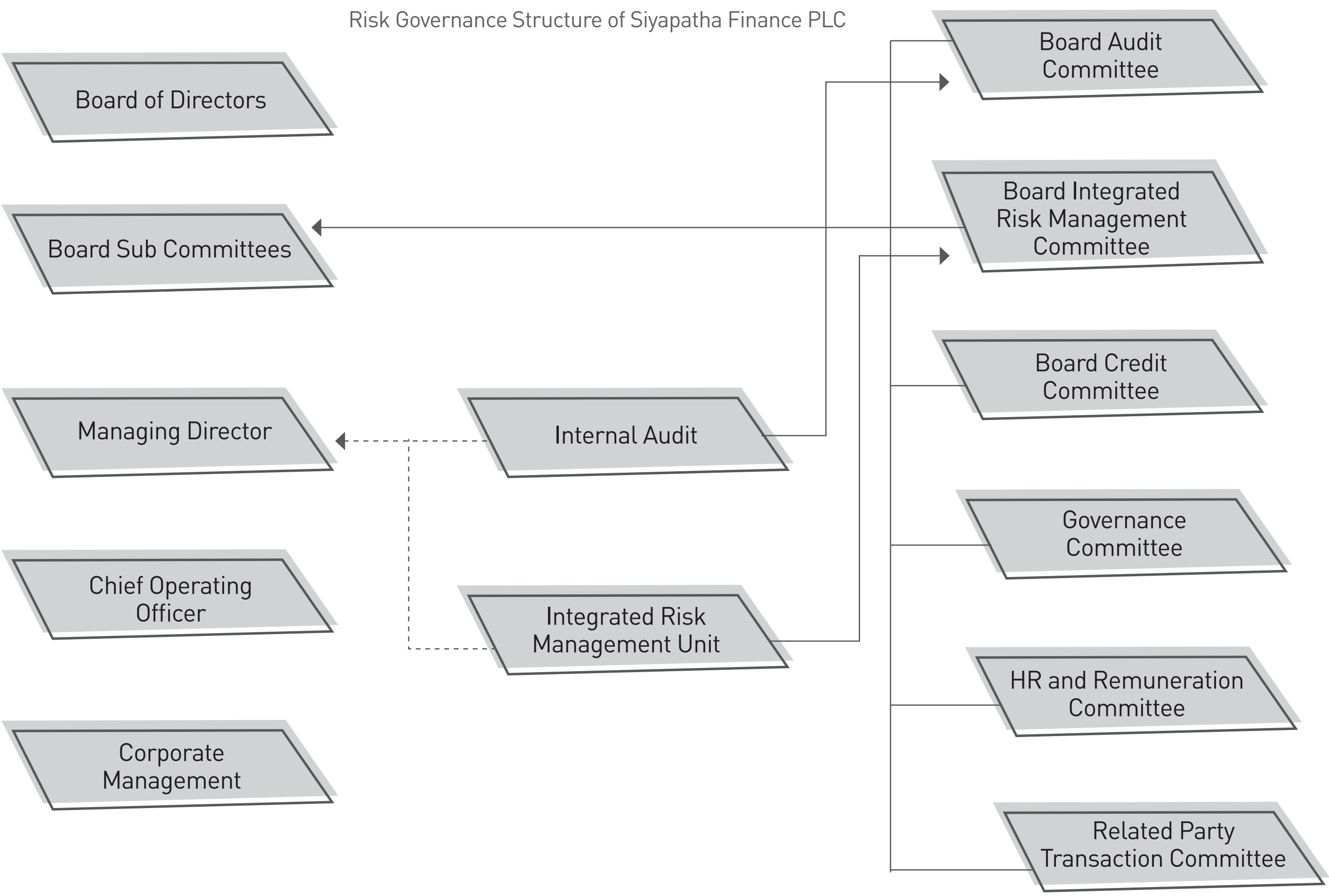


Summary of the risk analysis on future strategies has identified that,

01. The vehicle import has been stopped until further notice and there may be decrease in leases due to the increasing leasing interest rates. There is less demand for large scale tickets.
02. With the new budget the pension age has been changed to 60 years so there may be new opportunities coming in for finance companies such as possibility to introduce pension schemes and vehicle leasing based on the age individuals.
03. There is an upward trend in investments moving to other countries so there is a possible decrease in foreign remittances. This may also lead to an improvement in fee base income.
04. In 2019 the foreign reserves stood at USD 8,864 million and in January 2022 the foreign reserves were USD 2,361 million. This depleted further to USD 1,804 million by end November 2022. All efforts to bring its foreign earnings back to pre-pandemic levels have failed as Sri Lanka now faces a dire foreign exchange crisis..
05. There might be new economic zones and development proposals coming in and we can target new branch openings in the said areas.
06. There is a considerable increase in the all interest rates which will affect the Company's operations and cost of funds.
07. Opportunities for liquid milk, organic fertilizer, traditional batik, women enterprises and fancy fish industries may arise and we need to look out for such opportunities in other industries with a positive mindset.
08. Increase in unemployment and inflation may lead to a recovery issue and also the increase of commodity prices such as oil, gas and other main essential products.
09. The price increase of fertilizer will impact the agriculture sector.
10. The foreign exchange crisis has impacted the country's escalation cost of the raw material and all other costs.
11. The interest rate increase has impacted the overall borrowing cost of all Finance Companies in the market and the liquidly positions.

Risk management framework

Risk Governance Structure of Siyapatha Finance PLC



RISK MANAGEMENT

The Board of Directors is responsible for upholding far-sighted risk management mechanisms and orderly implementation of the risk framework in the Company. The Board approves the policies, strategies and systems and operational approach for risk management. The Board Integrated Risk Management Committee and the corporate management of the Company carry out the efficient implementation of the risk management function in the Company.

Board Integrated Risk Management Committee (BIRMC)

BIRMC is the Board subcommittee responsible for overseeing the risk management function in line with the Board approved policies and strategies. They also recommend approval of required and relevant policies for integrated risk management to the Board and provide instructions of identified risks. The Committee interacts with the Managing Director, Board Audit Committee and Board Credit Committee on Risk Management related activities. Besides the Board's representatives, BIRMC is attended by of the Managing Director, COO, Head of Risk Management, Head of Compliance, Senior Manager Treasury and other key managerial personnel covering the key risk areas of the company covering credit, marketing, operations, recoveries, finance and Deposits etc.

Risk Management Department (RMD)

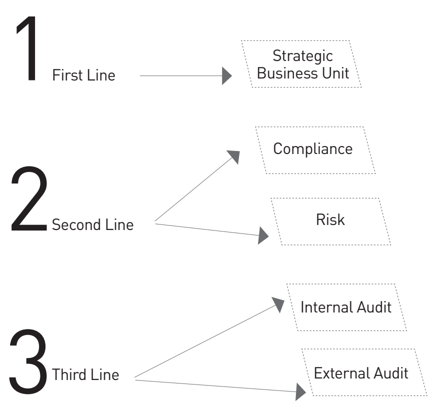
The Company's Risk Management function operates independently from the risk assuming business functions. RMD is accountable for carrying out the overall risk management function of the Company at operational levels.

The RMD assesses the overall risk level of the Company through the Key Risk indicators mapped on to the risk grid based on the analysis done on the risk register. RMD also ensures that the policy framework is expanded, reviewed and updated regularly and that approved policies are implemented. Especially in new business strategy development or when the Company is entering into new business lines from the initial design stage, RMD gets involved through inputs to the task / process from a risk management perspective. The division keeps close communication with Board Risk Management Committee for implementation of enterprise-wide risk management controls.

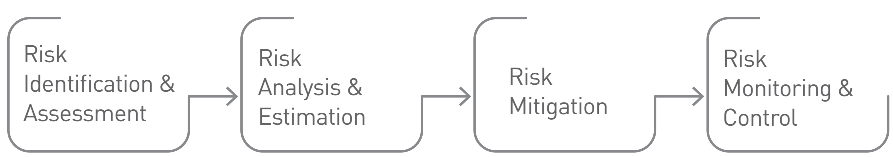
Approach to Risk Management

In the Three Lines of Defense model, the lines depict the obligation of three segregated parties in the organization in risk management. Accordingly, management control is the first line of defense in risk management that represents the risk assuming functions. The Risk and Compliance covers the second line. Independent assurance is the third. In consequence each of these three "lines" plays a divergent role within the organization's broad governance framework.

Three Lines of Defense at Siyapatha Finance PLC



Risk Management Principles



Risk Identification and assessment

Risk identification is the process of assessment of decisive risks that could potentially avert the Company from achieving its objectives there by from fulfilling expectation of all stake holders. Securing share holder value whilst balancing risk-reward tradeoffs is a key consideration.

The main tool used in risk identification and assessment at the company is the risk grid and the register. Apart from that constant discussions between risk owners and monitoring units make certain that with each new activity, product or process the probable risks are identified prior to commencement.

Risk Analysis & Estimation

The Company uses a range of techniques to analyze risk including analytical review, stress testing and scenario analysis.

a) **Risk appetite**

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

b) **Stress testing**

Stress testing is the process of gauging the ability of the company to stand a certain expected level of performance under undesirable conditions. Stress testing policy is approved by the Board of Directors and the results are discussed at the Board Integrated Risk Management Committee. Certain key factors areas are considered under stress testing scenarios in order to determine the impact on the overall performance. The Company carries out a detail stress testing for the Gold Financing portfolio due to the vulnerability arising out of market risk impact.

Risk Mitigation

The four key strategies of risk mitigation are acceptance, avoidance, limitation and transference.

Risk acceptance processes enable consideration of the risk-rewards tradeoffs and the cost of other risk management options such as avoidance or limitation prior to assuming certain types of risk such as credit risk. Credit approval procedures and pre-disbursement processes are examples of the risk acceptance processes in place while approvals for borrowings are another example of risk acceptance processes.

Risk avoidance is the reverse of risk acceptance. It is the action that avoids any exposure to the risk at which ever level. Rejection of credit facilities which do not meet our criteria are an example of risk avoidance.

Risk limitation option restricts a company's risky exposure by taking some action. It is a way of managing risk by accepting a certain level of risk and at the same time avoiding the risk to a certain degree. Limits imposed in terms of size or period is examples of risk limitation at transaction level while single borrower limits are examples of limits with reference to the aggregate risk assumed by the Company.

Risk transference is the involvement of handing risk off to a willing third party. Outsourcing and insurance are the most common modes of transfer.

Control and Monitoring

Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) are critical reflectors of undesirable events or thresholds that can have an impact on the company. Monitoring the impact of changes in the key factors that affects the company's performance is done through the KRI which thus form the early warning signs for the Company. The key risk indicators for all the key risks are formulated based on identified key areas which are reviewed and analyzed frequently and monitored.

Risk appetite and tolerance limits

Risk appetite is defined as, "the amount and type of risk that an organization is prepared to pursue, retain or take," according to ISO 31000. The risk appetite shall be linked to business decisions and appropriate metrics shall be collected to measure it.

Tolerance limits are quantitative indicators of the highest amount of risk the company is geared to accept. Risk tolerances are set at the overall enterprise level to capture all key areas especially credit and funding. Real levels of risk undertaken are monitored and compared against the established tolerances. The Company ensures that the regulatory limits are not compromised at any cost. While safeguarding the Company from excessive risk exposure, limits are defined and observed with a special attention on the available business opportunities and changes in the market place. Risk tolerances are approved by the BIRMC prior to implementation of the same and are reviewed annually or earlier if such a need arises.

Managing the key risks faced by the Company

Credit Risk

Identification and assessment

Credit Risk is identified as the risk of potential loss when a counterparty fails to perform on an obligation in accordance with the agreed terms and conditions.

Credit risk:
the likelihood that a borrower or counterparty will fail to meet its obligations as contracted.

Default Risk:
the risk of default due to reluctance or incapability to meet the contractual obligations

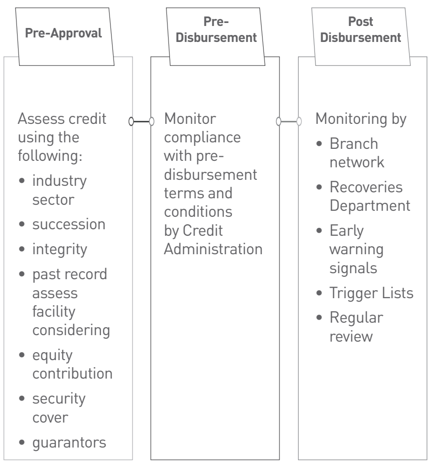
Concentration risk:
arises from either imbalanced distribution of exposures to its borrowers or from imbalanced distribution of exposures to particular sectors, regions, industries or products

This will result in a loss to the Company. Since it underpins the ability of the Company to expand its business and its growth potential, it's imperative that the Company possesses a meticulous credit risk management system. A rigorous credit screening process has been the core strength of the Company, facilitating prudent risk acceptance. Multiple layers of approving lines ensure that credit risk is mitigated and priced in line with the level of risk assumed. The primary contact of the customer is the branch level at which the borrower is evaluated for the facility. Approval limits in place facilitate escalation of approval in line with credit risk assessment, rating and amount.

RISK MANAGEMENT

In order to maintain a quality asset book, there is a proper link between the business origination and the risk assessment units. The authority levels of the approving process are continuously evaluated based on the periodic review of the portfolio quality of the Company.

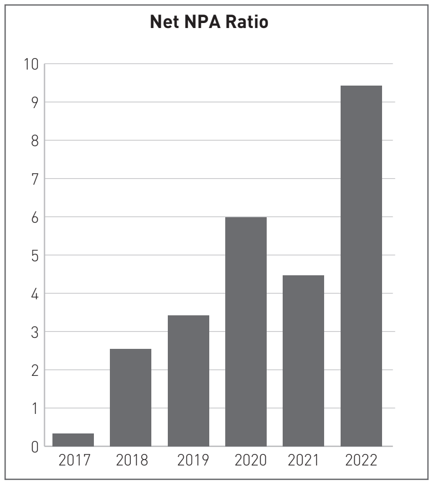
The credit risk assessment process throughout the lifecycle of the loan is graphically given below.



Control and Monitoring

a) Asset quality

The product portfolio of the Company consists of finance leases, hire purchase facilities, loans, gold financing and factoring. The market segments to which the company caters mainly consist of salaried individuals and small and medium sized enterprises. Segregation of the credit sanctioning process is a key risk management tool and authority is granted based type of the facility, exposure and security as well



Stress testing on NPA

The portfolio stress testing is carried out according to the policy of the Company. Three main scenarios namely - a shift in the NPA categories, an increase in the gross NPA and net NPA provide the basis for stress testing on NPA in order to facilitate an evaluation of Capital Adequacy Ratio (CAR) of the Company, since it has an inverse relationship with NPA. When the NPA increases, a negative impact is generated. Increase of NPA has an adverse bearing on the retained earnings of the Company, which forms a part of the core capital by way of an impact to provisioning with respect to NPA. NPA levels have mainly increased due to change in direction to recognise NPAs which is now implemented.

b) Concentration

Over reliance or over dependency in one fragment of a portfolio due to uneven augmentation of exposures gives rise to concentration risk. The concentration risk may crop up from products, different industries, asset categories and geographical areas. Therefore, maintaining a satisfactory diversity in the said segments is essential for the Company as any resultant danger of contagion effects in the event of default needs to be mitigated.

Concentration risk is monitored through the KRIs given below along with the set tolerance limits:

KRI for Concentration

Appetite/Tolerance limit Portfolio concentration
Limits are reviewed based on market trends and strategic direction

Asset concentration
Limits are reviewed based on market trends and macro environment

Branch concentration
Limits are reviewed based on the performance and maturity of the branch

Interest Rate Risk

Identification and assessment

Interest rate risk arises primarily due to mismatches in assets and their corresponding liabilities and changes of interest rates at maturities. Due to different fixed interest rates of assets and liabilities allocated to the portfolio, finance companies are exposed to a risk of changing interest rates in the market.

Changes in interest rates affect earnings, value of assets / liability, off-balance sheet items and cash flow. Hence, at Siyapatha, the objective of interest rate risk management is to sustain earnings while ensuring the ability to absorb expected negative impact and to ensure that sufficient returns are reaped for risks taken.

Stress testing is carried out to assess the impact of different interest rate scenarios to the net interest position and the re-pricing cycles of interest sensitive assets and liabilities. Simulations to the interest rates are done to assess the potential impact on the Company's profitability resulting from alternative interest rate scenarios.

Interest Rate Risk:
the risk that arises from the fluctuation of interest rates

Potential impacts
on earnings, valuation of assets, cost of borrowings

In order to obtain the maximum benefits of the market interest rate movements and to take timely action, the Company monitors the macro market conditions continuously. From the funding perspective in the last year a considerable growth in deposit base of the Company was witnessed giving a more balanced approach to its funding base. The other sources of funding are equity and borrowed funds. The increase in the deposit base has lessened the company's dependency on borrowed funds which consists of long term funding and short term funding. The Company's strategy is to ensure gains from volatility in the market rates, while ensuring a prudent liquidity level and is monitored at ALCO.

Control and Monitoring

Volatile Liability Dependency Ratio

Volatile Liability Dependency Ratio (on interest rate) is calculated by considering the variable rated borrowings as a percentage of total lending portfolios of the company.

KRI for Interest Rate Risk

Appetite limit
Volatile Liability Dependency Ratio (on interest rate basis) is fixed at 30% of the total portfolio.

Further the ALCO closely monitors the movements in interest rate and reviews the interest rate structures within the company for both lending and borrowings. Accordingly, the committee issues directions on the adjustments to be done to the interest rates required.

Another controlling mechanism is the introduction of products with a shorter tenure to capture the re-pricing mismatches. On the other hand, increasing the fixed rated borrowing has also contributed in managing the interest rate risk in the last year at the Company.

Liquidity and Funding Risk

Identification and assessment

Liquidity risk refers to an institution's incapability to meet its financial commitment which would ultimately have an impact on the Company's stability.

Liquidity Risk:
an institution's incapability to meet its financial commitments

Arises due
to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

Thus,having a strong system to identify funding requirements of the Company to ensure that funds are available at required time at the right price is a concept that Siyapatha believes in. A main element of liquidity risk management at Siyapatha is observing and evaluating the firm's present and potential fund requirement including debt obligations and planning for contingencies stemming from all possible scenarios.

In order to eliminate liquidity issues arising due to mismatches in the timing of cash flows the Company monitors the cash flows closely to ensure that its liquid assets are sufficient to meet its obligations. In order to be vigilant, certain liquidity risk indicators are monitored by the Company. The main focus is on the liquid asset ratio, maturity gap analysis, the capital adequacy ratios and the volatile liability dependency ratio on maturity and funding concentration. Further, the ALCO monitors these risk indicators to ensure a healthy liquidity position.

Control and Monitoring

Volatile Liability Dependency Ratio (maturity)

Volatile Liability Dependency Ratio on maturity is calculated by taking interest bearing liabilities payable in less than 12 months as a percentage of the total lending portfolio.

Statutory Liquidity Ratio
15.95%

Tolerance Limit Liquidity Ratio
8.5%

Operational Risk

Identification and assessment

The assessment on internal controls along with process audits indicate any weak links in the processes and enables the company to assess vulnerabilities that need to be addressed and prepare for potential adverse scenarios and risk events. Operational risk is mainly observed through the following areas.

RISK MANAGEMENT

- Losses due to frauds, misconduct and negligence
- Losses due to poor quality of credit documentation and legal documentation
- Number of customer complaints and lawsuits
- Frequency of systems break downs and costs

Operational Risk:
risk of losses resulting due to errors, breaches, interruption or damages

Operational risk incidents include
internal frauds, external frauds, employment practices and workplace safety, clients, -products and business practices, damage to physical assets, business disruptions and system failures etc.

Control and monitoring

The Company has a well established Operational Risk Management Policy developed in line with the regulatory guidelines. The policy spells out the duties and responsibilities of each section for Operational Risk Management. Losses from operational risk episodes can be catastrophic, not only in a monetary sense, but in terms of the impact on the Company's overall business and reputation, at times threatening its very existence. The key challenges in operational risk management can be considered as identifying efficient risk parameters, processing large data and complex logic, having a single aggregated enterprise wide view. Board approved manuals covering all aspects of the companywide processes ensure all key processes are being documented.

Cyber security threats have been looked into and the Company has carried out several 3IT audits to identify any security threats. The findings have been used to upgrade the existing IT system. A board approved BCP is in place covering the Disaster Recovery planning as well. Disaster Recovery site testing has been carried out to assess the adequacy of the same.

People/ Conduct Risk

Human capital is the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for a company and forms the main strength in achieving its corporate strategies. As a service organization a skilled team is vital in providing financial solutions. Given the present conditions of the external environment, people risk has a significant impact on the industry at present. Siyapatha has taken adequate steps to mitigate the risk arising out of the present scenarios and was able to curtail the impact.

People risk is created initially due to weaknesses in the recruitment process that lacks identifying the right people for the requirements of a company and would be continued due to inadequate performance recognition and evaluation mechanisms, misconduct, unplanned absenteeism and negligence of employees.

Identification and assessment

At Siyapatha a stringent process is followed to screen and recruit team members followed by orientation programmes to communicate our Code of Ethics and corporate values to successful candidates. Onboarding of new recruits is followed by close monitoring of performance during probation periods to mitigate people risk supported by a coaching and mentoring culture. On the other hand, continuous dialog between team members through visits by the HR team to all branches, open door policy for grievance handling and exit interviews, facilitate early identification of potential issues.

Control and monitoring

At the point of onboarding the new recruits a comprehensive induction programme is conducted and the expected level of performance especially in terms of internal processes and integrity is communicated.

On the other hand, the company has implemented a detailed performance assessment and compensating mechanism to capture all aspects of the performance of employees thereby ensuring that the right performance is recognized and rewarded. A strict disciplinary policy is in place to ensure dutiful good conduct of all employees.

Technology Risk

Technology risk can end up in financial loss, disruption or damage to the reputation of the company due to unauthorized access to systems or data/

information, failures of the existing information technology systems and use of obsolete information technology systems.

Information is a key asset for the company and with the increase in inter connectivity through technology, it exposes us to a growing number of cyber threats and vulnerabilities. Hence, the Company takes every possible step to prevent unauthorized disclosure of information, limit the access as per need-to-know basis, and preserve confidentiality, maintain integrity, ensure business continuity, and minimize business risk to maximize return on investment and prevent from inappropriate use of information.

Technology Risk:
any potential for technology failures to disrupt business such as information security incidents or service outages.

Arises from the use,
ownership, operation, involvement, influence and adoption of IT within an organization.

Information Technology (IT) is a great enabler but also presents a pervasive, potentially high-impact technology risk. Information Technology risk holds strategic, financial, operational, regulatory, and reputational implications, and it can be defined as the potential for an unplanned, negative business outcome involving the failure or misuse of technology.

IT Risk is considered a component of Operational Risk, and the company considered Internal IT Risk, External IT Risk, and Business Continuity to be the main three components of IT Risk. IT Risk of the said components within the Company is assessed under the Loss of Integrity, Loss of Availability, and Loss of Confidentiality.

The Information Security and Compliance division has driven a practical and consistent operating model across all its IT domains to identify, manage, and address risks and also ensures that information about IT risks derived from the IT security risk management process is adequately and consistently reported and used as a basis for objective-setting, decision-making and accountability at all relevant, organizational / business unit levels. Further, technology and information security high risks and non-compliance are reported to BITC and BIRMC by the Information Security and Compliance officer.

The Board of Directors and senior management ensure accountabilities and responsibilities for managing IT risks and ensure necessary resources are available to assist those accountable and responsible for managing IT security risks, and key IT decisions are made under the company risk appetite.

Identification and assessment

In the current dynamic digitally driven market environment along with the expansion of the business the Company has unidentified that continuous investment in enhancing the IT system along with security features is critical.

Continued and thorough assessment of the IT system is carried out routinely to ensure that the system operates without any disruptions and is not vulnerable to any cyber attacks.

Control and monitoring

The Company has secure computers, servers networks, utilizes anti-virus and anti-spyware protection, firewalls and regular updates of software along with data backups that include off-site storage to mitigate risks arising from technological framework.

Further at the inception of new products planning process, the technological requirement is done by evaluating the nature of the product. Routine IT system audits are being carried out after the implementation of systems to identify the deficiencies and set necessary controls.

Compliance and Legal Risk

The Compliance Department is entrusted with the responsibility of safeguarding the Company from potential losses, financial or otherwise, that may arise due to the Company's failure to comply with laws, regulations, rules or self-regulated organizational standards applicable to the Company's operations.

Identification and assessment

The impact of compliance risk can be rather far-reaching. It could even lead to loss of earnings and business opportunities, tarnish the company image and imminent lawsuits.

Control and monitoring

The compliance of the Company with relevant regulations and laws including directions and regulations issued by the Central Bank of Sri Lanka and Colombo Stock Exchange is monitored by the compliance officer of the Company. The compliance officer functions independently and reports directly to the BIRMC.

All non-compliances are reported to the Committee and the Board directly. The Compliance department disseminates regulatory directives through internal circulars based on the requirements.

Compliance Risk:
the risk of losses arising from violations or infringement of laws regulations applicable to the Company

RISK MANAGEMENT

Strategic Risk

Identification and assessment

Strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

The company plans the strategic direction of the company for the next three years and regularly reviews it to make any necessary adjustments. The strategic plan is formulated by incorporating views of all departments at different levels.

> Compliance Risk:
> the risk of losses that might arise from pursuit of an unsuccessful business plan

Control and monitoring

The strategic plan is reviewed at Board level routinely and at operational level frequently. Accordingly, review actions/plans are carried out depending on the outcome, any external, economic environment changes etc. Further assessments of key performance indicators, the trend in movements and simulations are carried out to monitor the achievement and possible issues in the implementation of the strategic plan.

Reputational Risk

Identification and assessment

Deposit mobilizing institutions reputation is a critical success factor.

> Compliance Risk:
> the threat to the profitability or sustainability of a business or other entity that is caused by unfavorable public perception of the organization or its products or services

Siyapatha being a subsidiary of a leading bank treats good governance and transparency as two key principles in all of it's' transactions. Further timely and efficient communications among all stakeholders are always maintained.

Control and monitoring

In communicating externally, the company ensures several parties are involved in finalizing the communication. All external communications are monitored by several layers of authority. Further the company has established a set of internal controls to ensure monitoring of the conduct of employees.

COMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company). The Committee is comprised of four Independent, Non-Executive Directors who conducted Committee proceedings in accordance with the Terms of Reference of the Committee approved by the Board of Directors of the Company.

COMPOSITION

The Committee's composition during the period ended 31st December 2022 was as follows:

Mr. M.D.B. Boyagoda
(ID/NED) - Chairman

Mr. P.S. Cumaranatunga
(ID/NED) - Member

Mr. J.H. Gunawardena
(ID/NED) - Member

Ms. H.S.R. Ranatunga
(ID/ NED)- Member

(ID – Independent Director,
NED – Non-Executive Director)

The Chairman of the Committee, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA-UK) and the Chartered Global Management Accountants (CGMA). He graduated from the University of Sri Jayawardenepura, Sri Lanka with a degree in B.Sc. Business Administration specialized in Finance.

Brief profiles of the members are given on pages 29 to 33 of the Annual Report.

MEETINGS

The Committee met on twelve (12) occasions during the year 2022. Details of attendance of the Committee members at these meetings are given in the table on page 82 of the Annual Report. The Head of Internal Audit functions as the Secretary to the Committee. Other members of the Board, the Managing Director, members of the management, a representative from the external audit or any other required party may also attend meetings upon the invitation of the Committee.

Two (02) meetings were held during the year between the Committee and the External Auditors without any other Directors, Senior Management and employees being present.

Proceedings of the Committee meetings, with adequate details of matters discussed, were reported regularly to the Board to assist the Board in its general oversight of financial reporting, internal controls and functions relating to internal and external audits.

THE TERMS OF REFERENCE

The Terms of Reference of the Committee are clearly spelt out in the Charter of the Board Audit Committee, which is approved by the Board of Directors. These terms are reviewed annually and approved by the Board of Directors, after incorporating best practices relating to the functions of the Committee.

FUNCTIONS OF THE COMMITTEE

The Committee assists the Board of Directors to carry out its supervisory responsibilities effectively by reviewing the accounting and financial information of the Company, in order to monitor the integrity of its annual and quarterly Financial Statements, Management Accounts and other periodical reports prepared for publication, including the critical accounting estimates and judgments contained therein.

The Committee is empowered to examine the adequacy and effectiveness of internal control systems, assess risk management processes and compliance with regulatory requirements, review the adequacy of the scope and functions of the Internal Audit Department, assess the internal audit program and results of the internal audit process. The Committee also evaluates the performance of External Auditors and recommends their appointment and remuneration.

REGULATORY COMPLIANCE

The roles and functions of the Committee are regulated by the Finance Companies (Corporate Governance) Direction No. 5 of 2021, Directions, Rules, Determinations, Notices and Guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per Section 7.10 and sub-rule 7.10.6 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance of 2013 issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CASL).

ROLES AND RESPONSIBILITIES

The Committee is responsible for

a) Reviewing the integrity of Interim Financial Statements and the Annual Financial Statements prior to submission to the Board of Directors.

b) Ensuring adherence to applicable accounting standards, statutory and regulatory compliance requirements and best practices.

c) Overseeing the appointment of the External Auditor for audit services in compliance with the relevant statutes; approval of the audit fee, service period and any matters relating to the resignation or dismissal of Auditors.

d) Ensuring that the internal audit function is independent of the activities it audits and it is performed with impartiality, proficiency and due professional care.

e) Reviewing the internal audit program, comment on the audit findings, recommend appropriate action, ensure coordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.

COMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

f) Ensuring that the Committee is apprised of the resignation of senior staff members of the Internal Audit Department including the Head of Internal Audit and any outsourced service providers, and provide an opportunity for the resigning senior staff members and outsourced service providers to submit reasons for resigning.

g) Reviewing the Company's statement on internal control systems before endorsement by the Board, and to make sure of the adequacy and effectiveness of the internal control systems in the Company.

SUMMARY OF ACTIVITIES IN 2022 FINANCIAL REPORTING

The Committee reviewed the integrity of the Interim Financial Statements and the Annual Financial Statements on behalf of the Board of Directors. The review included the adequacy and effectiveness of the internal control systems over financial reporting, the clarity of the disclosures, the extent of compliance with financial reporting standards, and the reasonableness of significant estimates and judgmental areas.

EXTERNAL AUDIT

The Committee ensured the independence, objectivity and effectiveness of the audit processes in accordance with applicable regulations, corporate governance principles and/or best practices. The Committee has reviewed the policy on the engagement of External Auditors and recommended for the approval of the Board. The auditors were also given the opportunity to meet the Committee separately without the presence of any other Directors, senior management and employees to discuss any concerns and express their opinion on any matter. The Committee was informed by the External Auditor that there are no specific concerns for them to report to or discuss with the Committee and the Management has provided all information and explanation requested by the Auditors.

The Committee discussed the audit plan, approach and scope of the audit before commencing the audit. The Committee reviewed the audited Financial Statements with the External Auditor, who is responsible for expressing an opinion on whether the Company's financial statements give a true and fair view of the financial position, financial performance and cash flows of the Company. The Committee also reviewed the Management Letter issued by the External Auditor with the Management responses.

REAPPOINTMENT OF EXTERNAL AUDITOR

The Committee evaluated the External Auditor's performance and independence and recommended to the Board that Messrs. Ernst and Young, Chartered Accountants be re-appointed for the financial year ending 31st December 2023 subject to the approval of shareholders at the next Annual General Meeting.

INTERNAL AUDIT

During the year, the Committee reviewed the adequacy of the scope, functions, resources and independence of the Internal Audit Department, and satisfied itself that the department has the necessary authority and independence to carry out its work. The risk-based audit plan was reviewed and approved by the Committee at the beginning of the year and the implementation of the audit plan was monitored throughout the period to ensure the effectiveness of the entire processes of the Company. The Committee reviewed the internal audit program, significant audit findings and management action plan for the audit recommendations and evaluated the effectiveness of the management action plan in terms of timely implementation and resultant audit issues. The Committee also reviewed the resource requirement of the Internal Audit Department and evaluated the performance of the Head of Internal Audit.

WHISTLEBLOWING

The Company's Whistleblowing Policy serves as a mechanism to manage risks pertaining to corporate fraud. There is a provision under this policy for any staff member, who has a legitimate concern on an existing or potential "wrongdoing", such as improprieties in financial reporting, internal control or other matters committed by any person within the Company, to bring such concerns in confidence to the notice of the Chairman of the Board Audit Committee. The Board assigned a separate email address for 'Whistleblowing' to be directed to the Audit Committee Chairman through the Company Secretary, who in turn would keep a record of it and address it to the Board Audit Committee. A process is in place for such concerns to be investigated, while maintaining the confidentiality of the identity of the Whistleblower. The Committee is empowered under the Terms of Reference to monitor this process. The Whistleblowing policy has been reviewed by the Committee during the year 2022 and circulated among staff.

EVALUATION OF THE AUDIT COMMITTEE

The annual evaluation of the effectiveness of the Committee was carried out by the members of the Committee and concluded that the Committee had carried out its responsibilities effectively and satisfactorily.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters within its purview.

REPORTING TO THE BOARD

The approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

On behalf of the Board Audit Committee

M.D.B. Boyagoda
Chairman–
Board Audit Committee

27th February 2023

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE REPORT

The Board Human Resource and Remuneration Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company). The Committee operates within the agreed Terms of Reference and is committed to the principles of accountability and transparency and improving the well-being of the employees. The Committee has complied with the applicable provisions of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance which came into effect on 01st July 2022.

The Committee consists of three (03) Independent, Non–Executive Directors. The Committee is Chaired by Mr. D. Sooriyaarachchi who is an Independent, Non–Executive Director.

COMPOSITION

The Committee's composition during the period ended 31st December 2022 was as follows:

Mr. D. Sooriyaarachchi
(ID/NED) - Chairman

Mr. P.S. Cumaranatunga
(ID/NED) - Member

Ms. H.S.R. Ranatunga
(ID/NED) - Member

[ID - Independent Director, NED - Non-Executive Director]

Brief profiles of the Members are given on pages 29 to 33 of the Annual Report.

MEETINGS

The Committee had nine (09) meetings during the year 2022 and the attendance of the Committee Members at these meetings is given in the table on page 82 of the Annual Report. The Managing Director (MD), Chief Human Resources Officer and the other members of the Corporate Management team attend meetings by invitation on a need basis and assist in the Committee's deliberations by providing relevant information except when their own compensation packages or other matters relating to them are reviewed.

P W Corporate Secretarial (Pvt) Ltd functions as the Secretary to the Committee.

THE TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the relevant statutes.

FUNCTIONS OF THE COMMITTEE

The Board of Directors has entrusted to the Committee, the tasks of developing appropriate Human Resources Policies for the Company that will ensure the attraction, development and retention of the right talent that can achieve the organizational objectives. The Committee is also entrusted with the task of monitoring the implementation of those policies.

REGULATORY COMPLIANCE

The roles and functions of the Committee are regulated by Section 7.10.5 of the Listing Rules issued by the Colombo Stock Exchange.

ROLE AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on the following matters;

a) The Committee shall determine the remuneration and incentive framework including any equity incentive awards, terminal benefits/ pension rights relating to the Managing Director (MD) and the Key Responsible Persons. The aggregate fees and allowances paid to the Directors from 01st January 2022 to 31st December 2022 are set out on page 209 of the Annual Report.

b) The Committee shall periodically evaluate the performance of the Managing Director and Key Responsible Persons (KRPs) against set targets and goals and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.

c) The Committee shall advise the Managing Director of the Company regarding all aspects of Human Resources functions including the revision of salaries of staff and any major organizational changes needed for the Company and succession planning.

d) The Committee shall consider any other areas and enlarge its scope of the review or do so, if, in the Board's view, it is desirable to do so.

REMUNERATION AND BENEFITS POLICY

The Policy of the Company is a systematic and transparent procedure. It maintains internal pay equity and external competitiveness in relation to each job category, facilitating the improvement of employer and employee branding.

The Policy is designed to attract, retain and motivate the right talent who can achieve the Company's Vision, Mission and Corporate Goals.

The Remuneration and Benefits Policy is approved by the Board.

PROFESSIONAL ADVICE

The Committee has the authority to seek appropriate professional advice in-house and externally as and when it considers necessary.

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

On behalf of the Board Human Resource and Remuneration Committee

D. Sooriyaarachchi
Chairman
Board Human Resource and Remuneration Committee

27th February 2023

COMMITTEE REPORTS

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board of Directors of Siyapatha Finance PLC which is primarily responsible for the Integrated Risk Management initiatives has delegated its authority to the Board Integrated Risk Management Committee (the Committee) to review and assess the adequacy and effectiveness of the risk profile of the Company. The Committee would be articulating risk strategies, policies, frameworks and procedures in liaison with the Key Responsible Persons to discharge its duties relating to corporate accountability and associated risk in terms of management assurance and reporting. The Committee reviews the Key Risk Indicators using the risk grid, which is derived out of the parameters determined as per the Integrated Risk Management Policy of the Company. Stress on the portfolio due to the changes in the Political, Economic and Social arena in the external environment are also reviewed and discussed at the Committee meetings.

COMPOSITION

The Committee is Chaired by an Independent Non-Executive Director and comprises of three (03) Independent, Non-Executive Directors and two (02) Non-Independent, Non-Executive Directors. In compliance with Section 10.3 (a) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021, issued by the Monetary Board of the Central Bank of Sri Lanka, MD/CEO and numbers of Key Responsible Persons supervising broad risk categories, i.e. credit, market, liquidity, operational, compliance and strategic attend the Committee meetings on invitation. The Head of Risk acts as the secretary to the Committee.

The Committee's composition during the period ended 31st December 2022 was as follows:

Mr. J. H. Gunawardena
(ID/NED) - Chairman

Mr. P.S. Cumaranatunga
(ID/NED) - Member

Mr. J. Selvaratnam
(NID/NED) - Member

Mr. M.D.B. Boyagoda
(ID/NED) - Member

Mr. W.S.C. Perera
(NID/NED) - Member

(NID – Non-Independent Director, ID - Independent Director, NED – Non-Executive Director)

Members of the Management who attend by invitation

Mr. H.M.A. Seneviratne
Executive Director/Managing Director

Mr. I. Liyanage
Head of Risk/Secretary to the Committee

Mr. R. Wanniarachchi
Chief Financial Officer

Ms. M. Rajakaruna
Head of Compliance

Mr. L. Randeni
Senior Manager Treasury

MEETINGS

During the year the Committee had seven (07) meetings. The attendance of the Committee members is listed on page 82 of the Annual Report.

ACTIVITIES

The Committee focused on the following activities during the year under review.

Strengthening Policy Framework

- Reviewed the Risk Management Policy updating operational and regulatory environmental changes and recommended for approval of the Board.
- Risk & Control Self Assessment policy framework was introduced to the Company and implemented during the year under review to manage operational risk.
- ALM policy was reviewed in line with the new strategies introduced by the Company and to manage the liquidity risks.
- Stress Testing Policy was introduced and it has been approved by the board.
- Checking the review of all the company policies and manuals including the risk rating of all the Company policies.

Regulatory and Compliance Risk

- Reviewed the capital plan of the Company in the context of the regulatory framework and recommended it along with a proposal for a debenture issue to address Tier II capital requirement, for the approval of the Board.
- High-level independent standards were implemented for monitoring compliance risk to ensure regulatory adherence.
- Close follow-up on contingency planning with periodical cash flow monitoring were carried out during the post-pandemic period.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

Credit Risk

- Reviewed the quarterly progress of identified asset categories with high Non-Performing Asset (NPAs) ratios for consistent improvement in asset quality.

- Facilities channelled through the Credit Risk Department were reviewed to evaluate justification for approval of facilities flagged down by Credit Risk.

- Segmental monitoring was enhanced by way of introducing industry-specific monitoring and geographical monitoring of the portfolio.

ROLES AND RESPONSIBILITIES

The approved Terms of Reference of the Committee stipulates the authority, structure, responsibilities and tasks of the Committee. Accordingly, the primary responsibilities of the Committee include,

a) Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company at least on a quarterly basis through appropriate risk indicators and management information.

b) Reviewing the adequacy and effectiveness of the Assets and Liability Committee (ALCO) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee.

c) Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels determined by the Committee based on the Company's policies and regulatory and supervisory requirements.

d) Conducting Root Cause Analysis (RCA) for the near miss events and losses occurred.

e) Meeting at least once in two months to assess all aspects of risk management including the updated Business Continuity Plan.

f) Conducting Risk & Control Self-Assessment (R&CSA) for all the Branches and Departments on an annual basis.

g) Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed by the Central Bank Corporate Governance Directions.

h) Approving in principle all policies relating to risk management and recommending them for the approval of the Board and review the risk rating of the Company policies.

i) Checking whether all policies and manuals have been reviewed on time and risk rating will be carried out for all the reviewed policies and develop a monitoring process for timely reviews.

j) Establishing a protective risk management culture within the Company by using the Risk Management framework of the Company.

k) Periodically reviewing the risk exposures of the Company with stress testing reviews to be in line with its risk and business strategies and objectives.

l) Engaging external and independent reviews for the validation of risk measurement, methodology and outputs.

m) Submitting a risk trajectory report of each meeting to the next immediate Board meeting seeking the Board's views, concurrence and/or specific directions.

n) Establishing a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, and internal controls and approved policies in all areas of business operations.

o) Appoint a dedicated Compliance Officer selected from key management personnel to carry out the compliance function and report to the committee periodically.

p) In addition to the above, the Committee may perform other functions which are necessary or appropriate for the discharge of its duties.

EVALUATION OF THE COMMITTEE

The Board undertakes an annual performance evaluation of the Committee as required by the Finance Business Act Direction 5 of 2021.

REPORTING TO THE BOARD

Approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them. In addition, a risk trajectory report with the important issues discussed at the committee meetings is tabled for the information of the Board of Directors and to seek the Board's views and specific directions.

On behalf of the Board Integrated Risk Management Committee

J.H. Gunawardena
Chairman-
Board Integrated Risk Management Committee

27th February 2023

COMMITTEE REPORTS

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board Related Party Transactions Review Committee (the Committee) was established by the Board on 27th January 2015, in accordance with the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka ('SEC Code') and Section 9 of the Listing Rules of the Colombo Stock Exchange (the 'CSE Rules') thereby enhancing the Company's control mechanism which ensures that all transactions are conducted at arm's length. The Committee has complied with the applicable provisions of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance which came into effect on 01st July 2022.

COMPOSITION

During the period ended 31st December 2022 the committee comprised of four Independent Non-Executive Directors, a Non-Independent Non-Executive Director and an Executive Director. The Committee is Chaired by an Independent, Non-Executive Director appointed by the Board.

The Committee's composition during the period ended 31st December 2022 was as follows:

Mr. D. Sooriyaarachchi
(ID/NED) - Chairman

Mr. H.M.A. Seneviratne
(ED) - Member

Mr. J.H. Gunawardena
(ID/NED) - Member

Mr. J. Selvaratnam
(NID/NED) - Member

Ms. H.S.R. Ranatunga
(ID/NED) - Member

Mr. M.D.B. Boyagoda
(ID/NED) - Member

[ID - Independent Director, NED - Non-Executive Director, NID - Non-Independent Director, ED - Executive Director]

The Committee was reconstituted on 31st January 2023 in line with the Finance Business Act Direction No. 05 of 2021 on Corporate Governance, and upon reconstitution, Mr. H.M.A. Seneviratne ceased to be a Member of the Committee with effect from 31st January 2023.

Brief profiles of the members are given on pages 30 to 33 of the Annual Report.

P W Corporate Secretarial (Pvt) Ltd functions as the Secretary to the Board Related Party Transactions Review Committee.

MEETINGS

During the year 2022, the Committee had four (04) meetings. Attendance of the Committee Members at these meetings is given in the table on page 82 of the Annual Report.

THE TERMS OF REFERENCE

The Committee operates within its Terms of Reference as approved by the Board of Directors.

ROLE AND RESPONSIBILITIES

The mandate of the Committee is derived from the SEC Code, the CSE Rules and the Finance Business Act Direction No. 05 of 2021 on Corporate Governance as applicable to Licensed Finance Companies which includes mainly the following:

a) The Committee shall review all Related Party Transactions (RPTs) either prior to the transaction being entered into or, prior to the completion of the transaction other than exempted related party transactions as defined in Section 9.5 of CSE Rules.

b) The Committee shall identify and report recurrent and non-recurrent related party transactions and obtain Board or shareholder approval as necessary.

c) The Committee shall identify related party transactions which require immediate disclosures, in terms of Section 9.3.1 of CSE Rules and ensure that required disclosures are made by the Company Secretary to CSE.

d) The Committee shall ensure that there is an adequate, effective and efficient process/system in place at the Company to capture the information concerning related party transactions relevant to its review function.

e) The Committee shall adopt an acceptable process to ensure that conflict of interest situations are avoided, in exercising the review function.

f) To publish required disclosures in the Annual Report.

g) The Committee shall consider any other areas and enlarge its scope of review if the Board desires to do so.

h) To carry out an annual evaluation of the Committee's performance to determine its effectiveness.

REVIEW THE FUNCTION OF THE COMMITTEE

Review of the relevant Related Party Transactions by the Committee takes place quarterly and the Committee communicates its observations to the Board whenever necessary. RPTs are published in Note 44 to the Financial Statements. An in–house developed software is available to capture the RPTs of the Company. The related party information is updated based on the declarations made by Key Responsible Persons, information obtained from the Company Secretaries, Human Resources Department and the Finance Department of the Company and that of Sampath Bank PLC, on a quarterly basis.

POLICIES AND PROCEDURES

The Company has adopted a Related Party Transactions (RPTs) Guide in respect of the following:

a) Review, approval/ratification of related party transactions.

b) Compliance with the reporting requirements of related party transactions.

c) Disclosure requirements of related party transactions.

The Committee ensures that all transactions with related parties are in the best interests of all stakeholders, adequate transparency in processes is maintained and are in compliance with the SEC Code, CSE Rules and the relevant Directions issued by the Central Bank of Sri Lanka as applicable to Licensed Finance Companies.

DECLARATION

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to related party transactions is given on page 116 of the Annual Report

REPORTING TO THE BOARD

The approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

On behalf of the Board Related Party Transactions Review Committee

D. Sooriyaarachchi
Chairman
Board Related Party Transactions Review Committee

27th February 2023

COMMITTEE REPORTS

BOARD NOMINATION COMMITTEE REPORT

The Board Nomination Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company) to which it is responsible. The Committee operates within the agreed Terms of Reference and work closely with the Board in reviewing the structure and skills needed in a successful organization. The Committee has complied with the applicable provisions of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance which came into effect on 01st July 2022.

COMPOSITION

The Committee consists of two (02) Independent, Non-Executive Directors and one (01) Non-Independent, Non-Executive Director. The Committee is Chaired by an Independent, Non-Executive Director appointed by the Board.

The Committee's composition during the period ended 31st December 2022 was as follows:

Mr. P.S. Cumaranatunga
(ID/NED) - Chairman

Mr. D. Sooriyaarachchi
(ID/NED) - Member

Mr. Y. S.H.R.S. Silva
(NID/NED) - Member
(Appointed w.e.f. 26th April 2022)

Mr. J. Selvaratnam
(NID/NED) - Member
(Resigned w.e.f. 26th April 2022)

[ID - Independent Director,
NID - Non-Independent Director,
NED - Non-Executive Director]

Brief profiles of the Members appear on pages 29 to 32 of the Annual Report.

MEETINGS

During the year 2022, the Committee held three (03) meetings and the attendance of the Committee Members at these meetings is given in the table on page 82 of the Annual Report. The Managing Director attends meetings of the Committee by invitation except when matters relating to him are reviewed.

P W Corporate Secretarial (Pvt) Ltd functions as the Secretary to the Committee.

THE TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the relevant statutes.

ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on the following matters:

a) The Committee shall make recommendations to the Board on the appointment of the Board Members, the Managing Director and the Corporate Management Personnel considering skills, knowledge, expertise, experience, independence, objectivity, integrity and good reputation, to fulfill the responsibilities.

b) The Committee shall recommend from time to time, successors in place of resigning or retiring Directors and Corporate Management Personnel.

c) The Committee shall consider and recommend the re-election of current Directors who are due for reappointment annually in accordance with the Articles of Association of the Company, taking into account, the combined knowledge, performance towards dealing with strategic demands faced by the Finance Company (FC) and contribution made by the Director concerned towards the discharge of the Board's overall responsibility as required by the Central Bank of Sri Lanka (CBSL) guidelines.

d) The Committee shall ensure that the Directors and Corporate Management Personnel are fit and proper persons to hold office and to perform their functions in compliance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons, Direction No. 6 of 2021).

e) The Committee shall implement a formal and transparent procedure to select/appoint new Directors and Corporate Management Personnel. The Corporate Management Personnel so appointed shall be with the recommendation of the Managing Director, except the Head of Internal Audit, Head of Risk and Head of Compliance.

f) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for the appointment of or promotion to the posts of Managing Director and Corporate Management Personnel.

g) The Committee shall carefully review and recommend from time to time, the requirements of additional/new expertise and the succession plan for retiring Directors and Corporate Management Personnel.

h) The Committee shall carry out an annual evaluation of the Committee's performance to determine the effectiveness of the Committee.

i) The Committee shall make recommendations on any other matters delegated by the Board of Directors.

j) A member of the Nomination Committee shall not participate in decision-making relating to his/her own appointment/reappointment.

k) The Chairperson of the Board shall not chair the Committee when dealing with the appointment of his successor.

PERFORMANCE

The Members of the Committee work closely with the Board, in reviewing the structure and skills needed for a strong and successful organization.

PROFESSIONAL ADVICE

The Committee has the authority to seek appropriate professional advice, in-house and externally, as and when it is considered necessary.

APPRECIATION

The Committee records its appreciation of the services rendered by Mr. J. Selvaratnam, who resigned from the Committee during the period under review while welcoming Mr. Y.S.H.R.S. Silva.

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at Board meetings, enabling all Board Members to have access to them.

On behalf of the Board Nomination Committee

P.S. Cumaranatunga
Chairman
Board Nomination Committee

27th February 2023

COMMITTEE REPORTS

BOARD CREDIT COMMITTEE REPORT

The Board Credit Committee (the Committee) is a Board-appointed committee and is responsible for providing oversight in the formulation of credit policies, credit strategies, reviewing the credit approvals and the post-credit monitoring processes in consultation with the business lines and ensuring that the overall credit quality is maintained.
The Committee comprises of three Non-Executive and one Executive Director out of which one is an Independent, Non-Executive Director. The Committee's composition may be determined by the Board from time to time. Key members of the Corporate Management may be invited to attend the Committee meetings as and when desired.

COMPOSITION

The following Directors served the Committee during the year under review;

Mr. J. Selvaratnam
(NID/NED) - Chairman

Mr. H.M.A. Seneviratne
(ED) - Member

Mr. W.S.C. Perera
(NID/NED) - Member

Ms. H.S.R. Ranatunga
(ID/NED) - Member

[NID – Non-Independent Director,
ID – Independent Director,
NED – Non-Executive Director and
ED – Executive Director]

MEETINGS

During the year, the Committee convened over online, hybrid and physical meetings and met on fifteen (15) occasions. The attendance of the Committee members is listed on page 82 of the Annual Report. The Committee meetings were held once a month and additional meetings were held when deemed necessary.

The Chairman of the Committee in consultation with the Secretary to the Committee schedules all meetings with the majority of the meetings being held during the second week of each month. The Committee approves credit proposals by circulation depending on the urgency and in such instances, the consent of majority of the members is mandatory with the decision being ratified at the subsequent Committee meeting.

ROLES AND RESPONSIBILITIES

The Committee provides oversight of the Credit Management Process of the Company, including reviewing internal credit policies and establishing portfolio limits in consultation with the Board Integrated Risk Management Committee.

The Committee will review the quality and performance of the Company's credit portfolio, specifically the infection rate, non-performing loans, the movements in the arrears buckets, collection efficiencies and related management information. They monitor the progress of the yard vehicles, missing vehicle movements and recommend write-offs to the Board of Directors as required.

The Committee shall maintain an appropriate credit overview, measuring and monitoring process by reviewing the credit approval framework, the assignment of appropriate credit limits, setting caps on facility limits in line with the Company's strategy and credit appetite.

The Committee shall review new credit products proposed by the management and forward them for the Board's consideration.

KEY ACTIVITIES

Below are some of the key oversight activities performed by the Committee during the year under review;

Credit Process & Portfolio Quality

The segment of the portfolio under the CBSL moratorium which transitioned into arrears post-expiry of the regulatory deadline was proactively monitored by the Committee. This was an area of concern in 2021, however, this specific portfolio (as a percentage) has improved from double digits to a single digit of the loans and advances exposure and continues to be under constant scrutiny for resolution.

Infection rate – The senior management continues its focus on tracking the infection rate with the Committee reviewing this on a quarterly basis. The tracking was done by branch, as well as, key team leaders and regions. This is a vital tool that has been cascaded down to the front-line.

Stressed / Watchlist portfolio clients and exception approvals were monitored on a regular basis.

Decision Support System

Based on the market intelligence and customer profiling system, credit approval and management is carried out in a more informed manner. The Information requirement of the field staff has been facilitated efficiently. Complete visibility of the credit function to the senior management has enabled them to become proactive in the ever-changing market environment.

Delegated Authority – The delegated authority limits and their appropriateness have been reviewed frequently via quarterly MIS reports, such as infection rates, NPA etc., on the respective credit officer's individual performance.

Overall, there is frequent engagement with the senior management and their key team members on the credit process and monitoring of the same continues.

Collections & Recoveries

The collections and recoveries from clients are a key part of the maintenance of asset quality as it influences the impairment charge and non-performance of the portfolio.

Given the challenging operating environment, it became one of the most critical focus areas for management by the Company. The Recoveries Team with the support of the front-line teams proactively implemented focused strategies and was able to maintain above-average collections. The collections were a key contributor to the liquidity of the Company and assisted to rationalise the elevated funding costs which became a challenge during the second half of 2022.

Further, the ambiguity over the re-possession of assets, the lack of liquidity and prices at auctions were challenges that the Company and the industry faced as a whole. The Committee was frequently apprised of and monitored the movements in the asset valuations. The loan to value (LTV) on vulnerable exposures was monitored frequently and appropriate risk mitigation recommendations and strategies were implemented.

The legal and special recoveries teams worked in tandem and were able to execute and close some of the long overdue cases. These efforts contributed significantly to the bottom line of the Company.

REPORTING TO THE BOARD

The approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

I would like to acknowledge the unstinted support of the management team and fellow members of the committee during these challenging times.

On behalf of the Board Credit Committee

Janakan Selvaratnam
Chairman -
Board Credit Committee

27th February 2023

COMMITTEE REPORTS

REPORT OF THE BOARD CORPORATE GOVERNANCE COMMITTEE

The Board Corporate Governance Committee (the Committee) was established on 24th August 2011. The Committee comprises of four (04) Non-Executive Directors and an Executive Director. The Committee conducts its proceedings in accordance with the Terms of Reference approved by the Board of Directors of Siyapatha Finance PLC ('the Company')

COMPOSITION

The Committee's composition during the year ended 31st December 2022 was as follows:

Ms. H.S.R. Ranatunga
(ID/NED) - Chairperson

Mr. H.M.A. Seneviratne
(ED) - Managing Director/Member

Mr. J. H. Gunawardena
(ID/NED) - Member

Mr. J. Selvaratnam
(NID/NED) - Member

Mr. M.D.B. Boyagoda
(ID/ NED) - Member

[NID – Non-Independent Director,
ID - Independent Director,
NED – Non-Executive Director,
ED - Executive Director]

ROLES AND RESPONSIBILITIES

- The Committee reviews developments in corporate governance and proactively ensures that the Company is aligned accordingly.

- The Committee ensures that effective procedures, a code of ethics, and other internal policies/guidelines are in place and are in compliance with the relevant regulatory and legal requirements.

- The Committee monitors the effectiveness of compliance with the relevant regulatory and legal requirements and makes recommendations to the Board on such matters and any corrective action to be taken, as the Committee may deem appropriate.

- The Committee makes recommendations on any other matter delegated by the Board of Directors.

GOVERNANCE FRAMEWORK

The Governance Framework provides an overview of the Corporate Governance Structure, Principles, Policies, and Practices of the Board of Directors ('the Board') of Siyapatha Finance PLC (the Company), which enables them to meet the governance requirements of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka ('DSNBFI'), the Colombo Stock Exchange ('CSE'), and the Securities and Exchange Commission ('SEC').

BOARD OF DIRECTORS

The Board of Directors is the apex body responsible for the execution of the Company's Corporate Governance Framework. The Board is responsible for setting out the strategic objectives and management guidelines for the Company, monitoring general performance, defining and applying the Corporate Governance rules, and scrutinizing Internal Audit procedures. The Board is tasked with approving the Strategic Plan, reviewing the adequacy and integrity of the internal control systems, management information systems, governance structures, overall risk policy, risk management procedures, and mechanisms, policies and procedures, identifying and designating Key Responsible Persons and their successors, defining the areas of authority and responsibility of the Board and Key Responsible Persons, and providing a framework for decision-making, among others.

The Board manages the activities of the Company in a way that would achieve its corporate aspiration. Further, as the highest governance body of the Company, it is expected to use its skills and expertise to determine the wider social, environmental, and economic implications that may arise from all business decisions. The Board is therefore the principal authority providing oversight to the Corporate Management Team, which directs and executes all operational functions within the Company. The Board of Directors meets with the Key Responsible Persons on a regular basis or when a need arises to exercise appropriate oversight of the affairs of the Company. The Directors abstain from voting on any Board resolution relating to a matter in which they or any of their relatives or concerns have a substantial interest, and they are not counted in the quorum at the Board meeting for the relevant agenda item.

BOARD MEETINGS

The Board of Directors held 16 meetings during the 12 months period ended 31st December 2022, which included two meetings with only the participation of Non-Executive Directors. Some of the key topics discussed were Credit Quality, Strategic Growth, Digitalization and Performance Optimization. Meanwhile, the Board's subcommittees held a total of 66 meetings during the same period under review.

BOARD SUB-COMMITTEES

A number of Board subcommittees have been formed to assist the Board in its supervisory role. As an integral component of the Company's Corporate Governance Framework, each Board subcommittee reports to the main Board with detailed information on its activities. The Board subcommittee comprises of a combination of Board members and is attended by a number of Key Responsible Persons as required by the Terms of Reference of the respective committee and in terms of the regulatory guidelines.

Board subcommittee members are selected from a combination of Board members, in compliance with the Finance Business Act Direction No.05 of 2021. Members of each Board subcommittee are held collectively responsible for their designated area of activity. Currently, the Board has established a total of eight Board subcommittees functioning as the Board Audit Committee, the Board Integrated Risk Management Committee, the Board Human Resources and Remuneration Committee, the Board Related Party Transactions Review Committee, the Board Nomination Committee, the Board Credit Committee, the Board Corporate Governance Committee and the Board Information Technology Committee to carry out specific functions. Each Board subcommittee is headed by a Non-Executive Director.

The above Board subcommittees come under the purview of the Board. The Board subcommittees function in a supervisory capacity, overseeing the different Key Responsible Persons under their purview. In this context, the Head of Internal Audit reports to the Board Audit Committee. Head of Risk and Head of Compliance report to the Board Integrated Risk Management Committee to ensure their independence and impartiality.

COMPANY SECRETARY

The Company Secretary, whose primary responsibility is to handle the secretarial services for the Board, shareholder meetings and accomplish other functions specified in the statutes and other regulations. Further, the Company Secretary is responsible for liaising with the Registrar of Companies and other relevant regulators and advising the Board members as and when required.

M/s P W Corporate Secretarial (Pvt) Ltd serves as Secretary to the Board, as well as the Board Nomination Committee, the Board Related Party Transactions Review Committee, and the Board Human Resources and Remuneration Committee. The Head of Internal Audit, Head of Risk, and Head of Compliance function as secretaries to the Board Audit Committee, Board Integrated Risk Management Committee, and Board Corporate Governance Committee respectively. A qualified secretary serves as the secretary to the Board Credit Committee and the Board Information Technology Committee. Minutes of the Board and Board subcommittees are retained in the custody of the relevant secretaries. The Company Secretary and subcommittee secretaries prepare the minutes of meetings within a reasonable time, and there is a documented process for the minutes to be inspected by the Directors if necessary. Written Terms of Reference is available for each Board subcommittees approved by the Board that comply with the Corporate Governance requirements.

STRATEGIC PLANNING PROCESS

The Strategic Planning process is a disciplined effort involving key stakeholders within the Company where, an assessment is made of both, the internal and external environment, with careful evaluation of various strategic options prior to presenting it to the Board of Directors for review and ratification.

All members of the Corporate Management team are directed to implement the strategic objectives outlined by the Board. Implementation and achievement of the segmental strategies are monitored by each department.

CODE OF CONDUCT FOR EMPLOYEES

All employees, including the Executive Director, are bound by the ethics, values, and expectations set out in the Employee Code of Conduct. The Code is made available to all employees to ensure that the highest standards of integrity and conduct are maintained in dealings and interactions with all stakeholders. The Code of Conduct addresses a range of fair dealing and compliance matters, among others.

WHISTLE BLOWING POLICY

The policy serves as an early warning mechanism to identify the improprieties in financial reporting, internal control or other matters of corporate fraud or risk by encouraging employees to report their genuine concerns in relation to activities, which are undue or illegal or otherwise harmful to the interests of the Company, its employees, customers or any other stakeholders. Further, the Board Audit Committee (the BAC) ensures that proper arrangements are in place for a fair and independent investigation of such matters, appropriate follow-up action, and the protection of the whistle-blower. If there are any matters which the Board Audit Committee reckons are risk areas, they will be forwarded to the Board Integrated Risk Management Committee. The BAC Chairman is to receive in confidence any whistle blowing messages through the Company Secretary.

COMMUNICATION POLICY

The Company strives at all times to maintain its corporate credibility and instill investor confidence in the Company by practicing a structured Communication Policy approved by the Board which covers all stakeholders; including depositors, creditors, shareholders, and borrowers. It spells out the process through which timely, transparent, consistent, and credible information on corporate strategies, operational performance, and financial data is disseminated.

REPORTING TO THE BOARD

The approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

I would like to express my gratitude to the management team and members of the Board Corporate Governance Committee, for the unwavering support given throughout the year.

On behalf of the Board Corporate Governance Committee

H.S.R. Ranatunga
Chairperson
Board Corporate Governance Committee

27th February 2023

COMMITTEE REPORTS

REPORT OF THE BOARD IT COMMITTEE

The Board Information Technology Committee ('the Committee') is a Board-appointed Committee and was established on 24th April 2018, to use IT as an enabler to implement the strategic business decisions of the Company. The Committee played a vital role in streamlining internal technology requirements with enhanced solutions, enabling business heads to make effective decisions by using up-to-date data. One of the most challenging tasks was to maintain the Disaster Recovery site without uninterrupted service during power cuts, and relocating it to a top telecom was one of the best milestones achieved by the Company in 2022.

The Committee is also responsible for the adoption of policies and monitoring the outcome of processes under the purview of the Company's IT strategies.

COMPOSITION

The Chairman of the Committee is Mr. W. S.C. Perera who holds an Honours Degree in Engineering from the University of Moratuwa.

The following Directors served on the Committee during the financial year under review;

Mr. W.S.C. Perera
(NID/NED) - Chairman

Mr. H.M.A. Seneviratne
(ED) - Managing Director/Member

Mr. D. Sooriyaarachchi
(ID/NED) - Member

Mr. M.D.B. Boyagoda
(ID/NED) - Member

[NID – Non-Independent Director,
ID – Independent Director,
NED – Non-Executive Director and
ED – Executive Director]

Brief profiles of the members are given on pages 30 to 33 of the Annual Report.

The Committee is comprised of Three Non-Executive Directors and an Executive Director, with two of the Non-Executive Directors being Independent Directors. The Committee proceedings have been conducted in accordance with the Terms of Reference approved by the Board, and the composition of the Committee will be determined by the Board from time to time. The Corporate Management members are invited to attend the Committee meetings if required by the members of the Committee.

MEETINGS

During the year, the Committee met Eleven (11) times. The members' attendance is listed on page 82 of the Annual Report. The Secretary to the Committee in consultation with the Chairman of the Committee would schedule the Committee meetings.

ROLES AND RESPONSIBILITIES

The Committee plays a vital role in establishing IT policies and practices. The Board of Directors have defined the scope and responsibilities of the Committee and set out the following responsibilities.

- To review and recommend the Company's policies related to IT.
- To review and recommend the Company's IT expenditures and budgets.
- To review, monitor and advise on appropriate measures concerning the IT security requirements and measures of the Company.
- To align investments in technology with business needs and gain a competitive advantage in the market.
- To review the progress of the digitalization journey of the Company including service improvements and efficiencies driven by technology enablement.
- To review and manage projects to be completed on time and get the best return for to the Company.

KEY ACTIVITIES

The Committee focuses on achieving the following IT strategic goals;

- Ensure the confidentiality, integrity, and availability of information.
- Improve the efficiency of operations and reduce manual processes.
- Develop and maintain cost-effective information systems.
- Improve customer service through the use of technology.
- Minimize the cost of IT services.
- Facilitate product innovation aligned to business.
- Develop a business partner ecosystem to design, develop, and integrate IT systems for seamless operation.

REPORTING TO THE BOARD

The approved minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

On behalf of the Board IT Committee

W.S.C. Perera
Chairman -
Board IT Committee

27th February 2023

OUR RESULTS

FINANCIAL CALENDAR

FINANCIAL CALENDAR - 2022	
Audited Financial Statements for the year ended 31st December 2021 signed on	11th February 2022
Annual General Meeting held on	29th March 2022
Publication of half yearly Financial Statements (2nd half of year 2021) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	25th February 2022
Rs 3.57 per share Scrip Dividend for 2021 distributed on	29th March 2022
Publication of half yearly Financial Statements (1st half of year 2022) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	30th August 2022
Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange to be published	
1st Quarter ended 31st March 2022	09th May 2022
2nd Quarter ended 30th June 2022	10th August 2022
3rd Quarter ended 30th September 2022	10th November 2022
4th Quarter ended 31th December 2022	10th February 2023
Audited Financial Statements for the year ended 31st December 2022 signed on	08th February 2023
18th Annual General Meeting to be held on	April 2023

PROPOSED FINANCIAL CALENDAR - 2023	
Publication of half yearly Financial Statements (2nd half of year 2022) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	28th February 2023
Rs 2.33 per share Scrip Dividend for 2022 to be declared on	25th April 2023
Publication of half yearly Financial Statements (1st half of year 2023) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 31st August 2023
Publication of half yearly Financial Statements (2nd half of year 2023) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 29th February 2024
Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange to be published	
1st Quarter ended 31st March 2023	On or before 15th May 2023
2nd Quarter ended 30th June 2023	On or before 15th August 2023
3rd Quarter ended 30th September 2023	On or before 15th November 2023
4th Quarter ended 31st December 2023	On or before 29th February 2024
Audited Financial Statements for the year ended 31st December 2023 to be signed in	February 2024
19th Annual General Meeting to be held in	March 2024

* Subject to confirmation by shareholders

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

The Board of Directors of Siyapatha Finance PLC have the pleasure of presenting its Annual Report on the State of Affairs of the Company, to the Shareholders of Siyapatha Finance PLC for the financial year ended 31st December 2022, together with the Audited Financial Statements of the Company, and the Independent Auditors' Report on the said Financial Statements, conforming to the relevant statutory requirements. The Financial Statements reviewed and recommended by the Board Audit Committee were approved by the Board of Directors on 08th February 2023. The Report includes the information as required by the Companies Act No.7 of 2007, Finance Business Act Direction No.05 of 2021 on Corporate Governance and the Listing Rules of the Colombo Stock Exchange and also guided by the Recommended Best Practices on Corporate Governance.

This report was approved by the Board of Directors on 27th February 2023. The appropriate number of copies of the Annual Report will be submitted to the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Registrar of Companies, and the Securities and Exchange Commission of Sri Lanka within the statutory deadlines.

GENERAL

Siyapatha Finance PLC ("the Company"), bearing registration No. PB 917 PQ, was incorporated on 03rd March 2005 under the Companies Act No. 17 of 1982, as a Specialized Leasing Company under the name 'Sampath Leasing and Factoring Limited' and the Company was re-registered under the provisions of the Companies Act No. 07 of 2007. Thereafter the Company changed its name to 'Siyapatha Finance Limited' on 02nd September 2013 simultaneous to obtaining the 'Registered Finance Company' status from the Central Bank of Sri Lanka on 25th September 2013. Upon the listing of the unsecured, subordinated, redeemable debentures on the Colombo Stock Exchange on 31st December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015.

The Company is the largest fully owned subsidiary of Sampath Bank PLC.

The Company's unsecured subordinated redeemable debentures and unsecured senior redeemable debentures are listed on the Colombo Stock Exchange while the Company's National Long Term Rating as at 31st December 2022 affirmed by Fitch Ratings Lanka Limited was "A(lka)" (current Rating: "BBB+(lka)") with a stable outlook. As per the Agency, the National Long-Term Rating on Siyapatha's senior unsecured debentures as at 31st December 2022 was 'A(lka)' (current Rating: 'BBB+(lka)') and subordinated debentures as at 31st December 2022 was 'BBB+(lka)' (current Rating: 'BBB - (lka)')

The registered office of the Company is located at No. 110, Sir James Peiris Mawatha, Colombo 02 and the Head Office of the company is located at No.111,Dudley Senanayake Mawatha, Colombo 08.

As per the requirements set-out in Section 168 of the Companies Act No.07 of 2007, the following information is disclosed in this Report for the year under review.

	Information required to be disclosed	Reference the Companies Act	Extent of compliance by the Company
I)	The nature of the business of the Company, together with any change thereof during the accounting period.	Section 168 (1) (a)	Refer page 112
II)	Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 125-213
III)	Auditor's Report on Financial Statements of the Company.	Section 168 (1) (c)	Refer pages 122-124
IV)	Any changes made to the accounting policies during the year under review.	Section 168 (1) (d)	Refer page 112
V)	Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 116
VI)	Remuneration and other benefits paid to the Directors of the Company during the period.	Section 168 (1) (f)	Refer page 209
VII)	Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 117
VIII)	Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 114-115
IX)	Separate disclosure on amounts payable by the Company to the Auditor as Audit Fees and fees for other services rendered during the accounting period.	Section 168 (1) (i)	Refer page 118
X)	Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 118
XI)	Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company	Section 168 (1) (k)	Refer page 118

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

CORPORATE VALUES

The Company's vision, mission and values are provided on page 03 of the Annual Report. Business activities of the Company are conducted in an environment adhering to a high level of compliance while conforming to ethical practices.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were acceptance of customer deposits, providing finance leases, hire purchase and vehicle loan facilities, mortgage loans, gold loans, revolving loans, personal/business loans and debt factoring.

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

REVIEW OF OPERATIONS

A review of the financial and operational performance of the Company, together with significant events which took place during the year 2022 are stated in the Chairman's Message on pages 7 to 9, the Managing Director's Review on pages 10 to 12 and Management Discussion and Analysis on pages 13 to 25 which form an integral part of this report.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Message on pages 7 to 9 and Managing Director's Review on pages 10 to12. These reports form an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared in accordance with the 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. 07 of 2007, the Finance Business Act No. 42 of 2011 and regulatory requirements inclusive of specific disclosures.

The aforementioned Financial Statements for the year ended 31st December 2022, duly signed by the Chief Financial Officer, Managing Director and two Directors of the Company are given on page125 to page 213. These Financial Statements form an integral part of this Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of its state of affairs.

The Directors are of the view that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements appearing on pages 125 to 213 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibility for Financial Reporting is given on page 130 and forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 16.1(ix) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance. The said statement which forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company is given on pages 119 to 120 The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as referred to in page 121.

AUDITORS' REPORT

The Auditors of the Company Messrs Ernst & Young, Chartered Accountants carried out the audit on the Financial Statements of the Company for the year ended 31st December 2022 and their report on the said Financial Statements is given on pages 122 to 124.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES DURING THE YEAR

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 130 to 213.

There were no significant changes to the accounting policies used by the Company during the year under review in comparison to the previous year.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

Total interest income of the Company for the year ended 31st December 2022 was Rs. 8,269,788,576/ (Rs. 6,786,435,872/- in 2021). An analysis of the interest income is given in Note 06 to the Financial Statements.

Profit and Appropriations

The Company has recorded a 30.30% decrease in profit before tax and 31.02% decline in profit after tax in 2022 compared to 2021. The Company's Total Comprehensive Income (net of tax) for the year was Rs. 793,144,903 (2021: Rs.1,100,129,836/-). A detailed breakup of the profits and appropriations of the Company is given below.

For the year ended 31st December	2022	2021
	Rs.000	Rs.000
Profit before tax	1,063,737	1,526,074
Less: Income tax expense	(308,768)	(431,531)
Net profit after tax	754,969	1,094,543
Actuarial(losses)/gains on defined benefit plans, net of tax	8,385	(966)
Unappropriated balance brought forward from previous year	3,515,495	2,600,132
Adjustment for Surcharge Tax	(452,063)	-
Profit available for appropriation	3,826,786	3,693,709
Appropriations		
Transfer to Statutory Reserve Fund	(38,000)	(55,000)
Dividend		
Final scrip dividend paid-2021 (Rs. 1.37 per share)	-	(123,214)
Final scrip dividend paid-2022 (Rs. 3.57 per share)	(328,244)	-
Unappropriated balance carried forward	3,460,442	3,515,495
Proposed dividend		
Final scrip dividend-2021 (Rs.3.57 per share)		328,344
Final scrip dividend-2022 (Rs. 2.33 per share)	226,396	-

TAXATION

The Income Tax rate applicable to the Company's operations is 24% for the first 6 months and 30% for the second 6 months (2021:24%).

The Company is also liable for VAT on financial services at 18% (2021:15%) and Social Security Contribution Levy at 2.5% starting from 1st October 2022.

The Company has provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard-LKAS12 (Income Taxes).

According to the Surcharge Tax Act no. 14 of 2022, the Company was liable for the surcharge tax at 25% an the taxable income for the year of assessment 2020/21 as one time tax and the tax expense was considered as an expenditure in the financial year 2020. Accordingly Rs. 452.06 Mn was charged against the opening retained earnings of the year on account of the Company.

DIVIDEND

The Directors have recommended a scrip dividend of Rs 2.33 per share (2021: Rs. 3.57 per share) to be paid for the financial year ended 31st December 2022. The said dividend is subject to approval of the shareholders at the Annual General Meeting to be held on 25th April 2023.

As required by Section 56 of the Companies Act, the Directors have certified that they are satisfied that the company will, immediately after the said distribution is made, satisfy the solvency test in accordance with the Companies Act. The Company provided the Statement of Solvency to the Auditors and obtained the Certificate of Solvency from the Auditors in respect of the dividend payment conforming to the statutory provision.

Further details are given in Note15 to the Financial Statements.

RESERVES

A summary of the Company's reserves is given below.

As at 31st December	2022	2021
	Rs.000	Rs.000
Statutory Reserve Fund	278,000	240,000
Revaluation Reserve	154,295	124,504
Retained Earnings	3,460,441	3,515,495
Total	3,892,736	3,879,999

CAPITAL EXPENDITURE

The total capital expenditure on the acquisition of property, plant and equipment and intangible assets of the Company amounted to Rs. 657,979,000/- (2021: Rs. 711,107,112/-). Details are given in Notes 26 and 29 of the Financial Statements.

CAPITAL COMMITMENTS

The capital expenditure approved and contracted for, as at the reporting date is given in Note 42.3 to the Financial Statements.

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

PROPERTY, PLANT AND EQUIPMENT (PPE)

Details of property, plant and equipment are given on Note 26 to the Financial Statements.

MARKET VALUE OF FREEHOLD LAND

The Company applies the Revaluation Model given in the Sri Lanka Accounting Standard -LKAS16 (Property, Plant and Equipment) to the freehold land of the Company.

Such freehold land is revalued every three years or more frequently if the fair value is substantially different from the carrying value. Accordingly, the freehold land of the Company was revalued at the end of 2022 by professionally qualified independent valuer. The result of his valuation was brought into the Financial Statements to ensure that the carrying amount of such freehold land reflected the market price that prevailed at the end of the year.

STATED CAPITAL AND DEBENTURES

Stated Capital

The Stated Capital of the Company as at 31st December 2022 amounted to Rs. 2,674,439,468 consisting of 97,166,011 ordinary shares (2021: Rs. 2,346,095,301 consisting of 91,973,156 ordinary shares). The number of shares issued by the Company increased from 91,973,156 ordinary shares to 97,166,011 ordinary shares, as a result of the payment of the Scrip Dividend for 2021.

Debt Capital

The Company has redeemed rated, unsecured, subordinated, redeemable debentures to the value of Rs. 1,000,000,000/- during the year ended 31st December 2022.

The details of the debentures outstanding as at 31st December 2022 are given in Note 31.4 to the Financial Statements.

SHARE INFORMATION

Information relating to earnings, dividends and net assets are given in the Financial Highlights on page 06 and in the Investor Information section on pages 26 to 28.

SHAREHOLDING

The Company has eight shareholders the details of which are appended below.

Name	No. of Shares	% of Issued Share Capital
Mr. P.S. Cumaranatunga	1	>0.00
Mr. Y.S.H.R.S. Silva	1	>0.00
Mr. J.H. Gunawardena	1	>0.00
Mr. J. Selvaratnam	1	>0.00
Ms. H.S.R. Ranatunga	1	>0.00
Mr. W.S.C. Perera	1	>0.00
Mr. D. Sooriyaarachchi	1	>0.00
Sampath Bank PLC	97,166,004	100.00
Total	97,166,011	100.00

EQUITABLE TREATMENT TO STAKEHOLDERS

The Company has at all times ensured that all stakeholders are treated equitably, in particular the depositors.

THE BOARD OF DIRECTORS

The Board of Directors of the Company comprises of nine Directors (2021:nine) with wide financial and commercial knowledge and experience among them. The names of the Directors who held office during the financial year from 01st January 2022 to 31st December 2022 are given below. The classification of Directors is given next to the names of the Directors as per the Listing Rules of the Colombo Stock Exchange and the Finance Business Act Direction No. 05 of 2021 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.
A brief profile of the Directors is given on pages 29 to 34 of the Annual Report.

Name	Classification	Remarks
		(Appointed date, change of directorate to chairman etc).
Mr. P.S. Cumaranatunga	ID/NED	30.10.2017
Mr. H.M.A. Seneviratne	ED	01.03.2019
Mr. Y.S.H.R.S. Silva	NID/NED	01.06.2018
Mr. J. Selvaratnam	NID/NED	18.12.2018
Mr. J.H. Gunawardena	ID/NED	29.01.2019
Mr. D. Sooriyaarachchi	ID/NED	20.11.2019
Mr. W.S.C. Perera	NID/NED	16.01.2020
Ms. H.S.R. Ranatunga	ID/NED	28.01.2020
Mr. M.D.B .Boyagoda	ID/NED	28.04.2020

Annual Assessment of Continuing Directors

All Directors have submitted affidavits and declarations for the year 2022 for annual assessment by the Director, NBFI under the Finance Business Act Direction No. 06 of 2021 on Assessment of Fitness and Propriety of Key Responsible Persons.

Changes in Directorate

In terms of Section 168 (1) (h) of the Companies Act No.7 of 2007 ,the names of the persons holding office as Directors at the end of the accounting period along with the Directors who have joined soon after the accounting period and the names of any persons who ceased to hold office as Directors of the Company during the accounting period have been disclosed.

RETIREMENT AND RE-ELECTION / REAPPOINTMENT OF DIRECTORS

In terms of Articles 24(7) and 24(8) of the Articles of Association of the Company, Mr. Y.S.H.R.S. Silva, Mr. J.H. Gunawardena and Mr. D. Sooriyaarachchi retire by rotation and being eligible, offered themselves for re-election on the unanimous recommendation of the Board of Directors.

Directors' Declarations in terms of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance

The Chairman and the Directors of the Company have made declarations as per the requirements in Section 16.1 (v) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance, that there is no financial, business, family or other material/relevant relationship(s) between the Chairman and the Managing Director and/or amongst the members of the Board.

REGISTER OF DIRECTORS AND SECRETARIES

As required under Section 223(1) of the Companies Act No.7 of 2007, the Company maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.

BOARD SUB-COMMITTEES

The Board of Directors of the Company has formed eight Board Sub-Committees in compliance with the Finance Business Act Direction No. 05 of 2021on Corporate Governance, the Securities and Exchange Commission of Sri Lanka and the Listing Rules of the Colombo Stock Exchange and as per the recommended Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The following Directors served as members of the Board Audit Committee, the Board Integrated Risk Management Committee, the Board Human Resource and Remuneration Committee, the Board Credit Committee, the Board Corporate Governance Committee, the Board Related Party Transactions Review Committee, the Board Nomination Committee and the Board IT Committee.

The Board Audit Committee

- Mr. M.D.B. Boyagoda- Chairman
- Mr. P.S. Cumaranatunga
- Mr. J.H. Gunawardena
- Ms. H.S.R. Ranatunga

The Report of the Board Audit Committee appears on pages 95 to 96.

The Board Integrated Risk Management Committee

- Mr. J.H. Gunawardena - Chairman
- Mr. P.S. Cumaranatunga
- Mr. H.M.A. Seneviratne (stepped down as a member w.e.f 24.05.2022)
- Mr. J. Selvaratnam
- Mr. M.D.B. Boyagaoda
- W. S.P. Perera (appointed as a member w.e.f. 25.10.2022)

The Report of the Board Integrated Risk Management Committee appears on pages 98 to 99.

The Board Human Resource and Remuneration Committee

- Mr. D. Sooriyaarachchi-Chairman
- Mr. P.S. Cumaranatunga
- Ms. H.S.R. Ranatunga

The Report of the Board Human Resource and Remuneration Committee appears on page 97.

The Board Credit Committee

- Mr. J. Selvaratnam - Chairman
- Mr. H.M.A. Seneviratne
- Ms. H.S.R. Ranatunga
- Mr. W.S.C. Perera

The Report of the Credit Committee appears on pages 104 to 105.

The Board Corporate Governance Committee

- Ms. H.S.R. Ranatunga - Chairperson
- Mr. J.H. Gunawardena
- Mr. H.M.A. Seneviratne
- Mr. J. Selvaratnam
- Mr. M.D.B. Boyagoda

The Report of the Board Corporate Governance Committee appears on pages 106 to 107.

The Board Related Party Transactions Review Committee

- Mr. D. Sooriyaarachchi – Chairman
- Mr. J.H. Gunawardena
- Mr. H.M.A. Seneviratne (ceased as a member w.e.f. 31.01.2023)
- Mr. J. Selvaratnam
- Ms. H.S.R. Ranatunga
- Mr. M.D.B. Boyagoda

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

The Report of the Board Related Party Transactions Review Committee appears on pages 100 to 101.

The Board Nomination Committee

- Mr. P.S. Cumaranatunga–Chairman
- Mr. D. Sooriyaarachchi
- Mr. J. Selvaratnam (resigned as a member w.e.f. 26.04.2022)
- Mr. Y.S.H.R S. Silva (appointed as a member w.e.f. 26.04.2022)

The Report of the Board Nomination Committee appears on pages102 to103.

The Board IT Committee

- Mr. W.S.C.Perera–Chairman
- Mr. H.M.A. Seneviratne
- Mr. D. Sooriyaarachchi
- Mr. M.D B. Boyagoda

The Report of the Board IT Committee appears on page 108.

DIRECTORS' MEETINGS

The details of the Board meetings, the Board Sub-Committee meetings and the attendance of the Directors at these meetings are given in the Corporate Governance Report on pages 35 to 82 of the Annual Report.

DIRECTORS' INTEREST REGISTER AND DIRECTORS' INTEREST IN CONTRACTS OR PROPOSED CONTRACTS

The Company maintains the Directors' Interest Register as required under the provisions of Section168 (1) (e) of the Companies Act No. 7 of 2007. The Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of Sections 192 (1) and 192 (2) of the Companies Act No. 7 of 2007. These interests have been recorded in the Interest Register which is available for inspection complying with the terms of the Companies Act No.7 of 2007. The particulars of the Directors' Interest in Contracts are given on page 116 of the Annual Report and form an integral part of the Annual Report of the Board of Directors. As a practice action and in terms of Corporate Governance, the Directors have refrained from voting on matters in which they were materially interested. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed, in the notes to the Financial Statements.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standard – LKAS 24 (Related Party Disclosure) which is disclosed in the Financial Statements. Those transactions disclosed by the Directors are given in Note 44 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors on the affairs of the Company. The Related Party Transactions Review Committee has reviewed all related party transactions that require their review for the year ended 31st December 2022,in compliance with the relevant listing rules.

DIRECTORS' INTEREST IN ORDINARY SHARES AND DEBENTURES

The Directors' shareholding and the relevant interests of the Directors in the shares of the Company as at 31st December 2021 and 31st December 2022 are as follows:

Name	Position	No. of Shares as at 31 December 2021	No. of Shares as at 31 December 2022
Mr. P.S. Cumaranatunga	Chairman	01	01
Mr. Y.S. H.R.S.Silva	Director	01	01
Mr. J.H. Gunawardena	Director	01	01
Mr. J. Selvaratnam	Director	01	01
Ms. H.S.R. Ranatunga	Director	01	01
Mr. W.S.C. Perera	Director	-	01
Mr. D. Sooriyaarachchi	Director	-	01

Except 225,000 (as at 01-01-2022) and 75,000 (as at 31-31-2022) listed, rated, unsecured, subordinated, redeemable debentures held by Mr. P. S. Cumaranatunga, no debentures were registered in the name of the Directors at the beginning and at the end of the year under review.

DIRECTORS' REMUNERATION

Details of Directors' emoluments and other benefits paid in respect of the Company during the financial year under review are given in Note 44.3 to the Financial Statements.

APPRAISAL OF BOARD PERFORMANCE

A scheme of self-assessment is undertaken annually by each Director in conformity with Section 4(1) of the Finance Business Act Direction No. 05 of 2021 on Corporate Governance, by answering a self-assessment questionnaire. The responses are collated and submitted to the Board for discussion and further evaluated by the Board.

The Board also carried out an annual self-evaluation of its own performance and that of the Sub-Committees to ensure that they discharge their duties and responsibilities satisfactorily in terms of the Companies Act No. 07 of 2007, Finance Business Act Direction No. 05 of 2021 on Corporate

Governance, Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance. Board and Sub-Committee evaluations for the year under review were discussed at the Board Meeting held in the month of January 2023.

OUR TEAM MEMBERS

The Company believes that its real potential rests on the strength and capabilities of its team members in a rapidly changing environment. All efforts are directed at having a motivated and competent team in order to grow and achieve results as projected in the Strategic Plan and Budget. As at 31st December 2022, the number of employees on the payroll of the Company was 789 (2021: 804).

ENVIRONMENTAL PROTECTION

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

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory bodies and related to the employees have been paid on a timely basis.

OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company's lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or the future operations of the Company. Details of litigation pending against the Company are given in Note 42.3 to the Financial Statements.

EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the date of the Statement of Financial Position which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 43 to the Financial Statements

GOING CONCERN

The Directors, after making necessary inquiries and reviews, including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cashflows and such other matters required to be addressed in the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of SriLanka & the Institute of Chartered Accountants of Sri Lanka 2013 and the Finance Business Act Direction No. 05 of 2021 and subsequent amendments there to issued by the CBSL, are satisfied that the Company has adequate resources to continue operations into the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

DONATIONS

During the year the Company made donations to the value of Rs.500,000/- (2021: Rs. 500,000/-). The Company does not make donations for political purposes.

RISK MANAGEMENT AND INTERNAL CONTROL

Material Foreseeable Risk Factors

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. This process is detailed in the Risk Management Report on pages 83 to 94.

The Directors, on a regular basis, review the above-mentioned process through the Board Integrated Risk Management Committee.

Internal Controls

The Directors of the Company have taken reasonable steps to safeguard the assets of the Company and to prevent and detect frauds and any other irregularities. For this purpose, the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it is being regularly reviewed by the Board of Directors.

This comprises of internal reviews, internal audits and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure, as far as practicable, the accuracy and reliability of the records.

CORPORATE GOVERNANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

The Directors of the Company are committed to maintaining an effective Corporate Governance Framework by implementing processes required to ensure that the Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka 2013, the Finance Business Act Direction No.05 of 2021 and subsequent amendments thereto issued by the CBSL and Requirements of Section 7.6 of the Listing Rules of the Colombo Stock Exchange. Details are given on Corporate Governance Report on pages 35 to 82 of this Annual Report.

Further the Board of Directors confirm that the Company is compliant with prudential requirements, regulations, laws and internal controls while measures have been taken to rectify any material non-compliances.

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

AUDITORS

The Auditors of the Company during the year were Messrs Ernst & Young, Chartered Accountants.

Audit fees paid to Ernst & Young for the year ended 31st December 2022 by the Company amounted to Rs. 1,760,000/- (2021: Rs. 1,540,000/-). Further, the Company paid Rs 4,801,313/- (2021:Rs 3,337,547/-) to Messrs Ernst & Young as permitted non-audit related services including tax consultancy services.

Details of the audit fees paid are given in Note 11.1 to the Financial Statements.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship with or interest with the Company such that their judgments may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. They come up for re-appointment at the Annual General Meeting, with the recommendation of the Board Audit Committee and the Board of Directors. In accordance with the Companies Act No. 7 of 2007, a resolution proposing the re-appointment of Messrs Ernst & Young, Chartered Accountants, as Auditors will be proposed at the Annual General Meeting.

NOTICE OF MEETING

The Annual General Meeting of the Company will be held at 9 a.m. on 25th April 2023 at Siyapatha Tower, 111, Dudley Senanayake Mawatha, Colombo 08. The Notice of Meeting is given on page 222 of this Annual Report.

As required by Section 168(1)(k) of the Companies Act, the Board of Directors hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors,

P.S. Cumaranatunga
Chairman

Y.S.H.R.S. Silva
Deputy Chairman

Ananda Seneviratne
Managing Director

P W Corporate Secretarial (Pvt) Ltd
Company Secretary

Siyapatha Finance PLC
27th February 2023

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

The Board of Directors ("the Board") of Siyapatha Finance PLC (the Company) presents this report on internal control over Financial Reporting, in compliance with Section 16 (1) (ix) of the Finance Business Act Direction No. 05 of 2021-Corporate Governance.

The Board is responsible for ensuring the adequacy and effectiveness of the internal control mechanism of the Company. This mechanism is designed to provide a reasonable assurance to maintain proper accounting records and generate reliable financial information and also to safeguard the assets of the Company. The internal control mechanism can therefore provide only reasonable but not absolute assurance against material misstatement of management information, financial information and records or against financial losses or fraud.

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the mechanism of Internal Control over Financial Reporting as and when there are changes to the business environment or regulatory guidelines.

Reviews of this process are conducted by the Board on a regular basis. On the basis of such reviews, the Board expresses the view that the internal control mechanism over financial reporting in place is adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statement for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Board policies and procedures pertaining to internal control over financial reporting have been documented. The implementation of such policies and procedures is carried out with the assistance of the management. In order to assess the internal control system over financial reporting, identified officers of the company collated all procedures and control that are connected with significant accounts and disclosures of the Financial Statement of the Company. The Internal Audit Department of the Company observes and checks them annually for suitability of design and operating effectiveness.

Given below are the key processes which have been established to review the adequacy and integrity of internal control, with respect to financial reporting:

- Establishment of various sub-committees to assist the Board with a view to ensuring the effectiveness of the Company's daily operations and such operations conform to Company's corporate objectives, strategies and the annual budget as well as policies and business directions approved by the Board.

- Policies are developed to capture all functional areas of the company, which are recommended by the relevant Board Sub Committees and approved by the Board. These Policies are reviewed periodically and approved by Board.

- The Internal Audit Department of the company verifies whether the policies and procedures of the Company are being complied with, while ascertaining the effectiveness of the internal control mechanism, on an ongoing basis during their regular reviews. A risk-based auditing approach is adopted by the Company and the entire audit universe is reviewed annually in accordance with the annual audit plan approved by the Board Audit Committee. Initiatives have been taken by Internal Audit Department to apply data analytics to review large volumes of transactions in a systematic manner and to enhance real time monitoring. Independent and objective reports covering significant observations of the Internal Audit Department are also tabled for review by the Board Audit Committee, at their periodic meetings.

- The Board Audit Committee also reviews the internal audit functions, with particular reference to the scope and quality of the audits. Minutes of all the Board Audit Committee meetings are submitted to the Board for review. In addition, periodical summaries submitted by the Internal Audit Department indicating the functions carried out are reviewed by the Board Audit Committee.

- Evaluation of adequacy and effectiveness of internal controls over financial reporting is carried out by the Board Audit Committee through the review of internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the management. In order to ensure that key management personnel comply with laid down systems and procedures and implement the required internal control systems at their work locations, a procedure has been introduced to obtain an annual certification from the respective officers.

- In order to assess the internal control mechanism, all procedures and controls which are connected with significant accounts and disclosures of the Financial Statements of the Company are being continuously reviewed and updated by the identified officers of the Company. The Internal Audit Department verifies the suitability of design and operating effectiveness of such procedures and controls, on an ongoing basis.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- The Company further strengthened its internal control processes to ensure that the impact of the economic crisis is accurately captured in the financial reporting by providing adequate impairment provisions for expected credit losses.

Confirmation

Based on the above process, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statements by External Auditors

The external Auditors, Messrs. Ernst & Young, have reviewed the above Directors' statement on Internal Control over Financial Reporting included in this Annual Report of the Company for the year ended 31st December 2022 and reported to the board that nothing has come to their attention that caused them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal Controls over Financial Reporting of the Company. Their report on the statement of Internal Control over Financial Reporting is given on page 121 of this Annual Report.

By order of the Board,

H.M.A Seneviratne
Managing Director

P.S. Cumaranatunga
Chairman

M.D.B. Boyagoda
Chairman - Board Audit Committee

Siyapatha Finance PLC
08th February 2023

INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF SIYAPATHA FINANCE PLC

EY
Building a better working world

Ernst & Young
Chartered Accountants
201, De Saram Place
P.O. Box 101
Colombo 10, Sri Lanka

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Siyapatha Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 December 2022.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the Section 16 (1) (ix) of Finance Companies corporate Governance Direction No 05 of 2021 by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

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

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

Our responsibilities and compliance with SLSAE 3051

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

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

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

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

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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

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

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

Our conclusion

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

08 February 2023
Colombo

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

EY
Building a better working world

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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.

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	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.

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Key audit matter	How our audit addressed the key audit matter
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 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
Information Technology (IT) systems and controls over financial reporting 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.	Our audit procedures included the following: - 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 reconciliation.

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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.

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 scepticism 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.

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

For the year ended 31 December	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)	(1,172,942)
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 130 to 213 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	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 130 to 213 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2022 Rs.'000	2021 Rs.'000
Assets			
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	78,492
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 130 to 213 form an integral part of these Financial Statements.

08 February 2023
Colombo

STATEMENT OF CHANGES IN EQUITY

	Note	Stated Capital	Share Application Money Pending Allotment	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total
		Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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 130 to 213 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2022 Rs.'000	2021 Rs.'000
Cash flows from operating activities			
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)
		3,954,329	(841,283)
Net cash inflow/(outflow) before financing activities			
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			
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 130 to 213 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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.

<u>Impact of the recent macro-economic conditions on the provision for impairment on loans and receivables</u>

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.

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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

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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.

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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

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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

NOTES TO THE FINANCIAL STATEMENTS

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.

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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

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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.

6.1 Interest income

For the year ended 31 December	2022	2021
	Rs.'000	Rs.'000
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

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6.2 Interest expenses

For the year ended 31 December	2022	2021
	Rs.'000	Rs.'000
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.

For the year ended 31 December	2022	2021
	Rs.'000	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.

For the year ended 31 December	2022	2021
	Rs.'000	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December	2022	2021
	Rs.'000	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 31 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.

NOTES TO THE FINANCIAL STATEMENTS

10. PERSONNEL EXPENSES (Contd...)

For the year ended 31 December	2022	2021
	Rs.'000	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

For the year ended 31 December	2022	2021
	Rs.'000	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

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 depreciated.

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.

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.

For the year ended 31 December	2022	2021
	Rs.'000	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

NOTES TO THE FINANCIAL STATEMENTS

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%).

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.

For the year ended 31 December	**2022**	**2021**
	Rs.'000	**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.

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

13.1.1 Current tax expense

For the year ended 31 December	2022	2021
	Rs.'000	Rs.'000
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%

NOTES TO THE FINANCIAL STATEMENTS

13. INCOME TAX EXPENSE (Contd...)

13.2 Reconciliation of the accounting profit to current tax expense

For the year ended 31 December	2022		2021	
	%	Rs.'000	%	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

13.3 Applicable Income Tax Rates

	2022		2021
	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	2021
Profit attributable to ordinary shareholders (Rs.) 000)	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

14.1 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 enrolling 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	Fair value through Other Comprehensive Income	Total
	Rs'000	Rs'000	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	Fair value through Other Comprehensive Income	Total
	Rs'000	Rs'000	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).

As at 31 December	2022	2021
	Rs.'000	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

NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND BANK BALANCES (Contd..)

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

	2022	2021
	Rs. '000	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

As at 31 December	2022	2021
	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

18.3 Allowance for expected credit losses/Impairment Individually impaired loans

	2022	2021
	Rs.'000	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	2021
	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

NOTES TO THE FINANCIAL STATEMENTS

19. GOLD LOAN RECEIVABLES

	2022	2021
	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

19.2 Analysis of gold loan receivables on maximum exposure to credit risk

As at 31 December 2021	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	2021
	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	2021
	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

20.2 Analysis of loan receivables on maximum exposure to credit risk

As at 31 December 2021	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

	2022	2021
Individually impaired loans	Rs.'000	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

NOTES TO THE FINANCIAL STATEMENTS

20. LOAN RECEIVABLES (Contd..)

20.4 Allowance for expected credit losses/ Impairment

	2022	2021
Loans subject to collective impairment	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

	2022	2021
At Amortized cost	Rs.'000	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.

21.1 Maturity analysis of net lease receivable

As at 31 December 2022	1Year	1-5Year	Morethan 5 Year	Total
	Rs.'000	Rs.'000	Rs.'000	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	1Year	1-5Year	Morethan 5 Year	Total
	Rs.'000	Rs.'000	Rs.'000	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: Allowance for expected credit losses	(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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

NOTES TO THE FINANCIAL STATEMENTS

21. LEASE RECEIVABLES (Contd..)

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

	2022	2021
	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

21.7 Movement in allowance for expected credit losses

As at 31 December 2021	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	2021
	Rs.'000	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	1Year	1-5 Year	More than 5 Year	Total
	Rs.'000	Rs.'000	Rs.'000	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	1Year	1-5 Year	More than 5 Year	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

NOTES TO THE FINANCIAL STATEMENTS

22. HIRE PURCHASE RECEIVABLES (Contd..)

22.5 Allowance for expected credit losses/Impairment

	2022	2021
Loans subject to collective impairment	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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	Stage1	Stage2	Stage3	Total
	Rs.'000	Rs.'000	Rs.'000	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

23.1 Movement in provision for repossessed stock

As at 31 December 2022	Lease Rs.'000	Hire purchase Rs.'000	Loan Rs.'000	Factoring Rs.'000	Total 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 Rs.'000	Hire purchase Rs.'000	Loan Rs.'000	Factoring Rs.'000	Total 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

NOTES TO THE FINANCIAL STATEMENTS

23. OTHER ASSETS (Contd..)

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

NOTES TO THE FINANCIAL STATEMENTS

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

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'.

26.1

Cost/Valuation	**Freehold Land & Buildings**	**Fixtures**	**Office furniture**	**Office equipment**	**Motor vehicles**	**Computer equipment**	**Capital work-in progress**	**Total**
	Rs. '000	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**	**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

26.2 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	**2022 Carrying value**	**2021 Cost**	**2021 Carrying value**
	Rs.'000	**Rs.'000**	**Rs.'000**	**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

NOTES TO THE FINANCIAL STATEMENTS

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

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	
			Land	Building	Land	Building	Land	Building	Income Statement	OCI
Valuer -C Wellappilli										
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
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

	Range (weighted average) 2022
Significant unobservable inputs	
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/Re-valuation of Land	Cost/Re-valuation 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.

26.5 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**	**2021**
	Rs.'000	**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	**2021**
	Rs.'000	**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

NOTES TO THE FINANCIAL STATEMENTS

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	**Leased assets**				
	Rs.000	**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

NOTES TO THE FINANCIAL STATEMENTS

30. DUE TO OTHER CUSTOMERS

	2022	2021
	Rs.'000	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	2021
	Rs.'000	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	Grantings/ Accrual	Repayments	2022
	Rs.'000	Rs.'000	Rs.'000	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	**2021**
		Rs.'000	**Rs.'000**
Short term loans			
Sampath Bank PLC	01Month	1,759,493	700,997
Nations Trust Bank PLC	03Months	1,311,521	1,703,158
Seylan Bank PLC	03Months	-	2,007,257
		3,071,014	4,411,412
Long term loans			
Sampath Bank PLC	60-240Months	2,646,733	2,236,741
Commercial Bank PLC	60Months	1,300,734	1,882,482
Hatton National Bank PLC	60Months	852,866	1,776,800
Seylan Bank PLC	60Months	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**	**Payable after 1 Year**	**Total**
	Rs'000	**Rs'000**	**Rs'000**
Short term loans and long term loans payable	4,898,097	3,074,966	7,973,063
	4,898,097	3,074,966	7,973,063

31.3 Securitizations

As at 31 December 2022	**Payable within 1 year**	**Payable after 1 year**	**Total**
	Rs'000	**Rs'000**	**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	**2021**
	Rs.'000	**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

NOTES TO THE FINANCIAL STATEMENTS

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

31.4.1 Redeemable debentures - maturity

As at 31 December 2022	Payable within 1 Year	Payable after 1 Year	Total
	Rs'000	Rs'000	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	Amortised cost 2021
					Rs.'000	Rs'000
Rated unsecured subordinated redeemable debentures *	10,000,000	4-Oct-17	4-Oct-22	12.50%	-	1,030,479
Rated unsecured subordinated redeemable debentures	15,000,000	8-Aug-19	8-Aug-24	13.33%	1,579,980	1,579,980
Rated unsecured senior redeemable debentures	20,000,000	7-Jul-20	7-Jul-23	11.25%	2,109,726	2,109,726
Rated unsecured subordinated redeemable debentures	15,000,000	1-Sep-21	1-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	2021
	Rs'000	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	2021
	Rs'000	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	2021
	Rs'000	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	2021
	Rs'000	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	2021
	Rs'000	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

NOTES TO THE FINANCIAL STATEMENTS

34. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

34.2 Amount recognised in the Income Statement

	2022	2021
	Rs'000	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	2021
	Rs'000	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	GA 1983
	Mortality Table	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)

34.5 Sensitivity assumptions employed in actuarial valuation

		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**	**2021**
	Rs.000	**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

NOTES TO THE FINANCIAL STATEMENTS

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	2021
	Rs.000	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					2021				
	Rs. '000					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 or 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

NOTES TO THE FINANCIAL STATEMENTS

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.

40.3 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	• Probability of Default • Loss Given Default	• 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
	2. Concentration Risk Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	• 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 • Net Interest Yield and Movement in Net Interest Yield	- 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	• 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

40.4 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.

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

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.

40.4.1. (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).

40.4.1 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			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	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

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

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

	2022	2021
	Rs.000	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.

40.4.1(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	Provision for impairment	Gross carrying amount	Provision for impairment	Gross carrying amount	Provision for impairment	Gross carrying amount	Provision for impairment
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	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

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

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Provision for impairment	Gross carrying amount	Provision for impairment	Gross carrying amount	Provision for impairment	Gross carrying amount	Provision for impairment
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	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

40.4.1(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.

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

As at 31 December 2022	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision] Stage 1	Stage 2	Stage 3	Total	Sensitivity effect on Income Statement
	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	-	235,786	(235,786)
- Decrease existing PD by 10% across all age buckets	(72,942)	(150,898)	-	(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)	-	(3,388)	3,388

As at 31 December 2021	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision] Stage 1	Stage 2	Stage 3	Total	Sensitivity effect on Income Statement
	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 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

Collateral and other credit enhancement

	2022		2021	
	Amortised Cost	Collateral	Amortised Cost	Collateral
	Rs.000	Rs.000	Rs.000	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

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

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.

40.4.1(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		Total	Not Contractually Past due	Contractually Past due		Total
		31 - 60 Days	61 - 90 Days			31 - 60 Days	61 - 90 Days	
	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 & advances (except individually impaired loans and advances)

An analysis of rescheduled/restructured loans & 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 Value
	Stage2	Stage3	Total	Stage2	Stage3	Total		Stage2	Stage3	Total	Stage2	Stage3	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
	Rs000	Rs000	Rs000	Rs000
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.

40.4.2 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.

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

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.

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

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**

	Manufac-turing	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**

	Manufac-turing	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

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

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

40.5 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.

Currency of Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Sensitivity of Equity
	2022	2022	2022
	Rs.000	Rs.000	Rs.000
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.

40.5.2 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	Upto 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

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	Upto 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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

40.6 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.

40.6.1 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.

NOTES TO THE FINANCIAL STATEMENTS

40. RISK MANAGEMENT (Contd...)

As at 31 December 2022	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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

NOTES TO THE FINANCIAL STATEMENTS

41. MATURITY ANALYSIS (Contd...)

As at 31 December 2021	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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
Deferred tax assets	-	-	-	-	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
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	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	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	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	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

NOTES TO THE FINANCIAL STATEMENTS

42. COMMITMENTS AND CONTINGENCIES (Contd...)

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

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

NOTES TO THE FINANCIAL STATEMENTS

44. RELATED PARTY TRANSACTIONS (Contd...)

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	2021
	Rs'000	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	-

	2022	2021
	Rs'000	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	2021
	Rs'000	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.		
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**	**2021**
	Rs'000	**Rs'000**
Facilities granted	2,238	3,976

For the year ended 31 December	**2022**	**2021**
	Rs'000	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	**2021**
	Rs'000	**Rs'000**
As at 31 December		
Facilities granted	45,072	-
Deposits	50,000	-

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

44.5.4 SC Securities (Pvt) Limited

	2022	**2021**
	Rs'000	**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.

TEN YEAR SUMMARY

Year ended 31 December	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Interest income	1,620,272	1,837,546	1,973,921	2,838,995	4,599,470	6,395,898	7,229,612	6,814,216	6,786,436	8,269,789
Interest expenses	(899,069)	(778,661)	(824,699)	(1,620,783)	(2,764,290)	(3,680,060)	(4,230,657)	(3,856,315)	(2,813,728)	(5,788,151)
Net interest income	721,202	1,058,885	1,149,223	1,218,212	1,835,180	2,715,838	2,998,955	2,957,901	3,972,708	2,481,638
Other income	114,085	139,354	232,315	312,774	465,904	567,459	690,293	765,479	1,360,895	1,025,545
Operating income	835,287	1,198,239	1,381,537	1,530,986	2,301,083	3,283,298	3,689,248	3,723,380	5,333,603	3,507,182
Operating expenses	(431,028)	(547,930)	(679,804)	(808,111)	(1,048,290)	(1,328,499)	(1,433,411)	(1,462,546)	(1,789,998)	(1,910,966)
Operating profit	404,259	650,309	701,733	722,875	1,252,794	1,954,799	2,255,837	2,260,834	3,543,605	1,596,217
Impairment (charges)/ reversals/provision for doubtful debts	(67,237)	(183,217)	(49,275)	(79,189)	(236,744)	(829,751)	(1,050,938)	(1,356,264)	(1,618,176)	(131,671)
Taxes on financial services	(35,740)	(61,536)	(93,305)	(128,500)	(230,810)	(291,259)	(406,369)	(226,551)	(399,355)	(400,808)
Profit before taxation	301,281	405,556	559,153	515,186	785,240	833,789	798,530	678,019	1,526,074	1,063,737
Tax expenses	(80,301)	(145,379)	(174,629)	(187,904)	(286,378)	(317,268)	(318,336)	(268,528)	(431,531)	(308,768)
Profit for the year	220,980	260,177	384,524	327,282	498,862	516,521	480,194	409,491	1,094,543	754,969

As at 31 December	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Assets										
Cash and bank balances	65,378	88,655	130,070	169,333	297,858	191,556	273,429	292,036	250,277	221,187
Securities purchased under repurchase agreements	323,792	489,685	601,679	777,438	1,200,981	1,768,461	2,304,392	2,781,162	1,839,911	-
Investment in Fixed Deposits	-	-	-	-	65,699	-	-	-	-	-
Factoring receivables	1,052,411	996,440	1,157,136	1,979,243	65,699	1,332,310	655,141	261,944	153,483	112,793
Pawning / Gold loan receivables	412,753	456,193	770,839	1,768,922	2,563,352	3,548,666	5,011,268	4,769,716	5,781,780	8,666,076
Loan receivables	568,573	506,526	286,968	743,740	2,724,776	2,481,575	1,533,713	1,750,116	1,643,806	993,460
Lease receivables	2,833,933	3,383,597	9,230,730	13,851,890	19,873,470	25,601,932	29,023,194	29,017,672	29,088,209	24,862,538
HP receivable	3,393,593	4,250,553	2,083,571	837,560	252,000	48,525	3,437	2,125	934	1,247
Other assets	335,131	246,141	378,334	662,612	932,742	1,193,305	2,142,771	2,676,889	3,991,848	9,237,263
Total Assets	8,985,564	10,417,790	14,639,326	20,790,738	29,810,580	36,166,330	40,947,345	41,551,660	42,750,248	44,094,563
Liabilities										
Bank overdraft	63,982	83,921	163,583	460,494	456,018	321,821	361,586	250,536	191,266	826,180
Customer deposits	-	-	1,233,041	3,362,662	9,333,622	9,672,008	13,221,026	17,279,614	17,114,923	19,342,046
Debt issued and other borrowed funds	7,487,912	8,528,922	10,925,421	14,187,266	16,310,778	21,391,367	21,342,227	17,049,706	17,077,514	15,585,788
Other payables	359,769	493,303	706,150	849,956	1,231,877	1,240,142	2,006,680	1,845,839	2,140,451	1,773,374
Total Liabilities	7,911,662	9,106,146	13,028,194	18,860,377	27,332,295	32,625,339	36,931,520	36,425,695	36,524,154	37,527,388

As at 31 December	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Equity										
Stated capital	525,000	525,000	525,000	576,975	635,917	948,666	1,379,922	1,522,881	2,346,095	2,674,439
Share application money pending allotment	-	-	-	-	-	400,000	-	700,000	-	-
Statutory reserve fund	37,787	50,831	70,059	86,422	113,000	139,000	164,000	185,000	240,000	278,000
Revaluation Reserve	-	-	-	-	56,823	107,763	117,951	117,951	124,504	154,295
Retained earnings	452,627	735,813	1,016,073	1,266,964	1,672,545	1,945,562	2,353,952	2,600,133	3,515,495	3,460,441
Total Equity	1,073,902	1,311,644	1,611,132	1,930,361	2,478,285	3,540,991	4,015,825	5,125,965	6,226,094	6,567,175
Total Liabilities and Equity	8,985,564	10,417,790	14,639,326	20,790,738	29,810,580	36,166,330	40,947,345	41,551,660	42,750,248	44,094,563

Year ended 31 December	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Growth in Interest Income	57%	13%	7%	44%	62%	39%	13%	-6%	-0.41%	21.86%
Growth Interest Expenses	50%	-13%	6%	97%	71%	33%	15%	-9%	27.04%	105.71%
Cost to income ratio with taxes on financial services (%)	55.88%	50.86%	55.96%	61.18%	55.59%	49.33%	49.87%	45.36%	41.05%	65.92%
Cost to income ratio without taxes on financial services (%)	51.60%	45.73%	49.21%	52.78%	45.56%	40.46%	38.85%	39.28%	33.56%	54.49%
Interest Cover ratio	1.59	1.73	1.84	1.32	1.28	1.23	1.19	1.18	1.54	1.18
Growth in Operating Profit	50%	61%	8%	3%	73%	56%	15%	0.2%	56.74%	-54.95%
Growth in Profit After Tax(PAT)	10%	18%	48%	-15%	52%	4%	-7%	-15%	167%	-31%
Earning/(Loss) Per Share-Rs.	4.21	4.96	7.32	6.14	8.70	8.43	6.56	5.37	12.35	7.87
Growth in Advances	53%	16%	41%	42%	42%	21%	10%	-1%	2.42%	5.57%
Growth in Deposits and Borrowings	60%	14%	43%	46%	45%	20%	11%	-1%	-0.57%	3.99%
Growth in Shareholder's Funds	23%	22%	23%	20%	28%	43%	13%	28%	21.46%	5.48%
Debt/Equity Ratio	7.03	6.57	7.65	9.33	10.53	8.86	8.70	6.75	5.52	5.44
Net Assets per Share-Rs.	20.46	24.98	30.69	35.67	44.43	55.68	54.78	67.26	67.69	67.59
Return on Average Total Assets	3%	3%	3%	2%	2%	2%	1%	1%	2.59%	1.68%
Return on Average Equity	22%	22%	26%	18%	23%	17%	13%	9.54%	19.16%	11.82%

CAPITAL ADEQUACY

Capital Adequacy

Capital Adequacy is one of the key financial indicators which illustrates the soundness and the stability of a Company. It acts as a "cushion" or "buffer" in safeguarding the depositors' and lenders' funds by absorbing potential losses arising from key risks faced by the Company. The Capital Adequacy Ratio is a measure used to determine whether the Company has sufficient capital to withstand unexpected losses arising from various risks during the course of the business, such as credit risk, market risk, operational risk etc. At present, Capital Adequacy Ratios of the finance companies in Sri Lanka are computed based on the Finance Business Act Direction No.3 of 2018 issued by the Central Bank of Sri Lanka (CBSL).

This Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act (capital adequacy requirements) Direction No. 03 of 2018, every finance company with assets less than LKR 100 Bn shall at all times maintain the minimum capital adequacy ratios of Tier I – 8.5% and Total Capital – 12.5% in relation to total risk weighted assets.

Tier 1 - Core capital

Tier 1 capital represents core capital of the company. Core capital includes shareholder's equity and reserves.

- Tier I Ratio $\dfrac{\text{Tier I Capital}}{\text{Total Risk Weighted Assets}}$

Total of Tier 1 and Tier 2 Capital

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/ impairment allowances.

- Total Capital ratio $\dfrac{\text{Total Capital}}{\text{Total Risk Weighted Assets}}$

Risk Weighted Assets

Risk weighted assets are a measure of company's assets and off-balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 December 2022, the Company maintained a Tier I ratio of 16.11% and a Total Capital ratio of 20.95%. Both ratios are well above the minimum regulatory requirements (Tier I – 8.5% and Total Capital – 12.5%) set by CBSL.

Computation of Capital Ratios

Item	Amount Rs.'000
Tier 1 Capital	6,171,804
Total Capital	8,025,685
Risk Weighted Amount for Credit Risk	33,177,183
Risk Weighted Amount for Operational Risk	5,135,414
Total Risk Weighted Amount	38,312,597
Tier 1 Capital Ratio, %	16.11
Total Capital Ratio,%	20.95

GLOSSARY OF FINANCIAL TERMS

A

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Assumptions
An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Allowance for Impairment
A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Amortization
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability.

Asset and Liability Committee (ALCO)
A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

Average Weighted Prime Lending Rate (AWPLR)
AWPLR is calculated by the Central Bank weekly, based on commercial banks' lending rates offered to their prime customers during the week.

B

Basis Point (BP)
One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

Capital Adequacy Ratio
The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

Cash
Cash comprises cash in hand and demand deposits.

Cash Equivalents
Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows
Inflows and outflows of cash and cash equivalents.

Collectively Assessed Impairment
Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commercial Paper (CP)
An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments
Credit facilities approved but not yet utilised by the clients as at the reporting date.

Compounded Annual Growth Rate (CAGR)
The rate at which a variable would have grown if it grew at an even rate compounded annually.

Contingencies
A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contract
An agreement between two or more parties that creates enforceable rights and obligations.

Control
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate Governance
The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

Cost to Income Ratio
Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Risk Mitigation
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer Deposits
Money deposited by account holders. Such funds are recorded as liabilities.

D

Deferred Tax
Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

GLOSSARY OF FINANCIAL TERMS

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

Discount Rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend Cover
Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend pay-out ratio
The percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)
Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend Yield
Dividend earned per share as a percentage of its market value.

E

Earnings per Share (EPS)
Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate
Provision for taxation expressed as a percentage of Profit before Tax.

Equity Instrument
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Employee Retention Ratio
Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

Equity Method
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the Reporting Period
Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

Expected Credit Losses (ECLs)
ECLs are probability-weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period used as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

Exposure at Default (EAD)
This 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 & interest and expected drawdowns of committed facilities.

F

Factoring
Factoring is a time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

Fair Value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value through Profit or Loss
A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset
Any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

Financial Guarantee Contract
A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability
A contractual obligation to deliver cash or another financial asset to another entity.

G

Going concern
An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Group
A Group is a parent and all its subsidiaries.

Gearing

Long term borrowings divided by the total funds available for shareholders.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

H

Hire purchase

A hire purchase is a contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

International Financial Reporting Standards (IFRS)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin

Net Interest income expressed as a percentage of average interest earning assets.

Interest Spread

Represents the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in Suspense

Interest suspended on non- performing leases, hire purchases and other advances.

Impairment

This occurs when the recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where the company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment Allowances

Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

Impairment Provisions

Provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Individually Significant Loan Impairment Provision (Specific Impairment Provision)

Impairment is measured individually for assets that are individually significant to the company.

Infection Rate

Describes the proportion of Loan or Lease on the portfolio that are not not being effectively recovered. In other words, It describes the relationship between Infected (arrears)portfolio and total portfolio.

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment Properties

Investment property is a property (land or a building - or part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

Investment Securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

K

Key Management Personnel

Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime Expected Credit Losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/Credit Losses and Provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

GLOSSARY OF FINANCIAL TERMS

M

Market Risk

This refers to the possibility of loss arising from changes in a value of a financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets per Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non Performing Advances

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collectability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Non-performing advances are reclassified as performing when all arrears rentals are settled in full.

NPA Ratio

The total non-performing leases, hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

O

Off- Balance Sheet Items

Items that are not recognised as assets or liabilities in the Statement of Financial Position, which give rise to commitments and contingencies in future.

Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

Parent Company

An entity that controls one or more subsidiaries.

Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power

The Power is the existing rights that give the current ability to direct the relevant activities.

Probability of Default (PD)

The probability that an obligor will default within a one-year time horizon.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro- rated on service or as the benefit/ years of service method).

Provision Cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on nonperforming loans, leases and advances.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, such that asset or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual Value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of average assets.

Return on Equity (ROE)

Net Profit after Tax less dividend on preference shares if any, expressed as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Right-of-use asset

An asset that represents a lessee's right to use an underlying asset for the lease term.

Risk Weighted Assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

S

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

The total of stated capital and capital and revenue reserves.

Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka. They comprise of the following: Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Staff Turnover Ratio

Represents the number of employee attrition during the year as a percentage of average number of employees for the year end.

Stated Capital

All amounts received by the Company or due and payable to the Company - (a) in respect of the issue of shares, (b) in respect of calls on shares.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003

Substance over Form

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company

An entity, including an unincorporated entity, which is controlled by another entity.

T

Tier I Capital (Core Capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base)

Capital base is the summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction Costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Twelve Month Expected Credit Losses

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

U

Useful Life

The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Volatile Liability Dependency Ratio

Short Term borrowings (of maturity less than 12 months) expressed as a percentage of the Total Advances (Lending) Portfolio.

Y

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the 18th Annual General Meeting of Siyapatha Finance PLC will be held on 25th April 2023 at 9.00 a.m. at Siyapatha Tower, 111, Dudley Senanayake Mawatha, Colombo 08.

AGENDA

(1) To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2022 with the Report of the Auditors thereon.

(2) To re-elect Mr. Y. S. H. R. S. Silva as a Director under Articles 24(7) and 24(8) of the Articles of Association of the Company.

(3) To re-elect Mr. J. H. Gunawardena as a Director under Articles 24(7) and 24(8) of the Articles of Association of the Company

(4) To re-elect Mr. D. Sooriyaarachchi as a Director under Articles 24(7) and 24(8) of the Articles of Association of the Company

(5) To declare a Dividend of Rs.2.33 per share for the financial year 2022 and if though fit, to pass the following resolution by way of an Ordinary Resolution.

"IT IS HEREBY RESOLVED THAT a dividend of LKR 2.33 per share be distributed in the form of a scrip dividend amounting to a total sum of Rupees Two Hundred and Twenty-Six Million Three Hundred and Ninety-Six Thousand Eight Hundred and Six Only (LKR 226,396,806/-) for the year ended 31st December 2022. The shares issued in the scrip dividend shall be valued at LKR 60.83 per share which results in One (01) share being issued for each existing 30.7144657575123 shares. Consequently, the total number of shares to be issued under the scrip dividend shall be 3,163,526 Ordinary Shares."

(6) To re-appoint M/s. Ernest & Young, Charted Accountants as the Auditors of the Company for the ensuring year and authorize the Directors to determine their remuneration.

(7) To authorize the Directors to determine donations for the year ending 31st December 2023 and up to the date of the next Annual General Meeting.

By order of the Board
SIYAPATHA FINANCE PLC

P W Corporate Secretarial (Pvt) Ltd

Secretaries

17th April 2023

Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf
2. A Proxy need not be a shareholder of the Company.
3. A Form of Proxy accompanies this Notice.

PROXY FORM

I/We* .... (holder of NIC No..........................

.........) of...being a shareholder/s of Siyapatha Finance PLC hereby appoint

.... (holder of NIC No..................................) of .... or failing him/her

Mr. P. S. Cumaranatunga of 325, Park Road, Colombo 5	failing him*
Mr. Y. S. H. R. S. Silva of 90, Galkanda Road, Aniwatte, Kandy	failing him*
Mr. H. M. A. Seneviratne of 156/12, Weragala Place, Thalawathugoda	failing him*
Mr. J. Selvaratnam, 441/5A, 2nd Lane, Cotta Road, Rajagiriya	failing him*
Mr. J. H. Gunawardena of 88, Pirivena Road, Ratmalana	failing him*
Mr. D. Sooriyaarachchi of 28/10, Birnamwood, Wijesekara Mawatha, Mirihana, Nugegoda	failing him*
Mr. W. S. C. Perera of 8 2/2,Skyline Residency, Magazine Road, Colombo 8	failing him*
Ms. H. S. R. Ranatunga of 36/50, Rosmead Place, Colombo 7	failing her*
Mr. M.D.B. Boyagoda of 396/17, Isuru Place, School Lane, Kalalgoda, Thalawathugoda	failing him*

as my/our* proxy to represent me/us* to speak and to vote as indicated hereunder for me/us* and on my/our* behalf at the Annual General Meeting of the Company to be held on 25th April 2023 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

		FOR	AGAINST
(1)	To re-elect Mr. Y. S. H. R. S. Silva as a Director under Articles 24(7) and 24(8) of the Articles of Association of the Company.		
(2)	To re-elect Mr. J. H. Gunawardena as a Director under Articles 24(7) and 24(8) of the Articles of Association of the Company.		
(3)	To re-elect Mr. D. Sooriyaarachchi as a Director under Articles 24(7) and 24(8) of the Articles of Association of the Company.		
(4)	To declare a Scrip Dividend of LKR 2.33 per share for the financial year 2022.		
(5)	To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.		
(6)	To authorize the Directors to determine donations for the year ending 31st December 2023 and up to the date of the next Annual General Meeting.		

In witness my/our* hands this .... day of .... Two Thousand and Twenty-Three.

Signature of Shareholder/s

***Please delete what is inapplicable.**

PROXY FORM

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Proxy Form after filling in legibly your full name and address, and by signing on the space provided.

2. The completed Proxy Form should be deposited at the Head Office of the Company at No.111, Dudley Senanayake Mawatha, Colombo 08, not less than 48 hours before the appointed time for the holding of the meeting.

3. If you wish to appoint a person other than Chairman, Deputy Chairman or a Director of the Company as your proxy, please insert the relevant details in the space provided on the Proxy Form.

4. Article 16(6) of the Articles of Association of the Company provides that;

   "Any corporation which is a member of the Company may by resolution of its Directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company, and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company"

5. Please indicate with an 'X' in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy, at his discretion, will vote as he thinks fit.

6. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.

7. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office of the Company for registration.

CORPORATE INFORMATION

NAME OF THE COMPANY

Siyapatha Finance PLC (formerly known as Sampath Leasing and Factoring Limited)

Registration No.: PB 917PQ

Telephone: +94117605605

Fax: +94117605606

E-mail: info@siyapatha.lk

Website: www.siyapatha.lk

CREDIT RATING

Rating (Issued by Fitch Ratings Lanka): National Long-Term Rating of 'A(lka)', Outlook – Stable (as at 31 December 2022) Current Rating "BBB +(lka)"

LOCATION OF HEAD QUARTERS

No. 111, Dudley Senanayake Mawatha, Colombo 08

REGISTERED OFFICE

No. 110, Sir James Peiris Mawatha, Colombo 02

OPERATING COUNTRIES

Operations are limited to Sri Lanka

OWNERSHIP

Siyapatha Finance PLC is a fully owned subsidiary of Sampath Bank PLC. Siyapatha Finance PLC does not have any subsidiaries established.

LEGAL FORM

Sampath Leasing and Factoring Limited was incorporated on 03rd March 2005 under the Companies Act No. 17 of 1982 as a specialized leasing company and re- registered under the Companies Act No. 07 of 2007 on 18th March 2009. Sampath Leasing and Factoring Limited was renamed as "Siyapatha Finance Limited" on 02nd September 2013 upon being recognized as a Licensed Finance Company under the Finance Business Act No. 42 of 2011. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on 31st December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015.

BOARD OF DIRECTORS

Mr. P. Sumith Cumaranatunga
Chairman
(Independent / Non-Executive Director)

Mr. Rushanka Silva
Deputy Chairman (Non -Independent / Non-Executive Director)

Mr. Ananda Seneviratne
Managing Director (Executive)

Mr. Janakan Selvaratnam
Director (Non-Independent / Non-Executive)

Mr. Jayantha Gunawardena
Director (Independent / Non-Executive)

Mr. Deepal Sooriyaarachchi
Director (Independent / Non-Executive)

Mr. Shiran Perera
Director (Non-Independent / Non-Executive)

Ms. Sriyani Ranatunga
Director (Independent / Non-Executive)

Mr. Malinda Boyagoda
Director (Independent / Non-Executive)

LAWYERS

Messrs Nithya Partners Attorneys-at-Law

COMPANY SECRETARY

P W Corporate Secretarial (Pvt) Ltd
(Appointed w.e.f. 11.05.2021)

AUDITORS

Messrs Ernst & Young Chartered Accountants

No.201, De Seram Place,

Colombo 10, Sri Lanka.

Tel : +94112463500

Fax : +94112697369

BANKERS

Sampath Bank PLC

Commercial Bank of Ceylon PLC

Hatton National Bank PLC

Bank of Ceylon

Nations Trust Bank PLC

National Development Bank PLC

Seylan Bank PLC

MEMBERSHIPS

Leasing Association of Sri Lanka Finance Houses Association of Sri Lanka Employers Federation of Ceylon (EFC) Credit Information Bureau of Sri Lanka

MARKETS SERVED

Our operations are spread across the island covering all provinces except one. Our primary market segments are individual customers, SMEs and corporate clients.

SIGNIFICANT CHANGES DURING THE REPORTING PERIOD

There were no significant changes to the organization size, structure, ownership or supply chain during the reporting period.