



SMB FINANCE PLC

# Transition to Transformation

ANNUAL REPORT 2022







# Our Mission

Our mission is to be an excellent provider of innovative financial products and services aimed at creating and enhancing the wealth of our society.



# Our Corporate Objectives

To provide an excellent service to our customers.

To enhance shareholders’ wealth by means of stable and attractive returns.

To develop highly satisfied and motivated employees at all levels who will make an effective and efficient contribution towards the economic development of Sri Lanka.

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## About This Report

### The Company Profile

SMB Finance PLC is a public limited liability company established in 1992 and listed on the Colombo Stock Exchange. The Company operates only in Sri Lanka with the Head Office located in Colombo. The Company is primarily engaged in providing finance leases, mortgage loans, personal loans, and gold loans and obtaining fixed deposits. Corporate information is given on the inner back cover of this report.

The Company is a licensed finance company under the Finance Business Act No. 42 of 2011 with effect from December 1, 2022.

### Annual Report

The Annual Report comprises reports covering the Company's operations for the financial year ended December 31, 2022. Wherever relevant, the preceding year's performance and indicators have been reflected for comparative analysis.

### Reporting Framework

The annual financial statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) issued by the Institute of Chartered Accountants of Sri Lanka. Financial and non-financial information presented, where applicable, confirm the requirements of the Companies Act No. 7 of 2007, the Finance Leasing Act No. 56 of 2000 as amended by Finance Leasing (Amendment) Act No 24 of 2005

and subsequent amendments thereon, the Finance Business Act No. 42 of 2011, the Listing Rules of Colombo Stock Exchange, the Directions issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance 2017 jointly issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

### External Assurance and Test of Compliance

The financial statements were audited by M/s. KPMG, Chartered Accountants and their Report is given on pages 100 to 103 of this report.

### Presentation

Printed copies of this report will be posted to only those who request the same in writing. This report will be made available on the official website of the Company [www.smb.lk](http://www.smb.lk) in PDF format.

### Contact

Questions and inquiries on this Annual Report 2022 and the information presented therein are to be directed to:

#### Head of Finance

SMB Finance PLC,  
No. 282/1, CBS Building, Galle Road,  
Colombo 3, Sri Lanka.

Tel: +94 11 4222850

Fax: +94 11 4222889







SMB Finance PLC Chairman Ravi Wijeratne (left) receiving the finance business license from CBSL Assistant Governor J.P.R. Karunaratne.

SMB Finance PLC Director Anura Chandrasiri, Chief Executive Officer Supul Wijesinghe and CBSL Department of Supervision of Non-Bank Financial Institutions Director Chanoori Jayasinghe also present

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## Key Highlights of the Year

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### TOTAL ASSETS

**5,187**  
Rs. Mn

### INTEREST INCOME

**289**  
Rs. Mn

### PROFIT AFTER TAX

**80**  
Rs. Mn

### NET ASSETS PER SHARE

**0.35**  
Rs.

### OPERATING INCOME

**419**  
Rs. Mn

### BASIC EARNINGS PER SHARE

**0.01**  
Rs.

### INVESTMENT PROPERTIES

**386**  
Rs. Mn

### LOANS AND ADVANCES

**1,855**  
Rs. Mn

### SHAREHOLDERS' FUNDS

**3,356**  
Rs. Mn

### TOTAL LIABILITIES

**1,831**  
Rs. Mn

### STATUTORY RESERVES

**42**  
Rs. Mn

### RETAINED EARNINGS

**199**  
Rs. Mn

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# Chairman’s Message

On behalf of the Board of Directors, I am pleased to present the Annual Report and the audited financial statements of SMB Finance PLC for the financial year 2022.

While Sri Lanka was facing an unsustainable debt and severe balance of payments crisis which had negatively impacted the economic growth, SMB Finance PLC continued to generate shareholder wealth while helping its valuable customers in 2022. With Sri Lanka’s access to international financial markets being hindered with the downgrading of credit ratings, the country continued its debt servicing using available foreign reserves which led to a severe balance of payments crisis. With the announcement of debt service suspension in April 2022 followed by shortages of medicine, fuel and liquefied petroleum gas resulted in an economic crisis which led to public unrest. The fluid political situation and financial sector imbalances aggravated by elevated inflation and fiscal deficit posed significant uncertainties to the non-bank financial institutions in the year 2022.

The economic crisis adversely impacted the repayment capacity of banking and non-banking sector clients. Though the Government took policy initiatives to prevent a further escalation of the situation, the overall performance of the economy in 2022 was below expectations. With customers experiencing inevitable repayment pressure, the Company was committed to support their long-term survival through proactive engagement and counsel followed by loan restructuring and flexible repayment plans. These organisation-wide efforts towards client support facilitated in preserving and improving customer

relationships during these difficult times.

The solid performance of SMB Finance PLC in 2022 is mainly due to the dedication and tireless efforts of its employees. The Company ended the financial year 2022 with a significant growth in profit after tax and achieving an asset base over five billion rupees. The Company managed to surpass the statutory liquidity ratios and maintain a highest level of regulatory compliance.

With the fiscal deficit expected to gradually fall over due to the fiscal consolidation efforts taken by the Government, the economic growth will depend on the progress made in debt restructuring and structural reforms. Despite these positive steps which are expected to materialize in 2023, Sri Lanka’s real GDP is likely to fall by four per cent in 2023. The bailout package of the International Monetary Fund will pave the way for the country to restructure its local and foreign debt and together with planned reformed agenda, the country is expected to progress towards improved and sustainable economic prospects. The policy reforms implemented by the Government so far have yielded a notable success and a reinstatement of exchange rate flexibility is expected in the second half of 2023. We are confident that the Government and the regulator will take necessary measures to stabilize the financial system in the country’s return to normalcy. The proposed structural reforms will ease pressure on public spending and improve governance and transparency which will facilitate medium to long term economic growth. .

The Board is contemplating several strategic initiatives that would facilitate rapid growth in profitability

and total assets and I am confident that our shareholders will endorse these initiatives taken by the Board in the coming months. In parallel to the aforementioned initiatives, the Company is expanding its branch network in 2023 to reach a wide customer base covering several provinces of the country. With the elevation to a licensed finance company, we are well positioned to recalibrate our strategies and prioritize initiatives which will take us to the desired growth trajectory that rapidly enhances shareholder wealth.

The Board is ever mindful of its statutory, fiduciary and regulatory responsibilities and our commitment to uphold strong and effective corporate governance is a fundamental part of the business management. As a part of this commitment, we nurture a respectful working environment for all employees of the Company with zero tolerance policy for any violation of the employee Code of Conduct. During the financial year 2022, all Board Sub Committees conducted meetings regularly to discuss business matters in detail and recommend necessary actions required to be taken.

I am delighted to welcome Mr. Supul Wijesinghe to the Board as an Executive Director from March 2023. Upon assuming duties as the Chief Executive Officer in 2020, Mr. Wijesinghe’s transformational leadership has resulted in the Company achieving several milestones over the last three years. The Board will continue to provide leadership to the Company’s transformation to a formidable force in the finance industry. Our governance framework which fosters a strong alignment between the Board and the Corporate Management will be a critical success

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factor in coping with rapidly evolving business complexities. The Board strives to enhance shareholder value and provide an acceptable return for their investments whilst retaining sufficient resources for business growth.

As I conclude, I wish to express my gratitude to my colleagues on the Board for their consistent support, keen participation, invaluable counsel, and insightful guidance extended at all times and their valued expertise shared to drive the Company forward. I wish to specifically commend the Chief Executive Officer and

the Corporate Management team who provide exemplary leadership and boundless energy to drive our strategies for growth and business excellence. My heartfelt thanks to all employees for their unconditional efforts, commitment and dynamism that allowed the Company to overcome challenges in 2022 and continue its journey as a licensed finance company. I look forward to their continued support in sustaining the growth trajectory of the Company in 2023 and beyond.

I wish to place on record, my appreciation to the Central Bank of

Sri Lanka as the industry regulator for their continuous support and advice to direct the Company to a more sustainable future that is built on a foundation of strong ethics and good governance. I also wish to extend my sincere gratitude to the shareholders and all other stakeholders for the steadfast support and confidence placed in us.

As we begin the transformation towards becoming a leading financial institution in the country, I look forward to your continued patronage in the future.



**Ravi Wijeratne**  
Chairman

Colombo  
May 30, 2023

# Chief Executive Officer’s Message

In 2022, SMB Finance PLC continued to make progress executing its strategy and delivered a strong financial performance amidst the unprecedented political turmoil and economic uncertainties stemming from unsustainable debt and balance of payments crisis. Despite the uncertainties and complexities faced, the year 2022 will be remembered as the year that achieved one of the greatest accomplishments of the Company as we managed to obtain the finance business license which will serve as the foundation of the Company’s growth in the years to come. This was precisely what we aimed to achieve when we announced our transformation planned back in 2021. To get there, we have completed an ambitious and challenging journey over the past three years. We have also made good progress on building deeper customer relationships and continued business momentum with an opportunity to do more. The Company’s solid performance in the year 2022 under significant uncertainties and complexities is due to dedication and commitment of our staff.

Sri Lanka economy faced its most difficult year post-independence history with the country's economy contracting by seven per cent in 2022 generating severe economic hardship to individuals and businesses. The Non-Bank Financial Institutions sector also felt the negative impacts of the economic crisis and political unpredictability that prevailed in 2022. As we showed throughout the pandemic, the Company had the strength and stability to face, times of immense change and economic challenges. We responded to the challenging economic environment by increasing support to clients whilst

accelerating our efficiency actions to offset the significant inflationary pressures in the business. We assisted our valuable clients to maintain liquidity thereby preserving their assets. At the same time, our clients seek our partnership and advice to continue their businesses amidst the uncertainty. Our results for the past year prove that we succeeded at this task.

Our revenues rose by 76% and profitability rose by 49% despite inflation-related cost pressure in many areas. With the 2022 results we have demonstrated that the Company is robust and sustainably profitable. The Company also benefitted from continued balance sheet growth during the year. Loans and advances were up by 66% which includes the continued growth of 153% in gold loans. We have also deepened existing client relationships by focusing on three interconnected lending products and won new mandates. We managed to preserve our portfolio by offering flexible repayment plans to our customers who were adversely affected with the economic crisis helping them to navigate the challenges and uncertainties while maintaining adequate liquidity levels. Despite the unprecedented increase in inflation, the Company managed to sustain its operational cost with a minimum increase with the productivity improvement initiatives launched in 2022. The management took a conscious decision to curtail lending in the second and third quarters of the year due to the inevitable weakening of credit quality in the industry due to the political and economic challenges which prevailed during that period. Though this had a marginal impact on the interest income of lease and mortgage loan portfolios

it was mitigated by a 153% increase that was derived from the gold loan portfolio. The Company has achieved a 49% increase in its profit after tax after prudently providing impairment provisions for its asset portfolio which includes provisions for macroeconomic factors. In 2022, the total assets of the Company surpassed over Rs. 5 billion which is the highest asset value recorded by the Company in its 31 year history.

In 2023, we aim to continue to further improve shareholder wealth. Although the macroeconomic outlook remains uncertain, our people and business model ensure that we can continue to support our clients and other stakeholders. With a well-differentiated business model, we have absolute clarity on our future, focusing on accelerating growth and gaining market share to increase shareholder returns. We have intentionally designed our business mix to withstand different macroeconomic conditions as we aim to increase revenues and reduce the loan loss provisions while operating cost is expected to increase with the macroeconomic variables. Our businesses operation and target markets are now aligned more closely than ever, and as a result, we are supporting our clients in a more integrated way. For our strategy to unlock greater value, we are aware of the need to modernize our IT infrastructure that will enable us to deliver increased value for our clients. A centerpiece of our go-forward plan is the planned digital transformation that will support a shift in our business models and simplify our operating model so that we can more easily engage with our valuable clients. With this in mind, we have dramatically streamlined credit approval process

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for lending products with new stress testing capabilities which enable us to make faster and better-informed risk decisions. We wish to expand our branch network in 2023 covering all major provinces in the country. We have hardwired accountability into the Company by strengthening our performance management process and implementing a greater emphasis on compliance and sustainable growth.

We have a highly dedicated team with an admirable attitude and commitment which in my view is the biggest strength of the Company. Our team strives for excellence in order to create value for our shareholders and customers whilst maintaining an ethical and respectful work environment fulfilling all statutory, fiduciary and regulatory responsibilities. The diversity of the people who work at SMB Finance PLC is a distinguishing aspect of the Company with fifty one per cent of the employees being female. Maintaining a workforce that is diverse, equitable and inclusive is not only true to our values but a key to our competitiveness. As

disclosed in the Human Capital Report, discipline, honesty, integrity, fairness, responsibility, transparency and accountability plays an integral role in our work culture. Drawing on lessons learned during the pandemic, we have institutionalized a hybrid work model for the head office and branch management which provides the flexibility whilst ensuring the benefits of the in-person collaboration focusing on maximizing the potential of our people and technology.

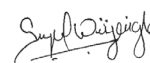
I would like to convey my sincere appreciation to our Chairman Mr. Ravi Wijeratne and the Board of Directors for their invaluable advice, guidance, constant support and the confidence placed in me. My heartfelt thanks to my Corporate Management team for their positive attitude, creativity, boundless energy, continuous counsel and advice which have enriched the decisions taken at the top management to drive our strategies for growth and business excellence.

I am grateful to all our team members for their commitment and dedication and to the families of all employees

for the support extended to make our journey a success. Also, I would like to extend my heartfelt gratitude to our customers for their loyal patronage and shareholders for their unwavering support.

I wish to respectfully thank the financial and other regulatory authorities including the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Sri Lanka Accounting and Auditing Standards Monitoring Board for their support and cooperation.

While we are aware that the current environment continues to be challenging, through our relentless commitment to excellence, we continue to change the trajectory of the Company to deliver a new era of success for all our stakeholders while ensuring that we have a culture characterized by excellence and accountability which underpins the success of our transformation and the broader vision for the Company.



**Supul Wijesinghe**  
Chief Executive Officer

Colombo  
May 30, 2023



# MANAGEMENT DISCUSSION & ANALYSIS

## Economic Outlook & Business Environment

### The impact of economic forecasts

The global economic environment can also be affected by emerging forecasts, which attempt to accurately map the future of a certain market or the economy as a whole. As Investopedia explains, economic forecasting involves several critical factors and indicators to support effective and actionable predictions.

“Economic forecasting typically tries to come up with a future gross domestic product (GDP) growth rate, involving the building of statistical models with inputs of several key variables,” Investopedia states.

Some of these indicators include elements like current inflation rates, interest rates, production levels in industrial sectors, consumer confidence and purchasing, worker productivity, retail sales, and current unemployment rates. However, more in-depth economic forecasts, particularly those that look at the global environment as opposed to a certain region will likely include several other factors and considerations to support accuracy.

### Overview of Global Economic and Business Environment<sup>1</sup>

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia’s invasion of Ukraine,

and the lingering COVID-19 pandemic all weigh heavily on the outlook. Global growth is forecast to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024. Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. Structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.

### The global economy and macroeconomics

One element that makes the conditions of the global economy so sophisticated and complex is the fact that many different factors can create changes in this environment. What’s more, the economy can have deep effects on businesses operating in different market sectors, and the policies created by governing bodies can disrupt Company activities, thereby shifting economic conditions.

As the Institute for New Economic Thinking points out, governments and those that create economic standards and guidelines leverage

macroeconomic theory concepts to support the creation of these policies. For these reasons, it’s imperative for those studying business administration to understand macroeconomics and the process of creating policies that will influence the global economy.

The war in Ukraine has triggered a costly humanitarian crisis that demands a peaceful resolution. At the same time, economic damage from the conflict contributed to a significant slowdown in global growth in 2022 and added to the inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries the hardest. Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. These are 0.8% and 0.2% points lower for 2022 and 2023 than projected in January. Beyond 2023, global growth is forecast to decline by approximately 3.3% over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7% in advanced economies and 8.7% in emerging market and developing economies - 1.8% and 2.8% points higher than projected last January. Multilateral efforts to respond to the humanitarian crisis, prevent further economic fragmentation, maintain global liquidity, manage debt distress, tackle climate change, and end the pandemic are essential.

1. World Economic Outlook, *International Monetary Fund (IMF)*, (2022).

Local Environment<sup>2</sup>

Country Context

Sri Lanka faces an unsustainable debt and a severe balance of payments crisis, which is hurting growth and poverty.

According to the latest South Asia Economic Focus and the Sri Lanka Development Update, Sri Lanka’s real GDP was expected to fall by 9.2% in 2022 and a further 4.2% in 2023. The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for Sri Lanka’s economic outlook. The growth outlook is subject to high uncertainty and will depend on the progress in fiscal consolidation, debt restructuring, and growth-enhancing structural reforms. Despite the tightened monetary policy, inflation will likely stay elevated. The fiscal deficit is expected to gradually fall over the medium term due to consolidation efforts. The current account deficit is expected to decline due to import compression. Additional resources will be needed in 2023 and beyond to close the external financing gap. Poverty is projected to remain above 25% in the next few years.

Key downside risks include a slow debt restructuring process, limited external financing support, and a prolonged recovery from the scarring effects of the crisis. Fiscal consolidation needs to be accompanied by tighter monetary policy to contain inflationary pressures. Significant debt restructuring is essential to restore a

sustainable debt level. The financial sector has to be managed carefully given the high exposure to the public sector. The necessary macroeconomic adjustments may initially adversely affect the growth and the poverty but will correct the macroeconomic imbalances, help regain access to international financial markets, and build the foundation for sustainable growth.

Recent developments

Sri Lanka’s economy contracted by 7.8% in 2022. While all key sectors contracted, the manufacturing and construction sectors suffered the most amid shortages of inputs and supply chain disruptions. High-frequency indicators, such as purchasing managers’ indices, indicate continued stress in the first quarter of 2023.

After peaking at an unprecedented 69.8% in September, headline inflation closed at 57.2% in 2022, reflecting the impact of elevated global commodity prices, monetization of fiscal deficits, currency depreciation, and food supply constraints due to the 2021 ban on chemical fertilizers. Since January 2022, the Central Bank has raised policy rates by a cumulative 1,050 basis points to try to curb inflation.

The trade deficit declined to US\$ 5.2 Bn in 2022 from US\$ 8.1 Bn in 2021, as exports, particularly textiles, grew faster than imports. This trade deficit reduction is estimated to have lowered the current account deficit, despite a fall in remittances (by 36%) and relatively low tourism receipts. Lower

remittances – a source of income for 7.2% of the population- contributed to income losses and the adoption of negative coping mechanisms, further increasing the risk of food insecurity and stunting.

The currency (LKR) depreciated by 78% against the US Dollar between March and May 2022 when it was floating. A return to a managed float, amid the ongoing foreign exchange management strategy, restricted the full-year depreciation to 81%. However, due to low market confidence, bringing export earnings and remittances to Sri Lanka through formal channels has been challenging, despite mandatory repatriation and conversion rules. The unwinding of speculative Dollar holdings led to a sharp appreciation of the LKR in early March 2023 amid sluggish import demand.

The overall fiscal deficit is estimated to have declined owing to the implementation of several new revenue measures (including a VAT rate increase from 8% to 15%), tightly controlled expenditure, and a buildup of arrears to suppliers and contractors. Interest payments continued to absorb more than two-thirds of total revenue.

Sri Lanka lost access to international financial markets in 2020 after credit rating downgrades. Without market access, Sri Lanka continued to service its external debt and pay for imports using official reserves and loans from the banking sector. Official reserves dropped from US\$7.6 Bn in 2019 to less than US\$400 Mn (excluding a

2. Sri Lanka Overview, World Bank Group, (2022).

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currency swap equivalent to US\$1.5 Bn with China) in June 2022. Net foreign assets in the banking system also fell to US\$ -5.9 Bn in June 2022. This severe forex liquidity constraint has been felt across the economy, particularly from the second quarter of 2022, with shortages of fuel, medicines, cooking gas, and inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022 and later appointed legal and financial advisors to support debt restructuring. Amid mass public protests, a new president was appointed in July 2022.

### Local Economic Outlook

The economy contracted by 4.8% year-on-year in the first half of 2022. All key sectors contracted, amid shortages of inputs and supply chain disruptions. High-frequency indicators such as the purchasing managers' indices indicate continued stress beyond the first six months.

Year-on-year inflation reached an unprecedented 64.3% in August 2022, due largely to high food inflation of 93.7%. This reflects the impact of rising global commodity prices, monetization of the fiscal deficit, and currency depreciation. The ban on chemical fertilizers in 2021 and its related impact on crop yields have also affected domestic food supplies, agriculture earnings, and food security. Between January and July 2022, the Central Bank raised policy rates by a cumulative 950 basis points to curb inflation.

Poverty is expected to have increased in 2022 due to the contraction in the economy. Poorer households are hardest hit owing to food inflation,

job losses, limited fertilizer supply, and a drop in remittances. While social assistance provides some relief, it is inadequate in the face of substantial losses in real income. The goods trade deficit declined by 18.6% year-on-year in the first half of 2022 as exports, particularly textiles, grew faster than imports, which were largely financed by Indian financial support of approximately US\$3.8 Bn. With declining remittances and limited tourism receipts, the current account deficit was expected to have widened in this period. Sri Lanka's Central Bank floated the Sri Lankan Rupee (LKR) in March and returned to a managed float in May after the currency depreciated by about 78% since the floating. Despite mandatory repatriation and conversion rules, it has been challenging to bring export earnings and remittances to Sri Lanka through formal channels due to low market confidence.

Although expenditures increased in the first four months of 2022 on account of additional support provided to social protection beneficiaries, public servants, and pensioners, several revenue measures, such as a one-off tax imposed on large corporates, helped reduce the primary deficit.

Growth prospects depend on debt restructuring and growth-enhancing structural reforms. At the same time, fiscal consolidation will likely dampen these prospects, with the fiscal deficit expected to gradually fall over the medium term. Inflation is projected to come down from a high base as monetization of fiscal deficits is reined in. The current account deficit is expected to decline thanks to import

compression, despite decelerating exports due to weak global demand. Additional resources will be needed in 2023 and beyond to close the external financing gap.

Key downside risks include a slow debt restructuring process, limited external financing support, a sharper global slowdown, and a prolonged recovery from the scarring effects of the current crisis. Lower-level external trade equilibrium could have contagion effects on domestic trade, economic activity, jobs, and incomes. This and adverse effects from revenue-mobilization efforts could worsen poverty projections. The financial sector needs to be managed carefully, given rising non-performing loans and large public sector exposures.

Mitigating the impacts on the poor and vulnerable remains critical during the adjustment. Reducing poverty requires better-targeted social assistance, an expansion of employment in industry and services, and a recovery in the real value of incomes. On the upside, the government's reform program, supported by financing from international partners, could boost confidence and attract fresh capital inflows key to restart the labor market and restore livelihoods.

### Key conditions and challenges

In 2022, Sri Lanka's economy faced its most difficult year since independence. Headwinds from recent economic shocks, such as the Easter Sunday attacks in 2019, the outbreak of COVID-19 in 2020 and its protracted impact on activity in 2021, the socioeconomic and political crisis in 2022 amidst catastrophic balance



of payments (BOP) pressures, and unprecedented policy tradeoffs, have severely harmed economic activity, inflicting unimaginable hardships on individuals and businesses. Livelihoods were lost, and actual incomes were hit the worst. Structural economic obstacles that had persisted for decades in many sectors of the economy were exacerbated by these economic shocks Sri Lanka is facing a challenging macroeconomic landscape. The post-conflict high growth momentum has decelerated. A volatile global environment and structurally weak competitiveness continue to weaken growth and external sector performance. The country is vulnerable to global financial market conditions due to large refinancing requirements. Although some important reforms were carried out, the process has slowed down due to a challenging political environment.

The World Bank is deeply concerned for the people of Sri Lanka as the country goes through the worst economic crisis in decades. We are repurposing resources from existing [ongoing] projects to support the most urgent needs, as well as working in coordination with other development partners in advising on appropriate policies to restore economic stability and broad-based growth.

In early 2022, Sri Lankans started experiencing power cuts and shortages of basics such as fuel. The rate of inflation rose to 50% a year. As a result, protests broke out in the capital Colombo that year and spread across the country. In 2019 with an income per

capita of 13,620 PPP Dollars or 3,852 (2019) nominal US dollars, Sri Lanka was re-classified as a lower middle-income nation with a population of around 22 Mn (2021) by the World Bank from a previous upper middle-income status. Monthly inflation rates in the country rose from 3% in January 2021 to 39.1% in May 2022, the highest recorded in history.

Net foreign assets in the banking system also fell to US\$ -4.8 Bn in December 2022. A foreign exchange management strategy (covering outflows with available inflows in the absence of debt servicing), implemented in the second half of 2022, somewhat stabilized the external sector.

The IMF Board approved a US\$2.9 Bn-48-month Extended Fund Facility program on March 20, 2023, after securing financing assurances from official creditors to provide debt relief consistent with the IMF's debt sustainability framework.

NBFIs in Sri Lanka face various challenges, including managing credit risk, maintaining liquidity, and complying with regulatory standards. Some finance companies have encountered financial difficulties in the past, leading to increased regulatory scrutiny and measures to strengthen the sector's stability. NBFIS must maintain strong risk management practices, adhere to prudential regulations, and adapt to changing market conditions. The current crisis is not a temporary liquidity shock that can be resolved by external financing

support from outside. Instead, the crisis provides a unique opportunity to implement deep and permanent structural reforms that may be difficult in normal circumstances. Sri Lanka can use this opportunity to build a strong and resilient economy.

Performance of Non-Bank Financial Institutions<sup>3</sup>

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector managed to continue its expansion during 2022 amidst the economic contraction experienced by the country. Despite challenges faced by shrinking credit growth, declining profitability, and an increase in non-performing loans as indicated by Stage 3 loans, the LFCs and SLCs sector grew in terms of assets and deposits with adequate capital and liquidity buffers during 2022. CBSL's master plan is being implemented to consolidate non-banking financial institutions to establish a strong and stable LFC in the medium term and thereby protect the interest of depositors in the sector and safeguard the stability of the financial system.

Business Growth/Expansion

The total assets of the division are Rs. 1,611.2 Bn by the end of 2022, which represents 5.2% of the total assets of Sri Lanka's financial system. By the end of 2022, the sector consisted of LFCs and SLCs and had 1,834 branches, of which 1,204 branches (65.6%) were located outside the Western Province. Further, the sector established 127 new branches in 2022.

3. Macro Poverty Outlook for Sri Lanka (2022).

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The asset base of the sector expanded by Rs. 123 Bn recording a growth of 8.3% and stood at Rs. 1,611.2 Bn by the end of 2022, compared to the 6.1% growth recorded in 2021. The asset expansion was mainly driven by the growth of loans and advances portfolio followed by an increase in investments and liquid assets. Loans and advances accounted for 74.4% of the total assets of the sector. Finance leases dominated the loans and advances portfolio of the sector and accounted for 41.6% of total loans and advances by the end of 2022 compared to that 48.3% by the end of 2021.

The share of the leasing portfolio in total loans and advances decreased as a result of the contraction of the leasing portfolio mainly due to the continuation of restrictions imposed by the Government on the importation of motor vehicles as a measure to restrict foreign currency outflows. However, the loans and advances portfolio of the sector recorded a growth of 5.0% and stood at Rs. 1,199.2 Bn at the end of 2022 compared to a growth of 9.9% at the end of 2021. The growth of loans and advances portfolio was mainly supported by a surge in the gold loans which grew by 77.5% at the end of 2022. During 2022, debt moratoria and concessions on loan repayments were extended to assist affected borrowers of the LFCs and SLCs sector due to the prevailing extraordinary macroeconomic circumstances. By the end of 2022, approximately 13.2% of the loans and advances portfolio of the LFCs and SLCs sector were under moratoria. The investment portfolio of the LFCs and SLCs sector comprises investments in equities, corporate debt instruments,

government securities, and investment properties.

The investment portfolio recorded a significant growth of 19.3% reaching Rs. 199.6 Bn in 2022 compared to the marginal growth of 5.4% in 2021, mainly due to the increased investments in government securities maturing in less than 12 months consequent to increased interest rates in short term maturities. Other assets that mainly include cash and balances with banks and financial institutions also recorded a significant growth of 19.4% in 2022 compared to the 12.4% contraction in 2021 particularly due to increased placements with LCBs. Customer deposits continued to dominate the liabilities of the LFCs sector accounting for a share of 53.7% of total liabilities. Deposits increased by Rs. 81.1 Bn recording a year-on-year growth of 10.4% to Rs. 864.4 Bn, while borrowings declined by 1.0% to Rs. 322.6 Bn during 2022.

### Risks in the leasing sector

A measured adjustment in the exchange rate was allowed by the Monetary Board in early March 2022 given the pressure that was building up in the domestic foreign exchange market. However, the subsequent floating of the exchange rate caused a large depreciation of the exchange rate due to the dearth of liquidity in the domestic foreign exchange market and unfavorable market sentiments.

**Credit Risk** The total gross NPLs/ Stage 3 loans increased by 66.1% at the end of 2022 on a year-on-year basis, compared to the decrease of 13.9% recorded at the end of 2021. The time-based classification of NPLs

was replaced with SLFRS 9-based Stage 3 Loans on April 1, 2022, where LFCs were required to adopt 120 days past the due date for classification of Stage 3 loans instead of the earlier classification of 180 days. As a result of changing the loan classification methodology into an SLFRS-based approach, lapsed debt moratoria, and the impact of adverse macroeconomic conditions, the sector's Gross Stage 3 Loans Ratio substantially increased to 17.5% at the end of 2022 from 11.0% reported at end of 2021.

The net impaired Stage 3 Loans Ratio increased to 12.3% at the end of 2022 from 2.7% reported at the end of 2021. The impairment coverage ratio for Stage 3 loans was reported at 29.6% as of the end of 2022. The recent market developments, including interest rate movements, economic contraction, the impact of the moratoria schemes granted, and the introduction of higher taxes, will adversely affect the asset quality of the sector and its NPLs in the future.

It's important to note that economic conditions and specific details about the Sri Lankan financial industry can change over time, so it's advisable to consult up-to-date sources for the latest information. The financial industry in Sri Lanka faces certain challenges. These include managing risks associated with credit, liquidity, and market fluctuations, ensuring compliance with international standards and regulations, addressing cyber threats, and fostering innovation in financial services.

The non-banking financial sector in Sri Lanka is regulated and supervised by the Central Bank of Sri Lanka and

other regulatory bodies. The CBSL sets prudential regulations, licensing requirements, and guidelines to ensure the stability and soundness of the sector. Regulatory oversight helps protect consumers, maintain market integrity, and mitigate risks associated with non-bank financial activities. The financial industry plays a crucial role in supporting Sri Lanka's overall economic growth. It provides access to credit for businesses and individuals, facilitates investment, mobilizes savings, and promotes financial stability. A robust and well-regulated financial sector is essential for attracting domestic and foreign investments, fostering entrepreneurship, and driving economic development.

**Interest Rate Risk:** Tight monetary policy and concerns over domestic debt restructuring uncertainties resulted in a sharp increase in the Treasury bill yields. This led to a substantial increase in maximum interest rates offered by LFCs on deposits and debt instruments and an upward revision in lending rates. interest rate was increased to 96.8% as of the end of 2022 from 85.6% as of the end 2021, indicating a reduction in the exposure to interest rate risk resulted from increased interest rates in 2022 compared to 2021.

**Market Risk:** The equity risk in the sector was minimal throughout the year 2022. The exposure of the trading portfolio to the equity market declined to 0.3% of total assets in 2022 from 0.8% in 2021.

**Liquidity Risk:** On an aggregate basis,

the sector-maintained liquidity well above the minimum required level during 2022. The overall regulatory liquid assets available in the sector was Rs. 184.9 Bn as of the end of 2022, against the stipulated minimum requirement of Rs. 98.0 Bn recording a liquidity surplus of Rs. 86.9 Bn as of the end of 2022, compared to Rs. 66.0 Bn recorded as at the end of 2021. However, the sector may face increased liquidity risk in the future due to early withdrawals, loan defaults, and non-availability of funding lines due to adverse economic conditions.

### Profitability and Capital adequacy

The profitability of the sector declined in 2022 compared to the previous year. The sector's Profit after Tax (PAT) reduced by 21.0% from Rs. 55.6 Bn in 2021 to Rs. 43.9 Bn in 2022, mainly due to a substantial increase in interest expenses. The decrease in profitability was reflected in the significant decrease in the Return on Equity (ROE) to 12.6% and Return on Assets (ROA) before tax to 3.7% in 2022, compared to 20.2% and 5.4% recorded, respectively, in 2021. The cost-to-income ratio increased to 87.3% in 2022, from 72.6% in 2021, while the efficiency ratio increased to 68.9% during 2022.

The net interest income of the sector decreased to Rs. 115.2 Bn by 12.3% in 2022 compared with the growth of 18.2% recorded in 2021. This was due to the significant increase in interest expenses by Rs. 70.9 Bn, recording a growth of 82.8%, despite the increase in interest income by Rs. 54.7 Bn with a growth of 25.2% due to the substantial

increase in interest rate consequent to the prevailing macroeconomic environment. As a result, the net interest margin of the sector decreased to 6.7% in 2022 from 8.6% in 2021 contributing to the decline in the profitability of the sector.

The non-interest income significantly decreased by 12.1% while non-interest expenses increased marginally by 0.7% during 2022. The loan loss provisions made against NPLs declined by Rs. 4.5 Bn largely due to loan loss provision reversals during the first few months of 2022.

The sector showed resilience with capital maintained well above the minimum regulatory requirement on an aggregate level during the year. The capital base improved to Rs. 317.5 Bn at the end of 2022 compared to Rs. 251.6 Bn recorded as of the end of 2021, due to retained profits by several large LFCs during the previous financial year, suspension of the license of an LFC with a large negative net worth, and enhancement of capital as a result of the completion of several consolidation transactions, even though 6 LFCs were non-compliant with the minimum core capital requirement and/or capital adequacy requirements. The sector's core capital and total capital ratios increased significantly to 20.6% and 22.0%, respectively, at the end of 2022 from the reported levels of 15.5% and 17.0% at the end of 2021.

### Equity Market<sup>3</sup>

The Equity Market recorded a bleak performance in terms of price indices,

market capitalization, and daily turnover during 2022 amidst adverse macroeconomic developments. Further, significant volatility in price indices was observed, and index-based circuit breakers were activated on several occasions. Ongoing economic contraction, high inflation, accelerated moves to raise policy rates domestically and abroad, and an anticipated decline in corporate profits due to high tax adjustments, geopolitical tensions, and adverse global economic conditions contributed to the volatility of the equity market. Even though the All Share Price Index (ASPI) recorded the historically highest value of 13,462.4 on 19 January 2022, the indices witnessed a declining trend since early February 2022, reversing its expansionary trend observed during 2021. Accordingly, ASPI and Standard & Poor's Sri Lanka 20 (S&P SL 20) index contracted by 30.6% and 37.7%, respectively, during 2022 while market capitalization deteriorated by 29.9% and stood at Rs. 3,847.2 Bn at the end of 2022. Further, market capitalization as a percentage of GDP declined to 15.9 % as of the end of 2022 compared to 31.2 % as of the end of 2021. Meanwhile, the Colombo Stock Exchange (CSE) recorded an average daily turnover of Rs. 2,972.3 Mn in 2022, which was a considerable decline compared to Rs.4, 888.2 Mn recorded in 2021.

However, a noticeable improvement in terms of net foreign inflows was observed during 2022 compared to the previous year owing to foreign investment attracted by a few major

companies. Accordingly, the market recorded net foreign inflows of Rs. 30.6 Bn (approximately US \$ 74.3 Mn) during 2022 compared to an outflow of Rs. 52.6 Bn (approximately US dollars 264.4Mn) recorded in 2021. However, quantities of securities held by local individual and institutional investors recorded a year-on-year growth of 7.2 % and 15.1 %, respectively, as at the end of 2022, recording a significant decline from the year-on-year growth of 53.3 % and 17.8 % as at end 2021 with the investor preference shifting towards fixed income investments with relatively higher interest rates during 2022.

The market valuation indicators recorded a significant setback in 2022. The Price to Earnings Ratio (PER) and Price to Book Value (PBV) significantly decreased to 4.9 and 0.9 times, respectively, at the end of 2022 compared to PER of 13.6 times, and PBV of 1.7 times remained as at the end of 2021. Meanwhile, there were 4 new equity Initial Public Offerings (IPOs) that raised Rs. 4.8 Bn in 2022, which is a considerable decline compared to Rs. 12.7 Bn raised with 13 IPOs in 2021.

The equity market recorded a dismal performance during 2022 reflecting the high yield for fixed-income securities and negative market sentiments against the backdrop of prevailing adverse macroeconomic conditions. Financial infrastructure continued to support the functioning of the financial sector in this challenging economic environment.

## Corporate Debt Securities Market

The Commercial Paper (CP) market was relatively inactive in 2022 compared to 2021. During 2022, only Rs. 2.0 Bn was raised through CPs issued with the support of licensed banks compared to Rs. 5.8 Bn raised through issues in 2021. The interest rates of CPs varied between 11.00 and 36.00 percent during 2022 compared to the range of 6.00 to 12.00 percent reported in the previous year. Activities of the corporate debenture market recorded a significant setback during 2022 compared to 2021 due to the high-interest rates and adverse economic conditions. During 2022, there were only 10 IPOs of corporate debentures issued by 4 companies in the CSE, which raised Rs. 12.7 Bn compared to Rs. 84.4 Bn raised in 2021 through 27 IPOs by 14 companies. Debentures with both fixed and floating interest rates were issued during 2022, while the fixed interest rates ranged from 15.42 to 28.00 percent compared to the range of 8.00 to 12.00 percent in the previous year.

## Development Finance and Access to Finance<sup>4</sup>

During 2022, the Central Bank continued to coordinate, facilitate, and implement various refinance, interest subsidy, and credit guarantee schemes, to grant affordable financial facilities for Micro, Small, and Medium Enterprises (MSMEs) and individuals, while providing a range of credit supplementary services. Accordingly, the total amount of loans disbursed during 2022 was Rs. 17,244.4 Mn

4. The Central Bank of Sri Lanka, *Annual Report (2022)*.



among 63,202 beneficiaries through Participating Financial Institutions (PFIs) under 17 refinance loan schemes which accounted for 57.6 percent and 5 interest subsidy and credit guarantee schemes which accounted for 42.4 percent. The Central Bank continued to implement proactive measures to align loan schemes operated by the Central Bank during 2022. Considering adverse economic conditions and the significant increase in market interest rates, the interest rate of the Saubagya (Prosperity) loan scheme was revised upwards from 6.00 percent to 9.00 percent during the year.

Further, PFIs were instructed to ensure granting 80 percent of new loans to sectors such as agriculture, livestock, fisheries, and related activities considering a possible food shortage. In addition, debt moratoria were granted under the loan schemes operated by the Central Bank to support businesses that were severely affected by the current economic situation. Further, operating instructions of the New Comprehensive Rural Credit Scheme (NCRCS) were amended to revise the applicable interest rates and scale of finance considering the prevailing economic conditions in the country and the government policy to encourage agriculture activities to ensure food security, reducing the foreign exchange outflow on food imports, making people more inclined towards agricultural products and uplifting the socio-economic conditions of small scale farmers.

Moreover, the Central Bank continued to monitor the implementation of the National Financial Inclusion Strategy

(NFIS) aligning with its action plan to ensure achieving the set targets. Out of the 82 broad actions of the NFIS Action Plan, approximately 24 percent were completed while other actions are in progress with the collaboration of key implementing entities. The first-ever island-wide financial literacy survey was completed with the assistance of the International Finance Corporation (IFC) to understand the current state of financial literacy across the population. The key survey findings were made available for public access through the Central Bank website. A consultative mission was conducted to obtain technical assistance from the World Bank in developing a Roadmap for financial literacy and capacity building. Further, actions were initiated to survey to identify the potentials and barriers in the SME (Small and Medium Enterprises) sector to promote SMEs to tap the export market.

To enhance financial literacy, the Central Bank initiated several programs during the year with the support of its six Regional Offices. Accordingly, Training of Trainers (TOT) discussions, Radio and TV programs, a knowledge sharing program, and a large number of financial literacies, entrepreneurship, capacity building, and skill development programs were conducted in 2022.

**Deposit Insurance System (DIS)**

Governments often establish deposit insurance schemes to protect depositors' funds in case a bank fails. These schemes provide a guarantee that a certain amount of deposits (up to a specified limit) will be repaid to depositors even if the bank becomes insolvent. Deposit insurance helps

instill confidence in the banking system and ensures that depositors have a level of protection.

The role of a deposit insurer is to stabilize the financial system by ensuring public confidence in it, especially in the event of bank failures. The deposit insurer assures depositors that they will have immediate access to their insured funds, even if their bank/NBFI fails, thereby reducing depositors' possibility of a "run" on the bank/NBFI and the risk of contagion and fostering financial system stability, which in turn would have positive spillover on the wider economy.

DISs are generally governed by institutions called Deposit Insurance Agencies (DIAs), which may have different mandates that range from narrow systems (pay box) to those with broader powers and responsibilities, such as risk or loss minimization with a variety of combinations in between. Some DIAs may have a limited 'pay box' mandate, which focuses on the reimbursement of insured depositors in the event of a financial institution failure. Other DIAs may have an enhanced 'pay box plus' mandate, which includes responsibilities and powers related to providing financial assistance for resolution activities of financial institutions such as separating assets, opening a bridge bank, providing open bank assistance, and bailing in, among others. DIAs could also employ a direct mandate, which aims to minimize loss or risk. Loss minimizers operate to minimize the costs of resolving failed banks, while risk minimizers aim to minimize risk for the financial system as a whole.

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The Finance Business Act also empowers the CBSL to take necessary actions to protect depositors' interests in case of financial distress or non-compliance by a finance business.

## Our Plans

The future of our Company remains uncharted with a myriad of emerging opportunities and possibilities for evolution within a dynamic business landscape. Our Company gained a multitude and strengths while obtaining the finance license during the year and it is a new business area and strengthens the portfolio of the Company. It is leading to a turnaround situation within a relatively short period. With the strong financial position and liquidity buffers built up to attract new investors; the Company is well poised to drive stronger growth to materialize the objectives promised to its shareholders at the time of providing fixed deposit facilities with attractive interest rates to our customers. Thereby, yielding a guaranteed positive impact to increase shareholder return by fueling all the strategic expansions of the Company.

The main objective of increasing the issued capital is to strengthen the core capital of the Company to expand more branches and strengthen the business.

The Company intends to further strengthen the credit evaluation process to minimize non-performing loans. Efforts are made to improve the collection process while maintaining high service standards. The customer portfolio will be carefully managed to minimize willful defaulters and

provide assistance to those who are in genuinely difficult circumstances.

As per the finance businesses requirement in Sri Lanka that the Company has established effective risk management systems, internal controls, and compliance frameworks. Sound corporate governance, disciplined risk management and a compliance culture have contributed to the success of the Company.

Recognizing the value of its workforce, the Company plans to invest in employee training and development programs. This includes providing opportunities for skill enhancement, fostering a culture of innovation and collaboration and implementing performance-driven incentives to attract and retain top talent.

There will be greater emphasis placed on staff training and empowerment in 2023 as these are vital areas that help maintain high standards of service delivery. A performance culture will continue to drive excellence in all areas of operations. These attributes will be the common thread that connects all our strategic initiatives as we look to our future. The management has put its fullest support to improve efficiency, streamlining operations, and enhancing customer experience. The Company invests in our employees' professional development and creates a positive work environment that fosters collaboration, engagement, and creativity and provides training opportunities, recognizes and rewards employee achievements, and ensures effective communication throughout the organization. Engaged and

motivated employees contribute to a more productive and successful business as well as to deliver excellent service and continuously seek ways to exceed customer expectations.

The Company will manage to continue its expansion during 2023 in terms of assets and deposits with adequate capital and liquidity buffers amidst challenges stemming from the contraction of credit growth, declining profitability, and an increase in non-performing loans as indicated by Stage 3 loans.

The Company would now embark on a growth strategy, with plans to open new branches covering all major provinces. At the same time, the Company plans to launch several new products targeting the small and medium enterprise sector, which has been adversely affected as a consequence of the country's economic crisis. During the last three financial years, SMB Finance PLC has grown its assets portfolio by over 300%. This growth was achieved through prudent lending practices and as a consequence of growth in shareholder capital by 200% during the same period.

It's worth noting that the performance and growth of the financial sector can be influenced by various factors such as government policies, global economic conditions, and domestic market dynamics. The Company expects to continue broadening its SME client base through a greater focus on introducing innovative industry-specific and customer-centric products by astutely evaluating

each industry’s financing needs. The Company expects to announce and launch its new product portfolio in the first quarter of 2023. In addition to that the management team has taken the necessary steps to safeguard the interests of customers and depositors of finance businesses. It mandates transparency in the disclosure of information, fair practices in lending and collection, and mechanisms for addressing customer complaints and disputes. As a licensed finance company, it will maintain effective and robust risk management systems, internal controls, and compliance frameworks.

The Company developed and maintained a proper system to ensure the Company’s financial stability and protect depositors through regulations including capital adequacy, risk management practices, liquidity ratios and asset quality.

The Company maintains strong financial management practices, including regular monitoring of key financial indicators, effective cash flow management, and strategic investment planning. We plan to enhance risk assessment processes and strengthen risk mitigation practices to minimize credit, market, operational, and regulatory risks. As sustainability and environmental concerns gain importance globally, finance companies can develop plans to integrate sustainable finance practices.

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## Financial Capital and Review

### Financial Capital

Shareholders' funds, borrowings and cash generated from the operations contribute mainly to the financial capital of SMB Finance PLC. On the contrary the financial capital is reinvested in other capital input forms and proactively managed its risk return dynamics by executing its underpinned strategy towards value creation.

### 2022 Performance

The financial year ended December 31, 2022, was an exceptional year for SMB Finance PLC. The funds received from 2021 rights issue have fortified the internal fund position of our company, enabling us to satisfy the core capital requirement.

The Company recorded a profit of Rs. 79.6 Mn during the year under review against the Rs. 53.4 Mn profit recorded in the financial year 2021 which embarked to revitalize the business paradigm to fulfill the growth aspirations as a finance company. Interest income, fee and commission income together with other operating income stood at Rs. 509.5 Mn in 2022 with 105% growth compared to the corresponding year 2021 of Rs. 249.0 Mn. Total assets of the Company grew by 30% and were recorded at Rs. 5,187.2 Mn as at December 31, 2022 and the comparative 2021 recorded at Rs. 3,995.9 Mn.

Despite the unprecedented challenges faced during the year, our visionary leadership remained focused on implementing the strategic plan, which was continuously re-evaluated in tandem with the dynamic changes in the operating context. The external challenges which were mainly

stemming from the economic crisis and the political instability were unprecedented during the financial year under review. The sudden halt in economic activities, public unrest, and unavailability of essential goods, regulatory changes and the Government's restrictions on the importation of vehicles impacted our operations. Against this backdrop, we delivered commendable results, with all financial indications pointing towards greater and better times ahead for our Company. This was achieved through focused leadership, dynamism and dedication of the management team and the staff members and by leveraging our internal and external strengths.

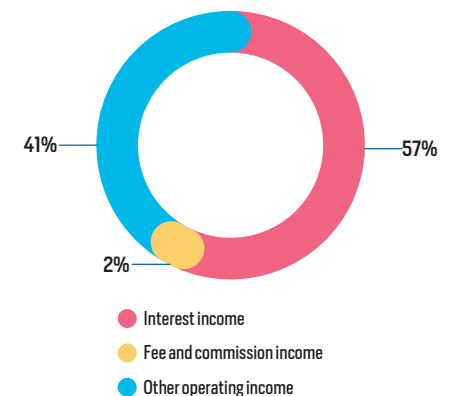
### Income Analysis

Despite the Company's selective lending approach and elevated credit risk prevalent in the market, the Company was able to gain an expansion in interest income by 76% during the year under review. Irrespective of the added pressure on the top-line due to uncertainty and the volatility created in the economic environment, the Company was able to pursue income growth in all its products. The recorded interest income is Rs. 289.4 Mn in 2022 and the comparison of 2021 is recorded at Rs. 164.0 Mn. The highest growth in the interest income is supported by 153% of the highest growth in the gross Gold loan advances portfolio to Rs. 416.2 Mn in the year under review from Rs. 164.5 Mn in 2021.

### Income Components

An extensive proportion the total income comprises of the interest income. The income proposition

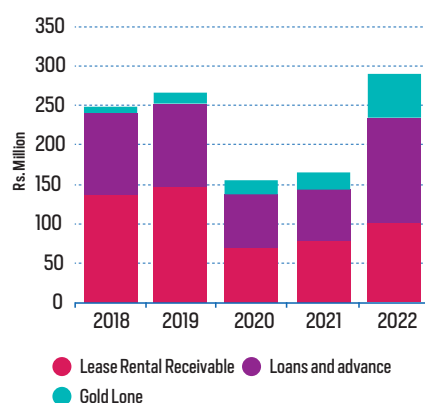
recorded for 2022 is 57% from interest income, 41% from other operating income and the contribution from fee and commission income is 2%. It has been observed that the other operating income segment has grown significantly by 158% respectively, mainly due to the interest income yielded from the investment of the proceeds received from rights issued in fixed deposits.



### Income Growth

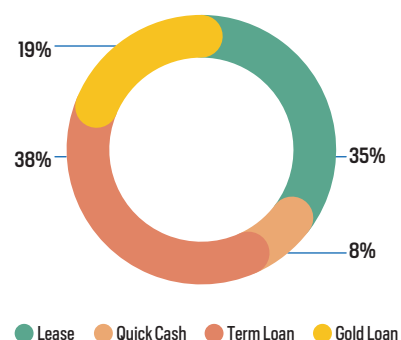
As depicted by the below graph interest income has steadily grown from the year 2018 to 2019 due to an increase in disbursements. However, a sharp decline in the top-line was recorded in 2020, due to the unprecedented impacts of the COVID-19 pandemic and the concessions granted as debt moratoriums to customers. Irrespective of all setbacks, the Company is back on track regaining its momentum by achieving an income growth in 2021.

Despite all macroeconomic challenges, 76% growth in interest income was recorded during the under review. The total interest income of the Company increased from Rs. 163.9 Mn to Rs. 289.4 Mn from the financial year 2021 to 2022.



## Product-wise Interest Income

Due to the adverse macroeconomic conditions and prolonged restrictions on the importation of motor vehicles, the highest contributor to the interest income shifted from lease to term loan product in 2022.

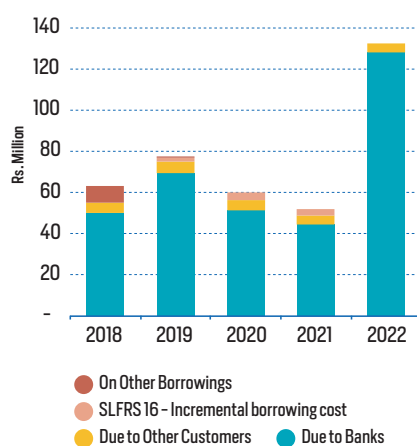


## Interest Expense Components

Total interest expense increased by 160% to Rs. 134.7 Mn during the year from Rs. 51.8 Mn in 2021 due to increased bank borrowings and higher interest rates. In 2022, the total interest expense consisted of interest on bank borrowings which was 95% of the total, while interest due to other customers and due from SLFRS 16 were to 3% and 2% respectively.

The Company invested the proceeds from rights issue in fixed deposits of commercial banks in Sri Lanka to

keep them as collateral to negotiate cash margin loans to fund its lending operations at higher margins. In line with the Company's growth prospects, it is imperative to maintain the cost of funds at manageable levels as a substantial proportion of the portfolio is funded by borrowings from the commercial banks of Sri Lanka.



## Net Interest Income

Net interest income is denominated by the net interest income received on lending products and the interest expenses incurred on the sources of funding.

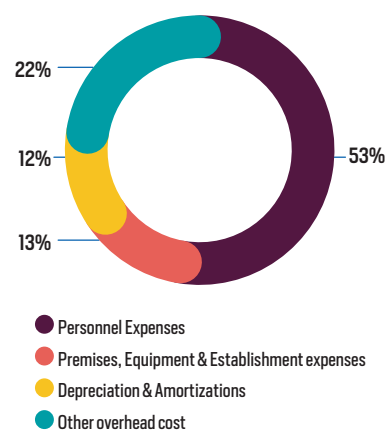
The key drivers of net interest income are credit demand economic and business activity interest rates, competition, client reach and attractiveness of products.

For the year 2022, the Company recorded Rs. 154.6 Mn net interest income, an expansion of 38% with the comparative 2021 of Rs. 112.2 Mn. This was achieved by increasing the interest income by 76% and by increasing interest expenses by 160% while managing the ordinary capital erosion with a moderate level of lending.

## Cost Breakdown

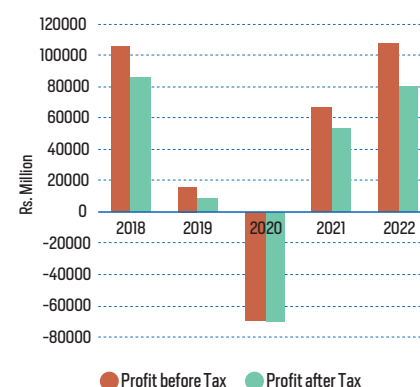
During the year ended December 31, 2022, the Company's operating

expenses increased due to the hyperinflation that prevailed in 2022 resulting from the depletion of foreign reserves. Despite this unprecedented increase the Company was able to manage the operating cost increase at a reasonable level thus minimizing the impact on the bottom line.



## Profitability Trend

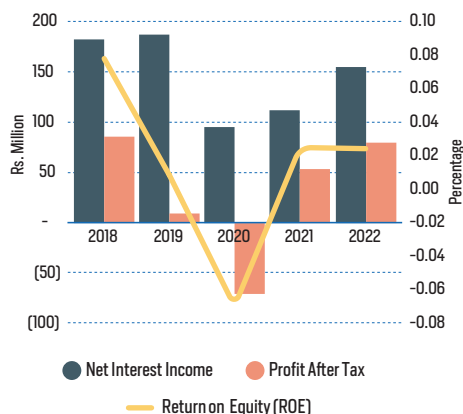
The Company continued its commitment to serving its customers across the country, delivering high-quality uninterrupted services, despite unprecedented challenges faced due to economic crisis and political instability. This hard work is attested by recording Rs. 79.6 Mn net profit after tax which is a Rs. 26.1 Mn increase compared with the year 2021 net profit of Rs. 53.4 Mn.



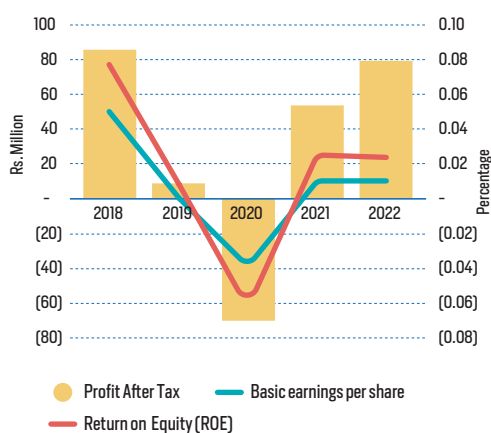


## Return on Equity

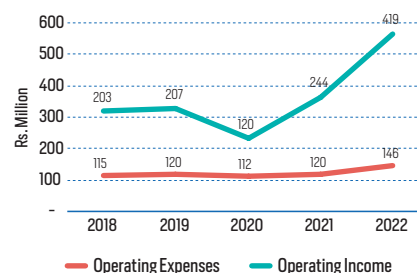
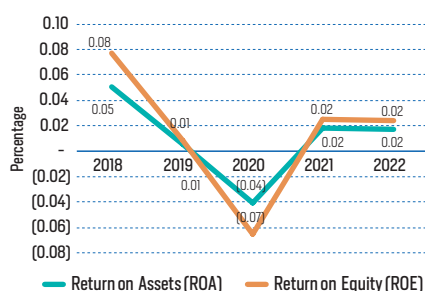
The Company posted a return on equity of 2% recording a profit of Rs. 79.6 Mn amidst political turmoil and political instability.



Consequently, to this performance, the earnings of the shareholders have also increased ensuring sustained wealth maximization.



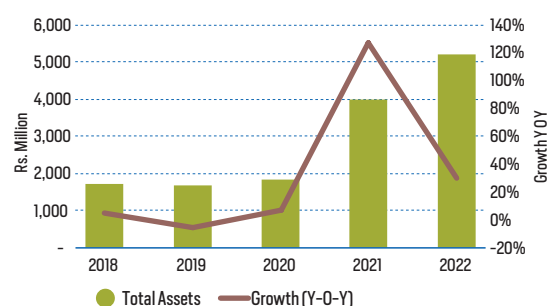
As depicted by the below graph, the Company was able to earn stable returns for its shareholders over the past years except for the downward trend that started in 2019 and continued throughout 2020 due to the adverse impacts of the COVID – 19 coupled with the moratorium declared and concessions granted to affected borrowers under the CBSL directives which had an unbearable shocks on the top line.



The Company was able to maintain a spread between operating income and expenses despite the economic crisis and political instability.

## Asset Growth

Despite many adverse conditions prevailed in the market, the Company was able to achieve a total asset growth of 30% to Rs. 5,187.2 Mn as of December 31, 2022, from Rs. 3,995.9 Mn as of December 31, 2021. The growth in the asset base is mainly reflected in an increase in financial placements with banks and cash and cash equivalents. This will be utilized to fund its lending operations and expand its lease, mortgage loan, and gold loan portfolios giving a higher yield to shareholders. Predominantly, the Company sought to build up its liquidity buffer, targeting to expand the portfolio through the expansion of its branch network. Despite the unprecedented economic crisis and its negative outcomes, the Company remains confident with the enhanced liquidity position to achieve the targets through new customer acquisition continuously and expanding through the boundaries of its niche market.



## Capital

Through a rights issue, the Company raised Rs. 2,143.6 Mn in 2021 and its total equity by the end of 2021 was Rs. 3,251.8 Mn which further grew to Rs. 3,356.0 Mn by the end of 2022.

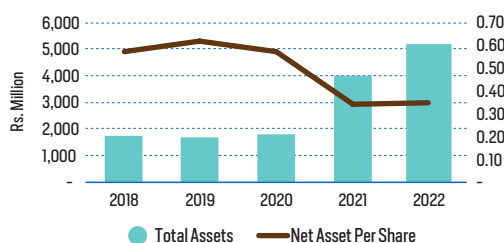
The Company's present capital structure surpasses the minimum capital requirement of Rs. 2,500 Mn required to operate a finance company.

The table below illustrates how the Company maintained its capital adequacy ratios well above the minimum requirements.

As of December 31, Indicator	2022		2021	
	Minimum requirement %	Company %	Minimum requirement %	Company %
Tier 1 capital ratio (%)	8.50	81.08	7.00	121.67
Total capital ratio (%)	12.50	79.72	11.00	119.59

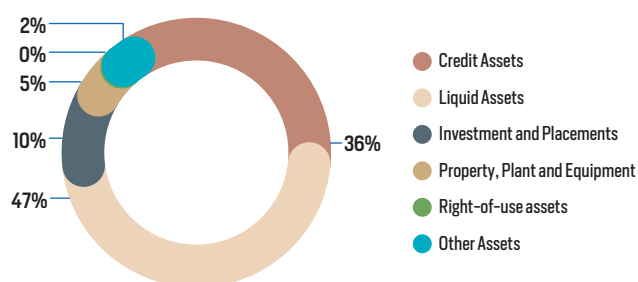
## Net Assets per Share

During the financial year 2022, the net assets per share recorded an increase from 34 Cents to 35 Cents as a result of increased net asset position.

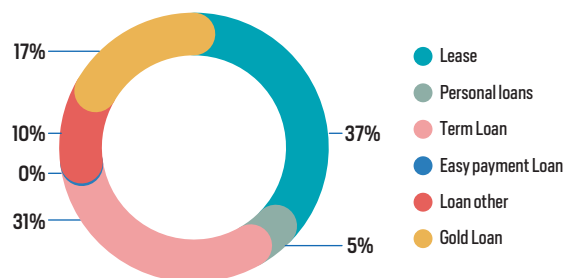


## Asset Composition

The Company's asset composition didn't have any major shifts from 2021 except for marginal changes in credit assets and liquid assets. Despite these changes, the Company's balance sheet remained adequately liquid to continue and develop its business operations.



The new growth strategies implemented for 2022 were extensively centered on collateral-based lending. Improving the quality of the lending portfolio was a strategic priority for the year to build a solid financial foundation for the future of the Company. Therefore, while aggressively pushing new lending, the Company intensified its recovery initiatives and internal credit procedural aspects to ensure a better quality of lending.

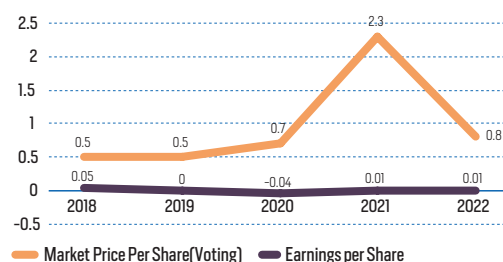


Leasing continues to be the Company's mainstay while being 37% of the portfolio and greater focus is placed on granting asset backed facilities to maintain high standards of credit quality. In 2022, the Company deployed increased resources to expand the term loan and gold loan portfolio.

The lease portfolio increased by 35% to Rs. 926.7 Mn, the term loan portfolio increased by 87% to Rs. 770.3 Mn, while the gold loan portfolio increased by 153% to Rs. 416.2 Mn, and the total of personal loans, easy payment loans and other loan portfolios amounts to Rs. 379 Mn in 2022 compared to 2021.

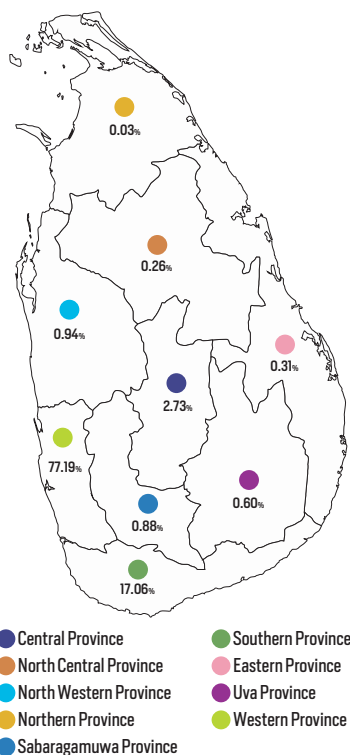
## Market Price Analysis

In light of the uncertain market conditions, the market price per share dropped from Rs. 2.30 in 2021 to Rs. 0.80 in 2022, but from 2021 to 2022, the basic earnings per share of 1 Cent remained unchanged.



## The geographical analysis of customers

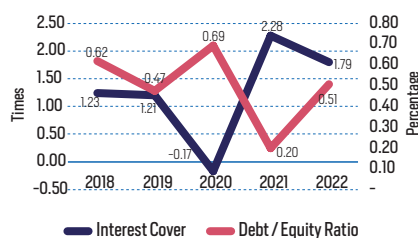
A larger segment of the Company's customers is from the Western Province which is amounting to 77.19% followed closely by the Southern Province amounting to 17.06%. It is encouraging that our customer base has gathered momentum and dispersed over the rest of the Island despite being a relatively small player in the industry. This is a testimony to the fact that our customer service teams have been able to reach clients across a country despite having a limited branch network.



## Gearing

The debt has significantly increased as a result of the bank loans obtained this year. The debt-to-equity ratio increased from 2021 to 2022 from 0.20 to 0.51. The profit before taxes and interest for 2022 is Rs. 241.8 Mn with a 105% increase compared to 2021. Due to the interest expense for long-term

loans, the interest cover declined from 2.28 times to 1.79 times in 2022.



## Shareholder's Funds

The total amount of shareholders' funds at the end of the year under review was Rs. 3,356.0 Mn.

Irrespective of the adverse impacts faced due to unstable political conditions and unfavorable economic conditions and the Company will continue to focus on creating value for shareholders who are the critical stakeholders of the Company. The successful achievement of growth over the past years showcases the confidence placed in the Company by the shareholders and our commitment to achieve success always without compromising on ethical business practices while maintaining the financial stability of the business operation to continue into the future.

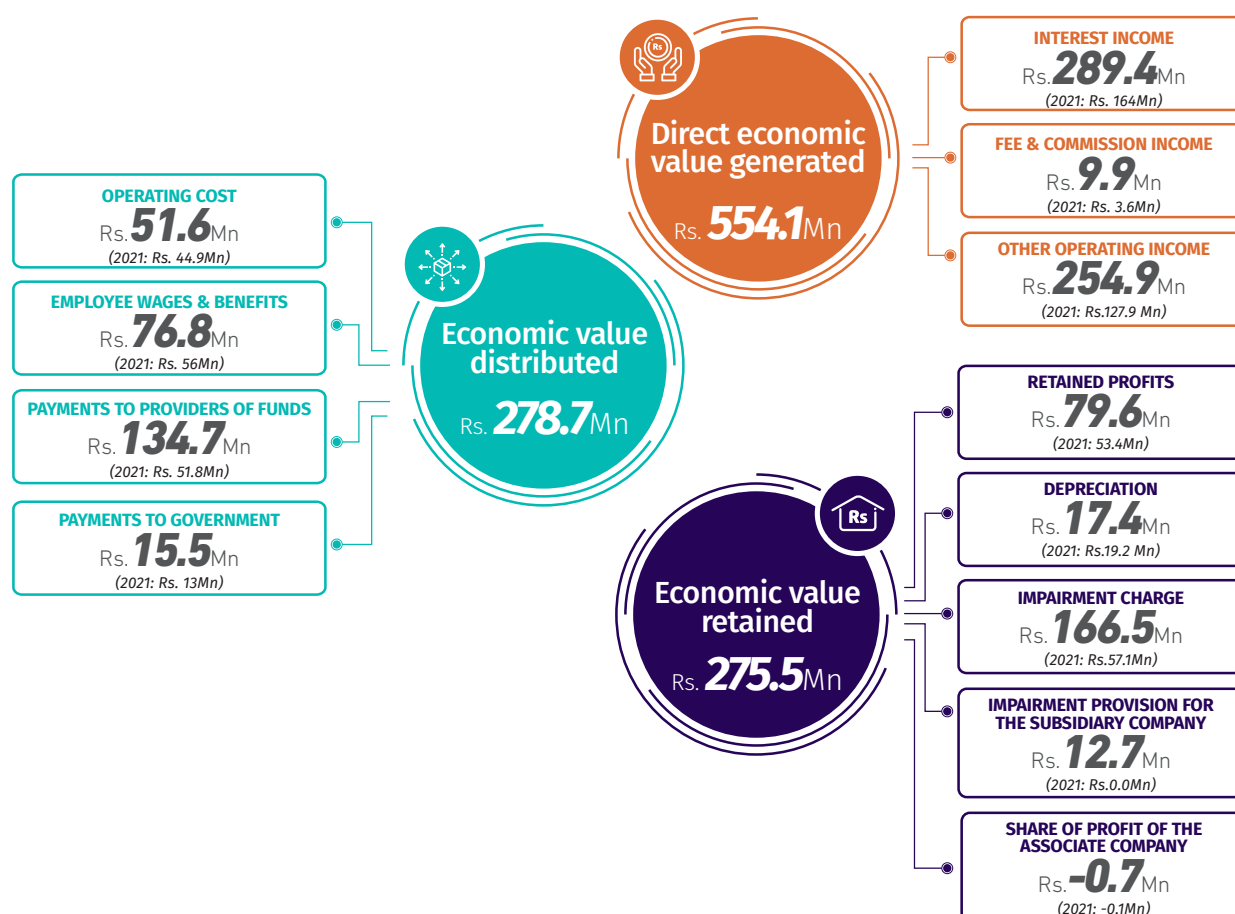
## Looking Forward

The Company wishes to continue on the growth trajectory that was announced to the shareholders in 2021 after recalibrating its strategic initiatives in the backdrop of the current macroeconomic challenges. After being upgraded to a licensed finance company, the Company is well poised to drive an ambitious growth plan targeting the bottom line and the total asset base that will provide substantial returns to the shareholders. Alongside the growth plan, the Company is currently expanding its branch network to cover

all main provinces in the country. The Company expects to commence accepting public deposits in the third quarter of 2023 and is currently in the process of implementing a robust IT system to facilitate the deposit business. More focus is placed on expanding the gold loan portfolio which has a high yield when compared with the traditional leasing business.

## Direct Economic Value Generated and Distributed

Direct economic value generated and distributed (DEVG&D) presents information on the creation and distribution of economic value by the Company. This provides a basic indication of how the Company has created wealth for its stakeholders.



	2022	%	2021	%
<b>Generated</b>	<b>554,136,499</b>	<b>100%</b>	<b>295,485,175</b>	<b>100%</b>
Interest income	289,361,235	52%	163,970,711	55%
Fee & commission income	9,905,419	2%	3,625,443	1%
Other operating income	254,869,845	46%	127,889,021	44%
<b>Distributed</b>	<b>278,662,218</b>	<b>50%</b>	<b>165,847,553</b>	<b>56%</b>
Operating costs	51,601,121	9%	44,958,706	15%
Employee wages and benefits	76,812,014	14%	55,959,275	19%
<b>Payments to providers of capital</b>				
- Dividends to shareholders	-	-	-	-
- Interest payments for borrowings	134,737,070	24%	51,818,785	17%
<b>Payments to government</b>				
- Tax on financial services	18,985,049	4%	10,753,675	4%
- Income tax	(3,473,036)	-1%	2,357,092	1%
<b>Retained</b>	<b>275,474,281</b>	<b>50%</b>	<b>129,637,642</b>	<b>44%</b>
Retained profit for the year	79,582,232	14%	53,431,161	18%
Depreciation	17,364,741	3%	19,200,132	6%
Impairment charge	166,520,963	30%	57,158,193	19%
Impairment provision for the subsidiary company	12,750,000	2%	-	-
Share of profit of the associate company	(743,655)	1%	(151,844)	1%

# Human Capital Management

## Our Vision

Human Capital consists of the skills, experience, values and work ethics of employees. The Company believes in creating a passionate and a committed workforce through trust, unity, customer focus and engagement. Building talent and bringing the best out of everyone through professional development and personal support is the core in SMBF HR philosophy.

## HR Policy Framework

HR policy framework has been refined in keeping pace with the changing needs of the organization and evolving work environment.

The refined HR strategy focuses on:

- Implementing an objective recruitment process to ensure that high caliber staff are recruited
- Implementing a talent management framework and succession planning
- Implementing a KPI based performance management system.

A comprehensive HR policy framework is in place to ensure that employees remain satisfied at work whilst being part of a high performing team. The framework covers numerous aspects of HR including recruitment, remuneration, training and development, performance management and grievance handling among others.

SMBL upholds the highest standards of discipline, professionalism, ethics and compliance. The Company's code of conduct outlines highest standards of corporate behavior, business ethics and integrity.

Clear expectations and principles have been set in guiding professional excellence and make each employee aware of their obligations towards

creating a professional work environment. Each employee is aware of their obligations and rights under the code of conduct.

Building human and intellectual capital is intrinsically linked to employee retention and attraction. SMBL has created a great place to work where employees are inspired and motivated to perform at their optimum level. A conducive environment that inspire high levels of performance and motivates employees to realize their potential has been created. The management encourages bottom up strategic planning, business development and cost engineering processes.

Frequent interaction between the management and staff ensures that staff is kept engaged and motivated. Branch visits by the senior management team infuse a sense of belonging and pride. Regular meetings are held between middle and top management to discuss issues and strategies. Corporate management meetings are held at least once a week and branch managers and branch staff visit the head office at least once a month for performance reviews.

SMBF does not discriminate on the grounds of race, religion, gender, age and any other socioeconomic factor in the recruitment, training and promotion of its employees. The Company maintains an open and supportive working culture that encourages teamwork.

The health and well-being of employees is valuable for the Company, and it has put in place numerous measures to see that employees maintain a fine work-life balance to achieve personal and professional satisfaction.

All employees are expected to display integrity at all times and to act ethically in whatever they do. The HR policies uphold equality in the workplace, giving everyone the opportunity to work in a respectful working environment. Company has adhered to labour laws and regulations and complied with all its statutory obligations.

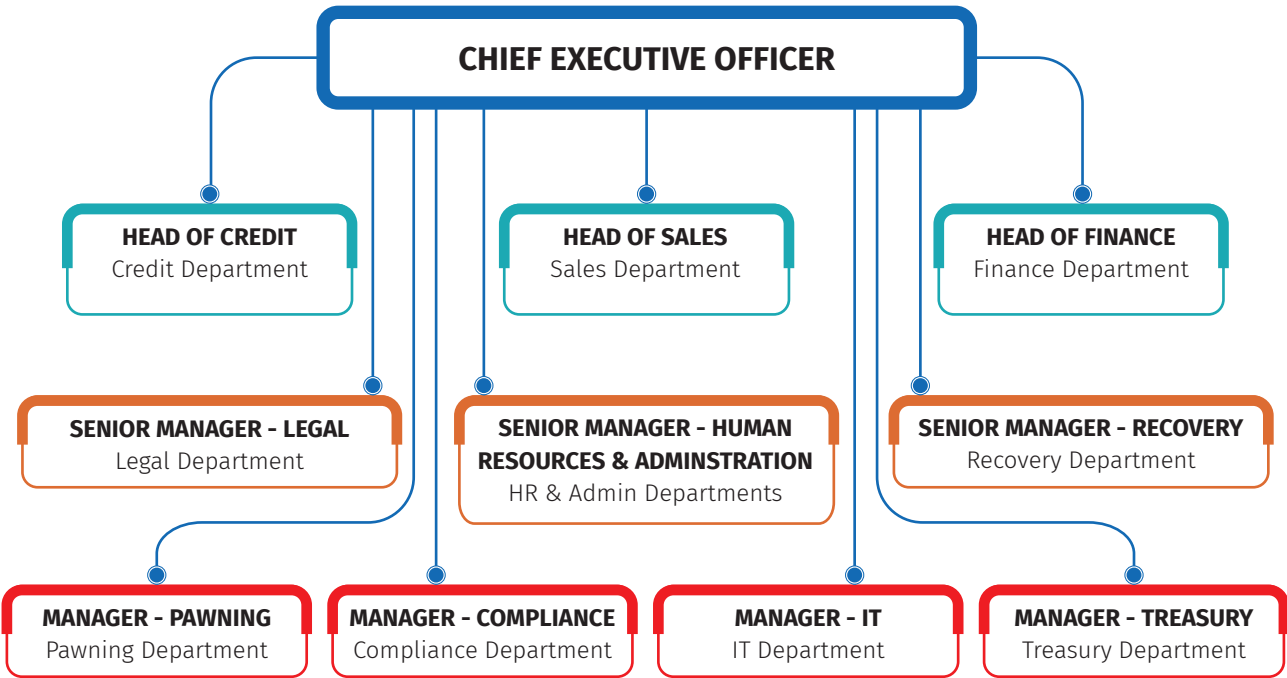
## Our Team

A strong-team comprising a diverse mix of individuals is the primary value creators for the Company. As an equal opportunity employer, our team represents both genders, all major ethnic groups in the country and generations X, Y and Z who work together in a conducive environment with dignity and mutual respect. Employees are typically engaged on fulltime employment with a few on contracts where the need is likely be for a specific time.



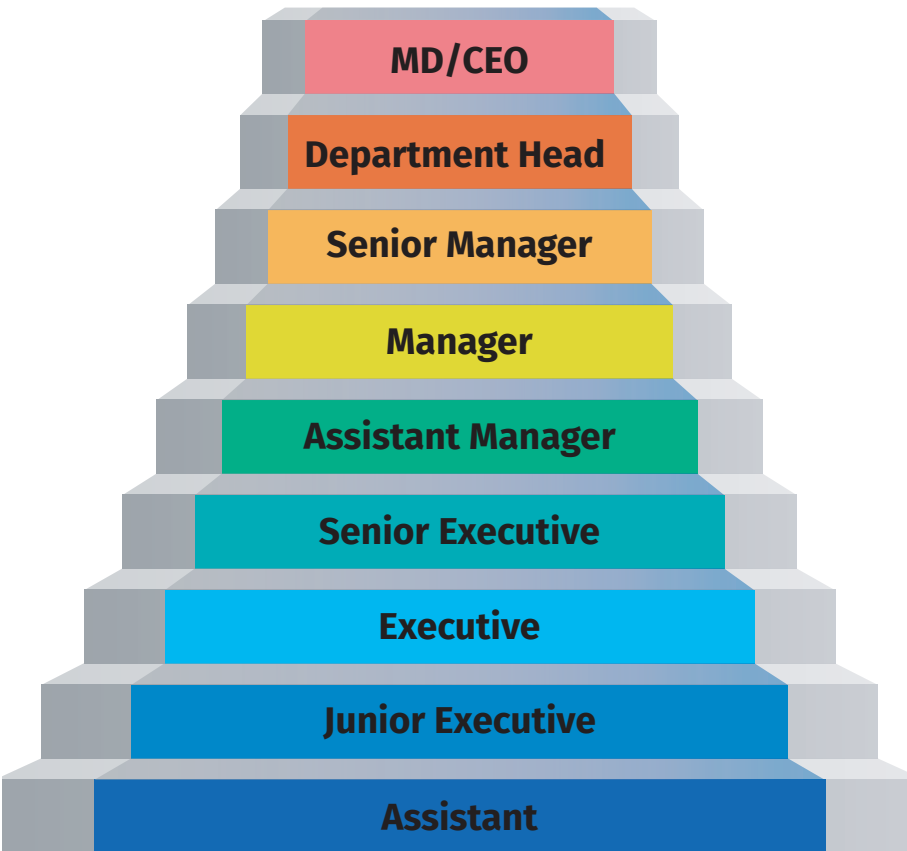
# High Level Organization Structure with Departmental / Responsibilities

SMBF has rationalized and refined the organization structure with departments and staff grades to provide clarity on the roles and responsibilities of each department/employee and also to ensure a formal hierarchy to facilitate strategy execution.



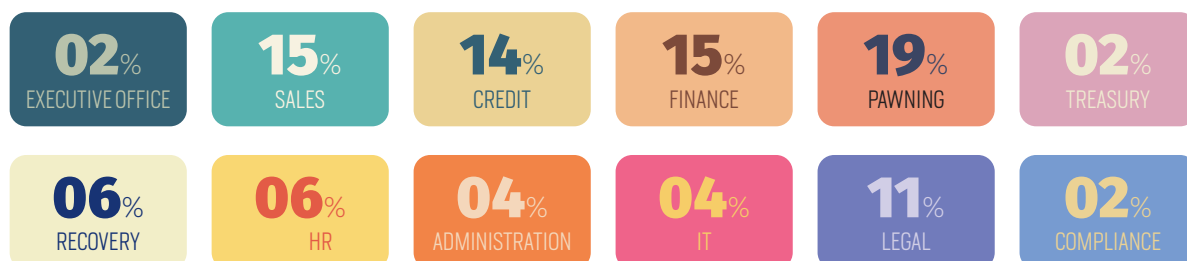
## Employee Grades

Employee grades have been incorporated to the organization structure so that all employees are privy career progression discussions with the human resources department. This will ensure that each employee has a clear career path in the organization and can work towards their internal career goals knowing the qualification, experience and competencies required to go to the next grade in his/her department.



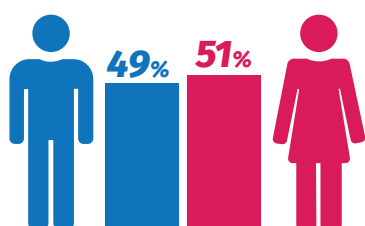
## Staff by Department

Our team as at December 31, 2022 comprises 90% permanent employees and 10% contract employees. This high percentage of permanent employees encourage them to take ownership of their deliverables within the organization.



## Employee Demographics

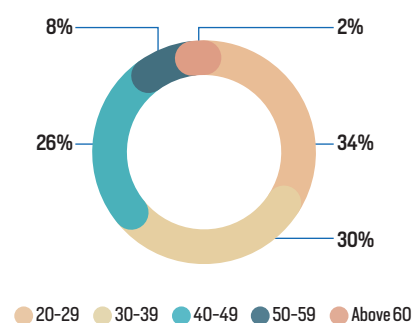
### Gender Representation



SMBF is an equal opportunity employer and this has enabled the Company to maintain a fair balance of employees in age, gender and a balance mix of skills and experience, who contribute in creating a sustainable work environment. At present, gender-wise composition is on the path of achieving a sound balance in gender diversity with females accounting for 51% and males accounting 49% of employees. This statistic will further improve in the coming years as the Company promotes diversity and communicates the importance of inclusivity among the staff.

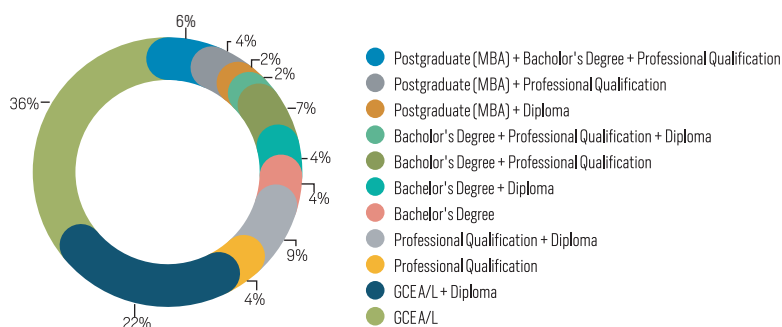
### Age of Employees

In terms of workforce age, SMBF is fortunate to have a well-balanced team comprising of 66% experienced employees who are over 30 years of age and a youth group that comprises of 34% of employees below the age of 30 years. Overall, SMBF has a relatively younger workforce with 64% of our total employees being below 40 years of age. The company recruited a significant number of graduates in the recent past to boost the talent pool of the Company and the management believes in nurturing and training the educated youth of Sri Lanka to take on the leadership positions in the organization in the future.

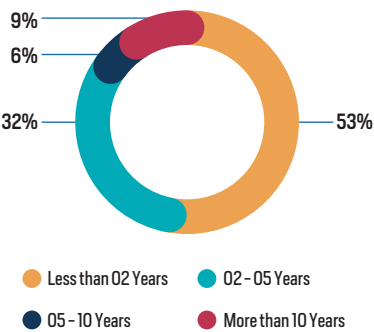


### Staff Qualifications

The qualification levels workforce of SMBF is given in the below chart. The Profiles of Corporate Management are given on pages 047 to 048 of this report.



Length of Service



SMBL also has a good mix between experienced long-term employees and newcomers who bring in fresh ideas.

Recruitment

One of the primary objectives of SMBF’s HR framework is to cultivate a strong productive workforce that will contribute towards organizational success. The recruitment process plays a pivotal role in this aspect. Since the HR Department was aligned with the Corporate Strategy Function in 2017, the HR Department has implemented a competitive and a transparent recruitment process with the objective of attracting highly qualified and competent staff with hallmarks in integrity, honesty, ethics, discipline and compliance.

The recruitments are done on the basis of merit and canvassing for applicants is strictly not allowed nor when a position in the Company is vacant or when a new position is created, an advertisement is published in a suitable media, following which, applications are rapidly processed, and a short list of candidates is prepared by the HR Department by assessing their level of experience and qualifications for the post at hand. As a recruitment strategy, candidates who reside within close proximity of the workplace are given preference if they possess the required qualifications, capabilities and experience.

Close proximity from home to workplace gives the employee the opportunity to feel motivated, to devote their maximum effort when doing their day-to-day work at the workplace and to have more time with their families due to less time spent on travel. The first interview is conducted by the entertained.

Human Resources Department and HR interview process is driven by one principal goal “To weed out any potentially unsafe hires”. This is to ensure that the Company eliminate anyone and everyone who might even remotely end up costing the company more money, cause legal issues, not be a good cultural fit, or in any other way cause the Company some type of embarrassment and/or inconvenience if recruited.

For the final interview the candidate will face a larger panel that consists of the Head of the HR Department, Head of the recruiting Department and where required the CEO.

Reference letters are sent to the referees and if necessary a verification of employment is conducted with the candidate’s previous employer. Once the selection is finalized, the HR Department will issue the letter of appointment and subsequently request copies of relevant certificates from the chosen candidate.

Following recruitment, all staff are updated with important details of the newly recruited employee by sending a New Staff on Board announcement. Following the successful completion of this process, the candidate will be ready to join the Company.

Training and Development

Training and development is a key priority for the Company to enhance knowledge, competencies, skills, attitudes and performance of the staff.

Training gap and requirements are identified by the annual training need assesment done for the staff members. Training new recruits and existing employees is of paramount importance to the SMBF and the Company has a knowledge and learning culture which has inculcated a thirst for technical and business knowledge among employees. The objective is to ensure that employees stay informed about the developments in their respective profession, the industry and the local and global economy.

Within the year, employees have participated in training programs and seminars conducted that covered technical and industry specific subjects and regulatory changes. We provide In-house training programs at the Head Office for staff members, based on relevant programs. In addition, new recruits follow the standard induction training program. The objective of the program is to familiarize new entrants with the Company’s operational processes, systems, practices, culture and values. Thereafter, the new entrants undergo a hands-on training phase, learning and improving their skills on-the job. All staff are encouraged to continuously acquire knowledge, competencies and develop skills under the guidance of experienced mentors who serves as the foundation for talent development. SMB Finance PLC is an approved training partner for CA Sri Lanka for Business, Corporate and Strategic levels.

Development activities played an integral role in constantly uplifting technical knowhow of the workforce, equipping them with the skill sets, providing knowledge and experience to face the challenges and sophistication of an evolving industry. Training and development will uplift the skills of the employees, who will be able to extend a superlative service to the customers,

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and gain the required competitive advantage. Training and development also serves as an employee retention strategy.

### Performance Appraisal

Key Performance Indicators (KPIs) are incorporated into performance targets to monitor the performance of employees.

SMBF conducts formal annual performance appraisals across all departments to monitor staff performance against predefined KPIs to reward top performers. These performance measurements enable the Company to decide on bonuses, salary increments and additional training requirements. It also provides insight to the management on consistently performing high achievers, to decide on future career advancements. It further allows the management to take appropriate steps regarding employees with performance below expectation.

Each staff member understands that they are accountable for achieving their individual goals which in turn contributes towards the achievement of corporate objectives and the bottom line of the Company. A ‘process driven’ rather than a ‘people driven’ culture offers employees a clear sense of the targets to be achieved and the necessary tools in achieving the financial and operational accomplishments that the Company achieves year by year.

With constant evaluation and regular feedback, the management continuously looks at ways to improve and grow the talent pool which would benefit the Company in the future.

### Perquisites & Benefits

The remuneration policy of the Company is to ensure appropriate compensation levels are made available to all employees in the

organization in order to attract and retain high-caliber staff, with the right mix of experience, skills and knowledge to deliver on the strategy of the Company and reward them on par with industry standards. In addition to an attractive remuneration, staff are eligible for the following benefits.

#### Employees Provident Fund (EPF)

All employees are registered under the Employees’ Provident Fund for which the collective contribution will be as follows:

##### Company Contribution –

12% on the basic salary.

##### Employee Contribution –

8% on the basic salary.

#### Employees’ Trust Fund (ETF)

The Company makes a contribution of 3% on the basic salary.

#### Gratuity

Employees are entitled to half a month’s gross salary for each completed year of service when leaving the Company, provided the employee has worked continuously for five years and over up to the time of resignation.

#### Bonus

The employee may be paid an annual bonus depending on the profits made by the Company and the employee’s performance. The payment of bonuses is solely decided by the Management.

#### Medical benefits

An attractive hospitalization / surgical expenses cover, outpatient benefit (OPD) along with other medical benefits are offered to employees and their families based on the amounts specified in the Company’s staff health insurance policy.

#### Life Cover

Employees also have a life cover insurance paid by the company in case of an employee’s death. Which also includes permanent disability cover,

partial disability cover, critical illnesses and funeral benefits.

#### Mobile SIM

All employees are provided a mobile connection with a monthly allowance for each category.

#### Maternity leave

The Company is also sensitive to the needs of its female employees, especially when they need time to care for their newborns. As stipulated by labour regulations, female employees are granted paid leave for 84 working days for which Saturday is accounted as half a day.

#### Paternity Leave

Male employees are eligible for five working days for paternity leave.

### Culture & Respectful Working Environment

SMBF’s corporate culture is one that respects individuality and empowers high performance and positive work ethics. SMBF fosters equality and mutual respect among our team members while encouraging open communication and novel ideas. At SMBF, the work that the culture revolves around creates a positive and harmonious balance between work and personal life. The Board and the Management require all employees to act diligently, executing their duties at all times with integrity while continuing to adhere to organizational rules and regulations. During the financial year under review, there were no reported incidences of discrimination among staff members.

SMBF adheres to the required safety standards and continued to provide staff efficient workflow structures that include individual workstations that are equipped with necessary PC systems and other corporate equipment. In terms of employee health and safety, necessary

precautionary measures are taken to protect employees from physical hazards such as fire. SMBF being a service-oriented organization that deals primarily in financial transactions, the type of tasks carried out by our employees do not directly pose safety risks or disease-related health hazards. There were no injuries to the staff while on duty in 2022.

The Company’s security requirements have been outsourced to a reputed security company that provides security personnel to handle security at Head Office premises. All SMBF branches are equipped with CCTV to monitor physical activities for the safety of all employees.

Employee Grievance

SMBF adopts a people-centric culture across all departments which facilitates interactions between all employees. The “open door” corporate culture facilitates the free flow of information and importantly allows staff grievances to be picked up early and to be resolved then and there by the senior management. Employee grievances are generally picked up directly by the respective Head of Department and resolved jointly with the assistance of the HR Department.

An approved framework is in place for addressing employee grievances which ensure equitable treatment and anonymity. The HR Department is equipped with persons of the relevant expertise and experience to deal with employee grievances of significance. Grievances that cannot be resolved or any unresolved concerns are brought formerly to the attention of the HR Department and it is firstly routed upward to the respective HOD, if still unresolved it will be escalated to the Head of the HR Department and the Chief Executive Officer to take appropriate action to address such grievances.

At the time of joining, all employees are bound to sign and accept the letter of appointment acknowledging the terms and conditions of his/ her employment. A formal job description is issued to all staff upon joining, specifying the job role and responsibilities, thus eliminating any future misunderstandings. To eliminate possible grievances arising due to misunderstandings of internal rules and regulations, a copy of the Procedure Manual has been issued to all staff which specifies standard practices and rules for employees to follow including requirements on employee code of conduct.

Management Information on Human Resources

SMBF utilizes a Human Resource Information System (HRIS) to generate a constant stream of invaluable employee information, to better manage the workforce and to take appropriate decisions. HRIS provides a full-fledged online leave approval system. The attendance of all staff is monitored electronically using a thumbprint attendance system and managed in an organised time sheets on HRIS. Each employee is provided with an e-Portal to check, manage and regularise their leave and attendance.

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# Key Highlights of Staff Events in 2022



*Welcoming the New Year amidst religious blessings*



*Celebrating International Women's Day by recognizing female leaders*



*Outbound HR training on team building*

# Risk Management

## Integrated Risk Management

### Introduction

“Risk” the uncertainty in the business environment has a continuous and rigorous impact on the business objectives of the Company. The Risk Management Strategy of the Company shows how effective the Company is in managing the impact on its objectives caused by this uncertainty in the Business Environment.

The effectiveness of the Risk Management Strategy depends on the strength of the following activities.

- Identification of risk
- Measurement and evaluation of risk
- Analysis of risk treatment methods
- Selection and implementation of risk treatment methods
- Monitoring performance



The primary responsibility for Integrated Risk Management lies with the Board of Directors. As delegated by the Board of Directors, the Integrated Risk Management Committee (IRMC) reviews and assesses the adequacy and effectiveness of the risk management policy of the Company.

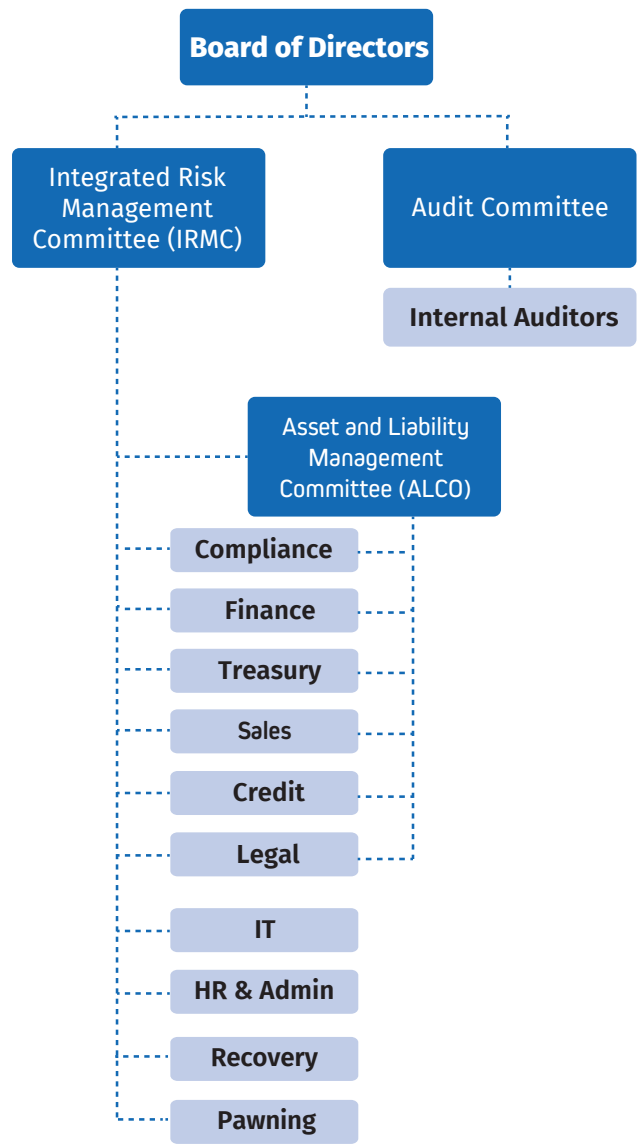
The IRMC consists of three independent non – executive directors with one serving as the Committee Chairman, CEO, Manager – Compliance and the department heads. The identification, measurement and evaluation of risk routes through the IRMC.

The risk factors are identified by the risk register which is updated at the departmental level. These risk factors are

discussed at the IRMC and high-risk factors are brought to the attention of the committee members.

The risk treatment methods are proposed and selected by the Committee and the time plan for the implementation of those risk treatment methods is decided by the Committee.

### The Company’s Risk Management Structure



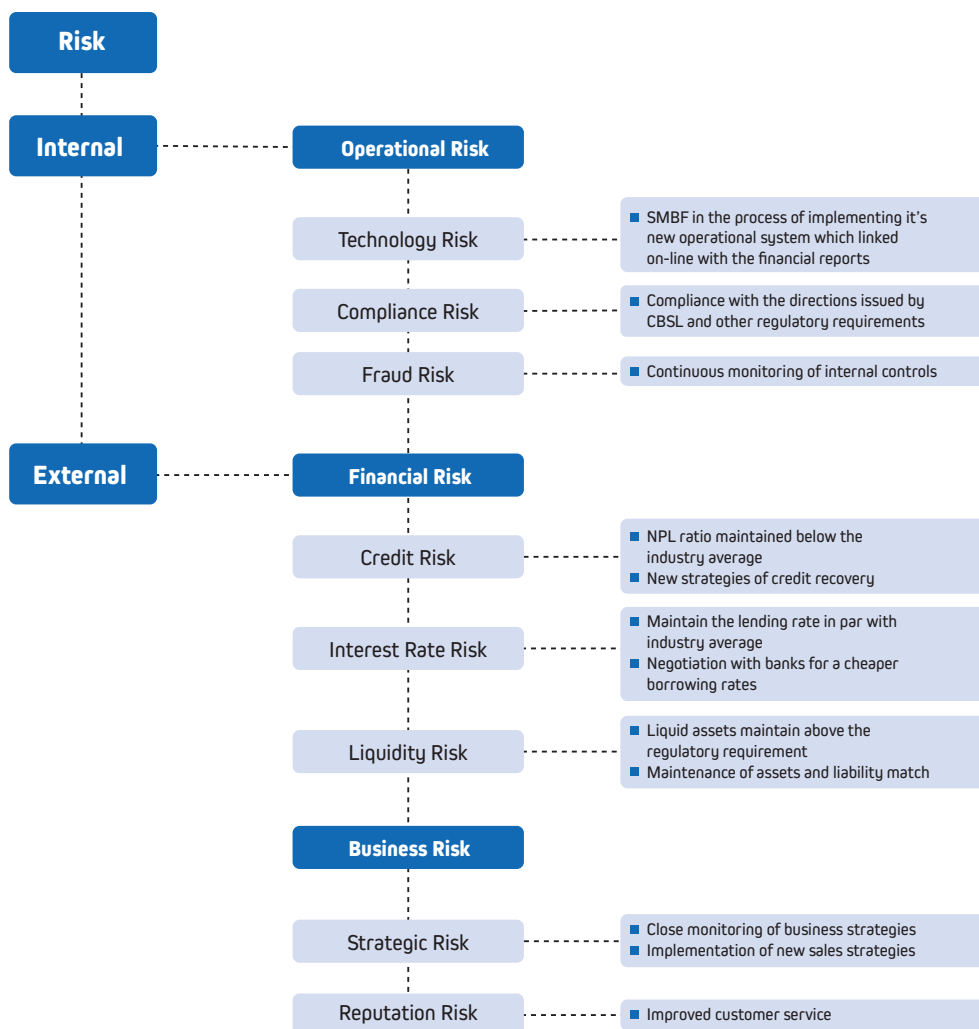
Monitoring performance is done at the departmental level and the performances are reported to the IRMC. After evaluating the performance, if the Integrated Risk Management Committee feels still the risk is not mitigated and should be brought to the attention of the Board of Directors. It is done via a Risk Report submitted by the Chairman of the Committee to the Board of Directors.

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## SMB FINANCE PLC's Risk Landscape

## Approach in 2022 for Risk Management



## Asset and Liability Management Committee (ALCO)

The ALCO functions as an independent committee. The main objective of the Committee is to evaluate the liquidity position, sources of funding and the market risk of the Company and to suggest for any remedial action and policy changes wherever needed.

The ALCO is chaired by the CEO and consist of Head of Finance, Head of Credit, Head of Treasury, Head of Deposits, Head of Compliance, Head of Legal and Head of Sales.

The main tasks of the Committee are as follows,

- Analyze the liquidity position of the Company
- Seek and evaluate the sources of funding and the interest rates
- Analyze the lending portfolio and the interest rates
- Review the assets and liability maturity statement
- Analyze the competitors' position
- Updating on the rules and regulations and the amendments thereto

Based on its assessments, to the ALCO recommends to the Integrated Risk Management Committee (IRMC) on any the action it deems necessary to limit

or mitigate and manage the liquidity risks of the Company.

## Audit Committee and the Internal Auditors

The Audit Committee and the Internal Auditors play a combined role in the risk management. Internal auditors carry out independent reviews of compliance with risk policies and procedures to ensure the effectiveness of risk management procedures. In addition, the internal auditors evaluate the Internal controls of the Company. Any deviations with the laid down procedure is reported to the Audit Committee. The recommended actions for deviations and non-compliances are monitored and followed up by the Internal Auditors.

## Shareholders and Investors Information

### Twenty Five Largest Ordinary (Voting) Shareholders as at December 31, 2022

Ordinary voting share holders	2022		Comparative holdings of the top 20 holders in 2021	
	No. of Shares	%	No. of Shares	%
1 Mr. H.R.S. Wijeratne	4,169,342,304	64.44	4,169,342,304	64.44
2 Standard Chartered Bank Singapore S/A HL Bank Singapore Branch	626,055,720	9.68	626,055,720	9.68
3 Sampath Bank PLC/ Dr. T. Senthilvel	238,092,639	3.68	272,517,353	4.21
4 Mr. H.K. Pushpakumara	41,032,832	0.63	42,934,000	0.66
5 Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	33,420,359	0.52	17,122,474	0.26
6 Ms. C.N.M. Anthony	33,244,854	0.51	72,162,100	1.12
7 Seylan Bank PLC/Anuja Chamila Jayasinghe	30,564,006	0.47	N/Q	N/Q
8 Mrs. S.K. Beruwalage	29,963,218	0.46	20,501,000	0.32
9 Hatton National Bank PLC/Anuja Chamila Jayasinghe	27,673,690	0.43	24,520,601	0.38
10 Mr. R. Gautam	24,852,800	0.38	22,300,000	0.34
11 Hatton National Bank PLC/Ruwan Prassana Sugathadasa	23,446,044	0.36	23,656,025	0.37
12 Mr. H. Beruwalage	20,000,014	0.31	N/Q	N/Q
13 Mr. P.N.G.D. Silva	18,500,001	0.29	23,500,001	0.36
14 Dialog Finance PLC/S.A. De Silva and D.R. De Silva	18,037,435	0.28	N/Q	N/Q
15 Seylan Bank PLC/Karagoda Loku Gamage Udayananda	16,500,000	0.26	N/Q	N/Q
16 Mr. T.M. Walloppillai	15,159,786	0.23	N/Q	N/Q
17 Mr. M.J.N.S. Fernando	15,018,640	0.23	25,018,640	0.39
18 Mr. N.R.P. Karunaratne	15,000,000	0.23	N/Q	N/Q
19 Mr. D.M.T. Dassanayake	14,550,418	0.22	13,586,528	0.21
20 PMF Finance PLC/P.P.G. Shriyani	14,000,000	0.22	N/Q	N/Q
21 Cosmo Mart (Private) Limited	13,999,073	0.22	13,344,825	0.21
22 Merchant Bank of Sri Lanka & Finance PLC/S.A.A. Hasitha	13,475,101	0.21	N/Q	N/Q
23 Sinharaja Hills Plantation Private Limited	13,000,000	0.20	13,000,000	0.20
24 Mr. J.J. Ravindran	12,503,914	0.19	N/Q	N/Q
25 Hatton National Bank PLC/Ravindra Erle Rambukwelle	12,300,000	0.19	N/Q	N/Q
<b>Total shares held by the top 25 holders – 2022</b>	<b>5,489,732,848</b>	<b>84.84</b>	<b>-</b>	<b>-</b>
<b>Balance shares held by other ordinary voting shareholders – As at December 31, 2022</b>	<b>980,642,200</b>	<b>15.16</b>	<b>-</b>	<b>-</b>
<b>Total ordinary voting shares</b>	<b>6,470,375,048</b>	<b>100.00</b>	<b>-</b>	<b>-</b>

N/Q- Not qualify for Top 20 Shareholders in 2021



## Twenty Five Largest Ordinary (Non Voting) Shareholders as at December 31, 2022

Ordinary non-voting share holders		2022		Comparative holdings of the top 20 holders in 2021	
		No. of Shares	%	No. of Shares	%
1	Mr. R. Gautam	163,100,000	5.29	166,000,000	5.39
2	Mr. T. Pragash	127,524,645	4.14	86,025,473	2.79
3	Sampath Bank PLC/Dr. Mayuramana Dewolage	81,100,000	2.63	N/Q	N/Q
4	Seylan Bank PLC/Jayantha Dewage	77,187,082	2.50	77,187,082	2.50
5	Commercial Bank of Ceylon PLC/Andaradeniya Estate (Pvt) Ltd	74,017,826	2.40	N/Q	N/Q
6	Seylan Bank PLC/Karagoda Loku Gamage Udayananda	50,000,000	1.62	N/Q	N/Q
7	Mr. S.D. Divakarage	41,228,496	1.34	41,223,996	1.34
8	People's Leasing & Finance PLC/Mr. R. Kannan	37,800,000	1.23	35,800,000	1.16
9	Mr. J.J. Ravindran	34,440,000	1.12	34,440,000	1.12
10	Mr. S.P.N. Kodituwakku	32,933,333	1.07	N/Q	N/Q
11	Mr. N. Muhunthan	31,200,000	1.01	N/Q	N/Q
12	Mr. B.M.A.M.K. Basnayaka	29,019,600	0.94	N/Q	N/Q
13	Sampath Bank PLC/B S A Holdings (Pvt) Ltd	26,440,000	0.86	N/Q	N/Q
14	DFCC Bank PLC/T.L. Samarawickrama	26,000,000	0.84	36,000,000	1.17
15	Hatton National Bank PLC/Ruwan Prassana Sugathadasa	25,466,806	0.83	20,466,806	0.66
16	Mr. P.N.G.D. Silva	25,000,000	0.81	33,000,000	1.07
17	Mr. K.M.S.M. Razik & Mr. K.M.S.M. Rajabudeen & Mr. K.M.S.M.R. Mohommad	22,095,755	0.72	22,095,755	0.72
18	Mr. S. Ramanathan	21,361,468	0.69	N/Q	N/Q
19	Mr. M.L.A. Benedict	20,512,200	0.67	28,734,100	0.93
20	Mr. N.R.P. Karunaratne	20,000,000	0.65	N/Q	N/Q
20	Mrs. S.H. Sardakhan	20,000,000	0.65	N/Q	N/Q
20	The Golden Hospitality (Pvt) Ltd	20,000,000	0.65	N/Q	N/Q
23	Mr. N.W.N. Jayasiri	19,220,001	0.62	N/Q	N/Q
24	Mr. M.A.M. Azlam	18,962,396	0.62	40,727,585	1.32
25	Hatton National Bank PLC/Anuja Chamila Jayasinghe	18,759,365	0.61	N/Q	N/Q
<b>Total shares held by the top 25 holders - 2022</b>		<b>1,063,368,973</b>	<b>34.51</b>	-	-
<b>Balance shares held by other ordinary non voting shareholders - As at December 31, 2022</b>		<b>2,018,234,739</b>	<b>65.49</b>	-	-
<b>Total ordinary non voting shares</b>		<b>3,081,603,712</b>	<b>100.00</b>	-	-

N/Q- Not qualify for Top 20 Shareholders in 2021

## Directors' and CEO's Shareholding as at December 31, 2022

Name	Position	Type of share	2022		2021	
			No. of Shares	% of Holdings	No. of Shares	% of Holdings
Mr.H.R.S.Wijeratne	Chairman - NED	Voting	4,169,342,304	64.44	4,169,342,304	64.44
		Non Voting	-	-	-	-
Mr.T.M.Wijesinghe	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr. A.T.S.Sosa	INED	Voting	-	-	1,000	-
		Non Voting	-	-	-	-
Mr.M.S.A.Wadood	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr.L.Abeysinghe	INED	Voting	-	-	-	-
		Non Voting	-	-	-	-
Mr. H. H. A Chandrasiri	INED	Voting	100	-	100	-
		Non Voting	-	-	-	-
Mr.S.C.Wijesinghe *	CEO	Voting	-	-	-	-
		Non Voting	-	-	-	-

NED - Non-Executive Director

INED - Independent Non-Executive Director

\* Mr. S. C. Wijesinghe has been appointed to the Board as a Non-Independent Executive Director under Section 84 of the Articles of Association of the Company with effect from March 22, 2023.

## Share Information

	2022	2021
<b>Book Value</b>		
Net assets per Share-Group (Rs.)	0.35	0.34
<b>Share Prices</b>		
<b>Ordinary Shares-Voting</b>		
Highest (Rs.)	2.40	2.50
Lowest (Rs.)	0.30	0.30
Last Traded (Rs.)	0.80	2.30
<b>Ordinary Shares-Non Voting</b>		
Highest (Rs.)	0.80	0.80
Lowest (Rs.)	0.20	0.10
Last Traded (Rs.)	0.30	0.70
<b>Earnings</b>		
<b>Ordinary Shares</b>		
Basic earnings per share (Rs.)	0.01	0.01
Price earning ratio (Times)	320	230
Dividend per share	-	-
Dividend pay out ratio	-	-
<b>Frequency of Shares Traded</b>		
<b>Number of Shares Traded</b>		
Voting	1,737,848,192	3,213,519,740
Non Voting	2,610,882,143	5,656,705,258
<b>Number of Transactions</b>		
Voting	31,614	35,783
Non Voting	21,350	38,361
<b>Total Number of Shareholders</b>		
Voting	12,055	10,838
Non Voting	7,236	6,081
<b>Total Number of Public Shareholders</b>		
Voting	12,052	10,834
Non Voting	7,236	6,081
<b>Percentage of Public holding</b>		
Voting	35.56%	35.56%
Non Voting	100.00%	100.00%
<b>Float adjusted market capitalization</b>		
SMB Finance PLC Value (Rs.Mn)	1,841	5,292
<b>Solvency and Debt Capital</b>		
Debt to equity ratio (Times) - Group	0.55	0.20
Tier 1 capital ratio (%)	97.09%	121.67
Total capital ratio (%)	95.66%	119.59
Interest cover (Times) -Group	1.53	1.96
Current ratio (Times) -Group	5.67	9.09

### Minimum Public Holding Requirement

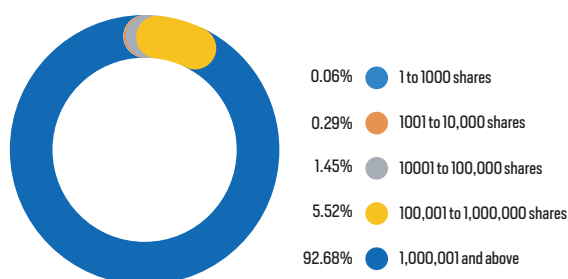
The company is in compliance with Option 5 of Section 7.13.1 (a) of the Listing Rules of the Colombo Stock Exchange pertaining to minimum public holding.

## Distribution of shareholders

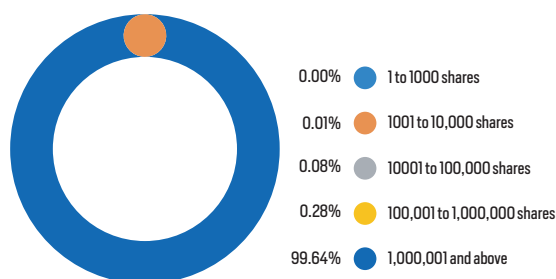
### Ordinary Voting Shareholding as at December 31, 2022

Range of Shareholdings	Resident			Non Resident			Total		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	5,071	3,226,911	0.06	10	5,297	0.00	5,081	3,232,208	0.05
1,001 to 10,000	3,683	17,038,035	0.29	6	38,590	0.01	3,689	17,076,625	0.26
10,001 to 100,000	2,162	84,393,375	1.45	9	497,467	0.08	2,171	84,890,842	1.31
100,001 to 1,000,000	899	321,147,530	5.52	5	1,833,000	0.28	904	322,980,530	4.99
1,000,000 & above	206	5,387,894,306	92.68	4	654,300,537	99.63	210	6,042,194,843	93.39
<b>Total</b>	<b>12,021</b>	<b>5,813,700,157</b>	<b>100.00</b>	<b>34</b>	<b>656,674,891</b>	<b>100.00</b>	<b>12,055</b>	<b>6,470,375,048</b>	<b>100.00</b>

Ordinary Voting-Resident



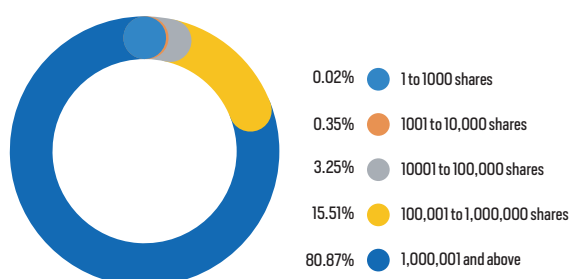
Ordinary Voting-Non Resident



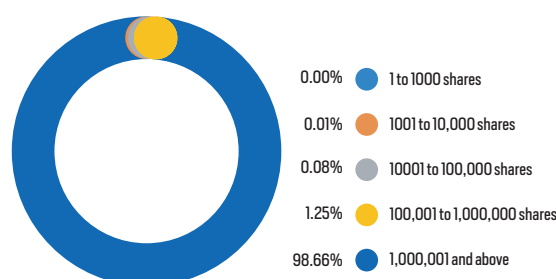
### Ordinary Non-Voting Shareholding as at December 31, 2022

Range of Shareholdings	Resident			Non - Resident			Total		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
1 to 1,000	1,550	615,000	0.02	3	275	0.00	1,553	615,275	0.02
1,001 to 10,000	1,882	10,265,898	0.35	3	17,000	0.01	1,885	10,282,898	0.33
10,001 to 100,000	2,131	94,262,498	3.25	4	146,500	0.08	2,135	94,408,998	3.06
100,001 to 1,000,000	1,236	449,922,005	15.51	6	2,263,010	1.25	1,242	452,185,015	14.67
1,000,000 & above	414	2,345,901,526	80.87	7	178,210,000	98.66	421	2,524,111,526	81.92
<b>Total</b>	<b>7,213</b>	<b>2,900,966,927</b>	<b>100.00</b>	<b>23</b>	<b>180,636,785</b>	<b>100.00</b>	<b>7,236</b>	<b>3,081,603,712</b>	<b>100.00</b>

Ordinary Non Voting-Resident



Ordinary Non Voting-Non-Resident



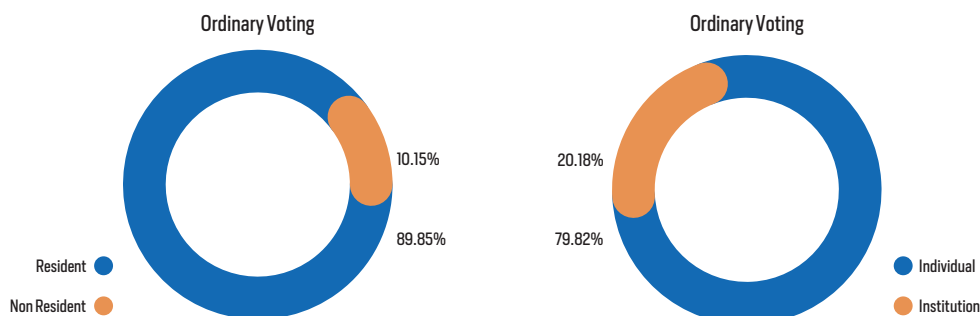


## Composition of Shareholders

### Ordinary Voting Shares

	December 31, 2022			December 31, 2021		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	12,021	5,813,700,157	89.85	10,801	5,815,702,957	89.88
Non-Resident	34	656,674,891	10.15	37	654,672,091	10.12
<b>Total</b>	<b>12,055</b>	<b>6,470,375,048</b>	<b>100.00</b>	<b>10,838</b>	<b>6,470,375,048</b>	<b>100.00</b>
Individual	11,752	5,164,717,053	79.82	10,549	5,214,108,324	80.58
Institution	303	1,305,657,995	20.18	289	1,256,266,724	19.42
<b>Total</b>	<b>12,055</b>	<b>6,470,375,048</b>	<b>100.00</b>	<b>10,838</b>	<b>6,470,375,048</b>	<b>100.00</b>

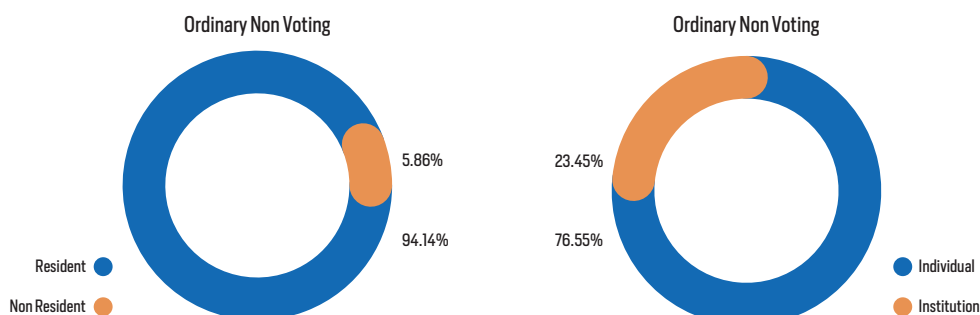
The percentage of ordinary voting shares held by the public was 35.56% of the issued share capital as at December 31, 2022.



### Ordinary Non-Voting Shares

	December 31, 2022			December 31, 2021		
	Number of Shareholders	No. of Shares	(%) of Holdings	Number of Shareholders	No. of Shares	(%) of Holdings
Resident	7,213	2,900,966,927	94.14	6,057	2,898,366,927	94.05
Non-Resident	23	180,636,785	5.86	24	183,236,785	5.95
<b>Total</b>	<b>7,236</b>	<b>3,081,603,712</b>	<b>100.00</b>	<b>6,081</b>	<b>3,081,603,712</b>	<b>100.00</b>
Individual	7,027	2,358,981,358	76.55	5,892	2,229,782,403	72.36
Institution	209	722,622,354	23.45	189	851,821,309	27.64
<b>Total</b>	<b>7,236</b>	<b>3,081,603,712</b>	<b>100.00</b>	<b>6,081</b>	<b>3,081,603,712</b>	<b>100.00</b>

The percentage of ordinary non voting shares held by the public was 100.00% of the issued share capital as at December 31, 2022.



# **CORPORATE STEWARDSHIP**

## Board of Directors

### Mr. Ravi Wijeratne

#### Chairman

#### Non-Executive Director

Mr. Ravi Wijeratne is the Chairman / Managing Director of Rank Holdings and Rank Group of Companies with interests that vary from property, logistics, hydropower and wind energy, solid waste management and entertainment. Rank Container Terminals Ltd is one of the largest dry ports in Sri Lanka and handles 80% of the import cargo volume that is imported through the Port of Colombo.

Rank Entertainment Holding (Pvt) Ltd is one of the two licensed gaming companies operating in Sri Lanka and has been in operation for the past 20 years.

Mr. Wijeratne is an Accountant and has obtained his qualification from the London School of Accountancy & Management in the United Kingdom.

### Mr. Saadi Wadood

#### Independent Non-Executive Senior Director

Mr. Saadi Wadood is an experienced lawyer who has specialized in Corporate Law. Has 20 years of experience as a lawyer after being enrolled at the Supreme Court of Sri Lanka in 1997. Graduating LLM with a Merit Pass from the King's College- University of London has wide experience in handling commercial cases in the District Courts, High Courts (Commercial and Civil), Court of Appeal and the Supreme Courts. Acting as a legal consultant in several companies, he has been a delegate and an active member of the Bar Association of Sri Lanka for several years. Also, he handles commercial arbitration work and resolutions of commercial disputes. Mr. Wadood was appointed as a Senior Director in September 2018.

### Mr. Thilan Wijesinghe

#### Independent Non-Executive Director

Mr. Thilan Wijesinghe graduated with honors from the State University of New York and Cornell University, USA, with three BSc degrees in Business Administration, Industrial Engineering and Economics.

Having commenced his career as a Senior Management Consultant at PricewaterhouseCoopers, Colombo, he was the Head of Planning at Sampath Bank. In 1992 Mr. Wijesinghe pursued entrepreneurial interests by co-founding Asia Capital, which became Sri Lanka's largest investment bank in terms of market capitalization. Mr. Wijesinghe was a key initiator in successfully launching Regent Sri Lanka Fund in 1993, the first-ever country fund dedicated to Sri Lankan equities. He served on the Board of this Dublin-listed company for 3 years.

Having exited his investment in Asia Capital, Mr. Wijesinghe has served as Chairman/Director General of the Board of Investment and CEO/MD of Asian Hotels Corporation PLC,

Forbes & Walker Ltd and Overseas Realty PLC. Mr. Wijesinghe is a co-founder of the Sri Lanka Institute of Information Technology (SLIIT), Sri Lanka's largest IT University, where he serves as a Board member for life.

He functions as Chairman/Shareholder of TW Corp (Pvt) Ltd, a real estate-focused investment advisory and development management company, Digital Commerce Lanka (Pvt) Ltd, an e-commerce partnership with Dialog Axiata PLC, and Sapphirus Lanka (Pvt) Ltd, a company exporting precision manufactured sapphire for premium international jewelers. He is also on the Board of leisure companies affiliated with MJF Group, makers of Dilmah Tea, and several other public and private companies.

### Mr. Shardha Sosa

#### Independent Non-Executive Director

Mr. Shardha Sosa is an Associate Member of the Chartered Institute of Management Accountants – UK, a Fellow member of Certified Management Accountants of Sri Lanka and a Member of the British Computer Society with over 27 years of experience.

Starting his career in 1990 as a Management Trainee, he has experience in the grades of Accountant, Chief Accountant and Financial Controller from 1998 to 2015 at MJF Holdings (Dilmah Tea). He is presently the Director - Finance at Forbes & Walker (Pvt) Limited. Having led multi-functional teams and implemented many ERP systems have in-depth knowledge of Planning, Budgeting,

Costing, Pricing, Treasury Operations, Risk Management Procedures, ERP Planning, Taxation, and Investment Analysis. He has been a key figure in the development and expansion of Dilmah Tea.

### Mr. Lolitha Abeysinghe

#### Independent Non-Executive Director

Mr. Lolitha Abeysinghe is the Managing Director of Chelinaa Capital Corporation. He has a Master's Degree in Business Administration and a Diploma in Marketing. He is also a Fellow at Toronto Centre, Canada in Securities Regulations. Mr. Abeysinghe is also a former Commissioner of the Securities and Exchange Commission of Sri Lanka.

### Mr. Anura Chandrasiri

#### Independent Non-Executive Director

Mr. H. H. Anura Chandrasiri is a legal professional with sound financial acumen in providing corporate leadership to lead organizations to engage in best practices of stewardship and governance.

He holds a LLB, with a Masters' Degree in Financial Economics from the University of Colombo. Mr. Chandrasiri also holds a Postgraduate Diploma in Criminology & Criminal Justice from the University of Sri Jayawardenepura of Sri Lanka.

## Corporate Management Team

### Mr. Supul Wijesinghe

#### Chief Executive Officer

Mr. Supul Wijesinghe holds a BSc degree in Business Administration from the University of Sri Jayewardenepura and a Master's in Accounting & Finance from the University of Kelaniya. He is a Fellow Member of the Chartered Institute of Management Accountants – United Kingdom, a Fellow Member of the Association of Chartered Certified Accountants – United Kingdom and a Member of the Institute of Chartered Accountants of Sri Lanka.

Having commenced his career at PricewaterhouseCoopers (PwC) where he last served as an Assistant Manager, he joined the World Bank as a Financial Management Specialist and worked in Bank's operations in Sri Lanka, Maldives, and Pakistan for over 6 years and then went on to join 3M, a Fortune 500 Company, as the Country Finance Head for 3M's operation in Sri Lanka, a position he held until joining SMB Finance PLC in March 2017 as the Chief Financial Officer & Head of Strategy. He was appointed as the Chief Executive Officer with effect from January 1, 2020.

He counts for over 25 years of experience in audit, risk management, financial management, strategic planning, business transformation, compliance, treasury, and performance analysis. He is presently serving as a Non Executive Director of Financial Ombudsmen of Sri Lanka (Guarantee) Limited, Non Executive Director of SMB Money Brokers (Pvt) Limited and a member of the Board of the National Medical Regulatory Authority.

Mr. Supul Wijesinghe has been appointed as the Executive Director of the Company under Section 84 of the Articles of Association of the Company with effect from March 22, 2023.

### Mr. Nigel Wijesinghe

#### Head of Credit

Mr. Nigel Wijesinghe has an MBA from the Federal University of Wales in the United Kingdom. He has also completed OMEGA Credit Skills in the USA and Credit Evaluation at Asia Pacific Credit Association, Manila.

Nigel started his career as an Executive at Hatton National Bank and was subsequently promoted to positions of Assistant Manager, Manager, Senior Manager and HNB Regional Head for Colombo. Thereafter, he went on to join the National Bank of Umm Al Qaiwain in UAE as Manager – Credit & Risk. Then Nigel moved to Pan Oceanic Bank in Solomon Islands as the Chief Operating Officer a position which he held until joining SMB Finance PLC in 2018.

He counts over 37 years of banking experience in operations, internal audit, risk management, credit evaluation, collection and credit management.

### Ms. Menaka Silva

#### Head of Finance

Ms. Menaka Silva has obtained her Bachelor of Science Degree (BSc) and Master of Business Administration (MBA) Degrees from the University of Kelaniya. She is a Fellow Member (FCMA) of the Institute of Certified Management Accountants of Sri Lanka and a Fellow Member (FCPM) of the Institute of Chartered Professional Managers.

Menaka started her career in 2002 as a Management Trainee at Interco Services Ltd and was promoted to Accounts Executive in 2003. In 2004, Ms. Menaka moved to The Bobbin (Pvt) Ltd as an Account Executive, and in 2006 she joined Apparel Technologies (Pvt) Ltd as an Assistant Accountant and since then has held various positions in her career obtaining over 21 years of experience in the fields of accounting and finance. Prior to joining SMB Finance PLC, she worked as the Chief Accountant at Apparel Technologies (Pvt) Ltd.

### Mr. Upul Wijesinghe

#### Head of Sales

Mr. Upul Wijesinghe holds a Diploma in Hire Purchase & Lease Financing and a Certificate Course in Marketing & Financial Services from the Institute of Bankers.

Upul commenced his career as a Sales Officer in SMB Finance PLC and held various positions in the organization prior to being designated as Head of Sales in 2011. He has over 25 years of experience in banking, leasing, hire purchase and credit management.

### Ms. Shanthini Karmegam

#### Senior Manager – Legal

Ms. Shanthini Karmegam has completed a Bachelor of Laws Degree (LL. B) from the Open University of Sri Lanka and completed her Attorneys with a First Class from Sri Lanka Law College. In 2012 she enrolled as an Attorney-at-Law at the Supreme Court of Sri Lanka. She is also a Licensed Notary Public, Commissioner of Oaths and Registered Company Secretary.

Shanthini started her career as a Banker at Honk Kong and Shaghai Banking Corporation in 2005 and thereafter joined John Wilson Partners, a Legal Firm as their Associate in 2014. She then moved to Prime Finance PLC, as Manager Legal in 2016. Prior to joining SMB Finance PLC, she worked in the Chamber of Dr. S S Singhage, as a Legal Counsel. She counts an overall career experience of 17 years.



## Ms. Nayomi Mawella

### Senior Manager – Human Resources & Administration

Ms. Nayomi Mawella is an Associate Member of the Chartered Institute of Personnel Management (CIPM) Sri Lanka and holds an MBA in Human Resources Management and Post Graduate Diploma in Human Resources Management from the Open University of Sri Lanka. She also holds a Diploma in Counselling and Psychotherapy from the Institute of Psychological Studies Sri Lanka.

Nayomi started her career in 2000 as an HR Assistant at Tritel Services. In 2005 she joined DPJ Holdings as an HR Executive and was promoted to the grade of Assistant Manager. In 2010 she joined Alpha Industries as an Assistant Manager – HR and went on to join Ultratech Cement Lanka as Assistant Manager – HR & Administration in 2012. In 2015 Nayomi joined Konsept Centro (Pvt) Ltd as Manager – HR & Administration. She joined TKS Finance as Acting Head of Human Resources in 2018 and in 2019 Nayomi joined LCB Finance PLC as Head of Human Resources, a position she held until joining SMB Finance PLC in June 2021. She counts more than 20 years of overall experience in HR & Administration in the Trading, Manufacturing and Finance Industries.

## Mr. Chamindika Wickramasinghe

### Senior Manager - Recovery

Mr. Chamindika Wickramasinghe holds a Bachelor of Arts Degree in Defense Studies from Kotelawala Defense University, Sri Lanka. He has also completed the Licentiate Examination of the Institute of Chartered Accountants of Sri Lanka.

Chamindika started his career in 1997 as a Lieutenant in the Sri Lanka Army and served for 11 years. In 2008 he joined C. W. Mackie PLC as an Assistant Manager – Administration and joined Co-operative Insurance Company Limited as Manager of Administration and Logistics in 2011. Chamindika then joined Delmege Forsyth & Co. Ltd in 2018 as Manager – Facilities Management and moved on to Leasons Hospital (Pvt) Ltd as an Operations Manager in 2019. Prior to joining SMB Finance PLC, he worked as Manager – Administration at Summer Season Ltd of Vallibel Holdings.

## Mr. Dickson Gunathilake

### Manager – Information Technology

Mr. Dickson Gunathilake has a Diploma in AS 400 Operating System, SQL 400, Query 400 & IMAS 400 from Golden Key Software Solutions Ltd. Dickson started his career in 1992 as a Data Controller at Golden Key Credit Card and was promoted to the position of Computer Operator, System Operator, Data Processing Executive and Senior Data Processing Executive. Then he moved to Golden Key Software Solutions Ltd as a Software QA Engineer in 2005 and was promoted to the position of Senior Software QA Engineer. Dickson joined Seylan Merchant Bank in May 2009 as an Assistant Manager – IT. He was promoted to Manager – IT of SMB Finance PLC in 2016. He has over 31 years of experience in credit card operations, data processing, software projects, system implementation, quality assurance, pawning systems, AS400, IMAS, eIMAS, InBank and SkyBank.

## Mr. Roshan Buultjens

### Manager – Pawning

Mr. Roshan Buultjens holds a Diploma in Gemology from the Association of Gemology in Sri Lanka. Roshan started his career in 1995 at Swarna Mahal Jewellers (Pvt) Ltd and moved to Ceylinco Diamond Trading in 2006. Thereafter he joined The Standard Credit Finance Ltd as an Assistant Manager in 2010. Prior to joining SMB Finance PLC in 2017, Roshan worked as an Assistant Manager at Multi Finance PLC.

He has over 25 years of experience in pawning and gold loans.

## Ms. Randulani Godage

### Manager – Compliance

Ms. Randulani Godage is a member of the Association of Accounting Technicians (AAT) of Sri Lanka and an Associate Member of the Institute of Chartered Professional Managers of Sri Lanka.

Randulani started her career in 1998 at Alliance Finance Company, and gained experience in finance and administration in Yashoda Group of Companies and Advantage Technologies Pvt. Ltd. In 2005 she joined Seylan Merchant Bank as the Executive Secretary to the Chief Executive Officer and was re-designated as Manager – Administration in 2020. With the requirement to have a dedicated Compliance Manager during the Company's transition to a licensed finance company and beyond, Ms. Godage was appointed as the Manager – Compliance in October 2022.

Randulani has over 24 years' experience in accounting, finance, administration and compliance.

## Ms. Sachini Wijesinghe

### Manager – Treasury

Ms. Sachini Wijesinghe obtained her Bachelor of Science Degree Specialized in Accounting from the University of Sri Jayewardenepura with First Class Honours. She is a Member of the Institute of Chartered Accountants of Sri Lanka, a Member of the Chartered Institute of Management Accountants (CIMA) in the United Kingdom and an Affiliate of the Association of Chartered Certified Accountants (ACCA) in the United Kingdom.

Sachini started her career at KPMG, one of the Top 4 International Audit Firms and then joined 3M, a Fortune 500 Company as an Assistant Accountant. In 2017, she joined SMB Finance PLC as Assistant Accountant and became the first Chartered Accountant produced by SMB Finance PLC under the Company's training partnership with the Institute of Chartered Accountants of Sri Lanka. While being employed at SMB Finance PLC, she represented the Institute of Chartered Accountants of Sri Lanka at the International Conference for CA Students which was held in India. In July 2019, Sachini joined Dialog Finance PLC as Assistant Manager - Financial Accounting & Reporting and went on to join Richard Pieris & Company PLC as Manager – Financial Analysis. Sachini re-joined SMB Finance PLC in February 2021.

## Corporate Governance and Compliance

*According to the requirements stated in Section 2(7) of the Finance Leasing (Corporate Governance) Direction No 4 of 2009 issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the Board of Directors issue this corporate governance report setting out the compliance with the CBSL Directions, Code of Best Practice on Corporate Governance and Section 7.10 (a) of the Listing Rules issued by the Colombo Stock Exchange states that a statement confirming that the Company is in compliance with the corporate governance rules needs to be published in the annual report confirming compliance to corporate governance provisions of the listing rules for financial years commencing on or after April 1, 2007.*

Corporate Governance is the process by which companies are directed and controlled by the Board of Directors in the best interest of the shareholders ensuring greater transparency, accuracy and timely financial reporting.

SMB Finance PLC is committed to uphold the highest standards of corporate governance and ethical conduct in all its business activities. The Board of Directors is responsible for creating and delivering sustainable stakeholder value through the management of SMB Finance PLC's business.

The disclosures will include measures adopted to protect the interest of stakeholders, the responsibility for the system of internal controls implemented by the management, the Company's commitment to ethical standards of business conduct, information of particular interest to employees, community and customers.

### Statement of Compliance

SMB Finance PLC has placed a greater focus on compliance with the regulations of regulatory bodies such as the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

The Board ensures that the Company complies with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and is in line with the same unless disclosed to the contrary.

According to the provisions of the Finance Leasing (Corporate Governance – Amendment) Direction No. 1 of 2013, the external auditor's certification of the compliance with the Corporate Governance Directions have been issued on May 30, 2023.

### Governance Principles and Activities

#### The Board of Directors

##### Composition

The Board comprises six Non-Executive Directors of whom five are Independent Directors. The Chairman

also acts as a Non-Executive Director. All directors encompass a wide range of skills, talents and experience required to add value to enhance the business.

#### Composition of the Board as at December 31, 2022 was as follows.

##### No. of Members

**6** ● ● ● ● ● ●

##### Executive

**Nil**

##### Non Executive

**6** ● ● ● ● ● ●

##### Independent

**5** ● ● ● ● ● ○

##### Non Independent

**1** ● ○ ○ ○ ○ ○

#### Gender Representation

##### Male

**6** ● ● ● ● ● ●

##### Female

**Nil**

#### Board composition by age as at December 31, 2022

##### 41-50 years

**1** ● ○ ○ ○ ○ ○

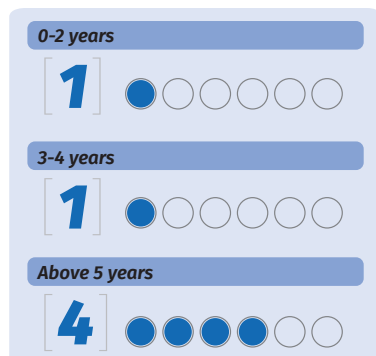
##### 51-60 years

**3** ● ● ● ○ ○ ○

##### 61-70 years

**2** ● ● ○ ○ ○ ○

### Board composition by length of tenure as at December 31, 2022



### Professional Experience



### Responsibilities of the Board

The ultimate responsibility of all operations of the Company and being accountable to the stakeholders lies with the Board of Directors. Matters reserved for the Board and the Board appointed Sub Committees and those delegated to the management are clearly defined.

The Board is involved and ensures,

- Formulating corporate strategy and strategic direction of the Company
- Monitoring the effectiveness of the Company's risk management strategy

- Compliance with regulatory and legal standards
- Reviewing the integrity of the Company's accounting and financial statements
- Approval of financial statements for publication
- Approval of budget and corporate plans
- Safeguard interest of shareholders and other stakeholders
- Making recommendations to the shareholders on changes to the Board

### Meetings

Meetings are held every month to review and evaluate the performance of the Company. In addition, special meetings are convened when necessary.

### Directors' attendance at board and board committee meetings

Name of the Director	Status	Main Board	Audit Committee	Integrated Risk Management Committee (IRMC)	Remuneration Committee	Related Party Transaction Review Committee	Nomination Committee
Total Number of Meetings		7	4	4	-	5	1
Mr. H. R. S Wijeratne	NED	6/7	N/A	N/A	-	N/A	1/1
Mr. T. M. Wijesinghe	INED	7/7	N/A	4/4	-	N/A	1/1
Mr. A. T. S Sosa	INED	7/7	4/4	4/4	-	5/5	N/A
Mr. M. S. A. Wadood	INED	6/7	4/4	4/4	-	5/5	N/A
Mr. L. Abeysinghe	INED	7/7	4/4	N/A	-	5/5	N/A
Mr. H. H. A. Chandrasiri	INED	7/7	N/A	4/4	-	N/A	1/1

**N/A** - Not a Member of the Committee **NED** - Non-Executive Director **INED** - Independent Non-Executive Director

### Governance Framework

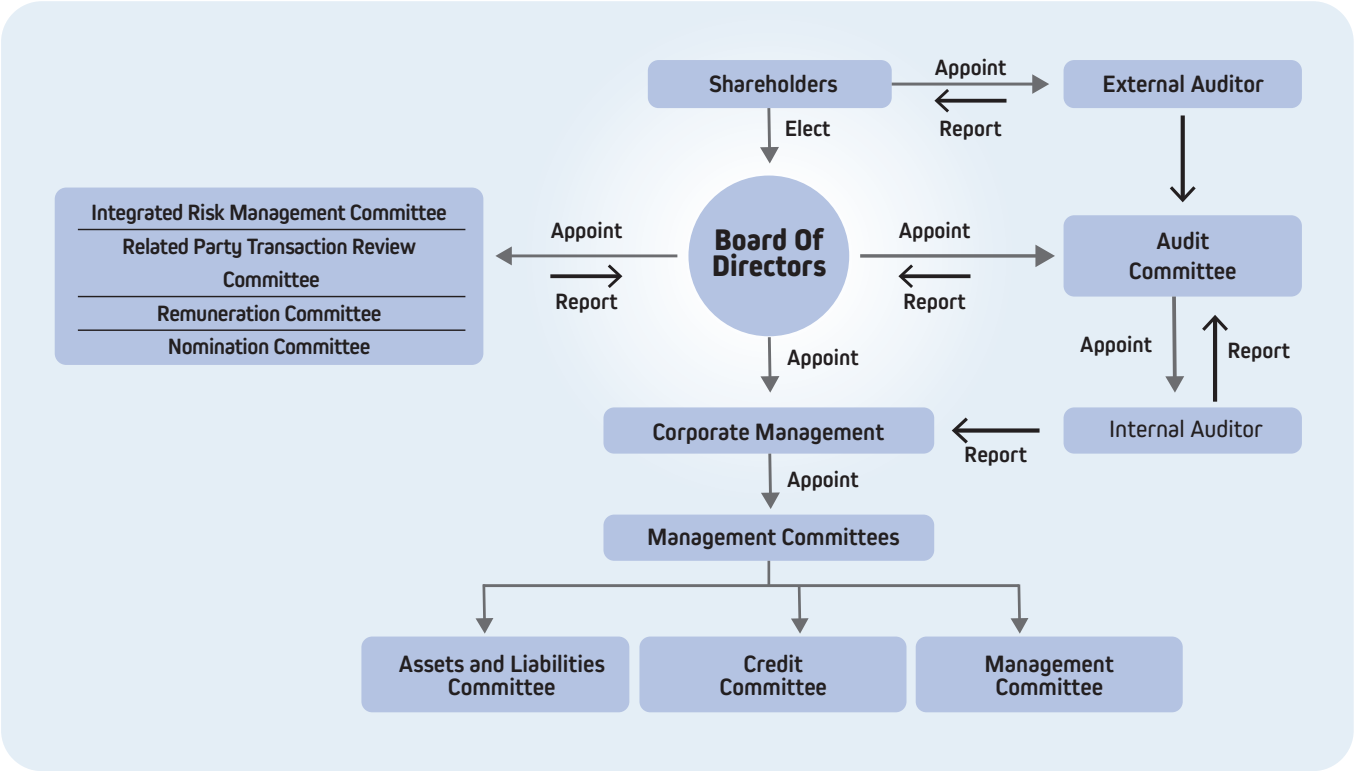
Our governance framework is secured on i) competent leadership, ii) effective internal controls, (iii) a strong risk culture and (iv) accountability to shareholders.

We believe that it is crucial to have a good balance between continuity and fresh perspectives on the Board. Our Board plays a key role in setting our governance standards to meet our stakeholders' expectation. Our leadership model ensures an appropriate balance of power, accountability and independence in decision making.



Governance Structure

The relationships among the Board of Directors, Board Sub Committees, Corporate Management. Shareholders and other Stakeholders are embedded in the Company’s governance structure that is illustrated below.



Appointments to the Board

The Company has a Nomination Committee for making recommendations on new appointments to the Board. New directors, including the Chairman are appointed by the Board with reference to the Articles of Association. Details of new appointments are disclosed to the shareholders. Regulatory authorities are also informed as required.

Re-election

The Articles of Association provides for one third (1/3rd) of the Directors to retire by rotation each year, with the exception of the Chairman.

Training of New and Existing Directors

The Board acknowledges the need for continuous development and expansion of knowledge and skills of

new and existing directors, Accordingly, presentations are made to the Board from time to time regarding their duties and responsibilities and changes in industry related matters.

Evaluation of the Board

The Board adopted the self-assessment undertaken by the Directors annually. Assessments are focused on the Board’s contribution to the development, monitoring and implementation of the strategy, risk management, quality of the relationship with the management, employees, and shareholders are ensuring proper functioning of the Board Sub Committees.

Communication with Shareholders

As a policy, the Company makes efforts to communicate in an equal manner in all situations and to provide

information to the stakeholders on a timely manner. The communication the threshold is the same for both positive and negative matters.

Means of Communication

The Board of the Company is committed to providing a balanced report of results and progress to the shareholders and respond to questions and issues raised in a timely and consistent manner. This is achieved by the following means of communication.

Financial Statements

The Company reports financial results on a quarterly basis and publishes interim and annual results in accordance with the applicable laws and regulations within the statutory deadlines. This facilitates appropriate decision-making for both existing and potential shareholders.

## Website

Our corporate website, [www.smblk.com](http://www.smblk.com) provides an additional channel for communication with shareholders and other stakeholders.

## Shareholder Meetings

The Company considers the Annual General Meeting (AGM) and other general meetings to be the formal opportunity for dialogue and communication between the Company

and its shareholders. The Board welcomes questions from shareholders who have an opportunity to raise issues at shareholder meetings.

## Corporate Disclosures

Corporate disclosures and other official news releases are communicated, from time to time, to the Colombo Stock Exchange for dissemination to the public.

## Enquires by Shareholders

Shareholder can raise inquiries and concerns with the Board by contacting the Company Secretary, through the following channel:

P W Corporate Secretarial (Pvt) Ltd.

Address No: 3/17, Kynsey Road,  
Colombo 08. Email: [pwcs@pwcs.lk](mailto:pwcs@pwcs.lk)  
Telephone: 011-4640360-3

## Submission of Statutory Return

The Company's submission of statutory returns, annual accounts and statutory payments are tabled as follows:

Description	Frequency of submission	Status of Compliance
<b>Central Bank of Sri Lanka</b>		
Submission of weekly returns	Weekly	Compliant
Submission of monthly returns	Monthly	Compliant
Submission of quarterly returns	Quarterly	Compliant
Submission of annual returns	Annually	Compliant
FIU reporting	For the period 1st day-15th day of the month-within seven working days, 16th day - end of the month within seven working days.	Compliant
EPF payment and return	Monthly	Compliant
ETF payment and return	Monthly	Compliant
<b>Department of Inland Revenue</b>		
Value added tax on financial services (VAT on FS) - Payment	Monthly	Compliant
Value added tax on financial services (VAT on FS) - Return	Bi-Annually	Compliant
Social Security Contribution Levy (SSCL) - Payment	Monthly	Compliant
Social Security Contribution Levy (SSCL) - Return	Quarterly	Compliant
Stamp duty - Payment	Quarterly	Compliant
Stamp duty - Return	Quarterly	Compliant
Income tax - Return	Annually	Compliant
PAYE tax - Payment	Monthly	Compliant
PAYE tax - Return	Annually	Compliant
<b>Colombo Stock Exchange</b>		
Submission of interim reports	Quarterly	Compliant
Submission of annual reports	Before the end of 5 months from the financial year	Compliant
<b>Registrar General of Companies</b>		
Annual accounts	Annually	Compliant
Annual returns	Annually	Compliant
Change of Directors and Company Secretary (Form 20)	As required	Compliant
<b>Sri Lanka Accounting &amp; Auditing Standards Monitoring Board</b>		
Annual accounts	Annually	Compliant



## Compliance with the Finance Leasing Directions

The Company's compliance with the Finance Leasing (Corporate Governance) Direction No. 4 of 2009, Finance Leasing (Corporate Governance – Amendment) Direction No. 1 of 2013 and Finance Leasing Amendment to the Corporate Governance Direction No. 4 of 2020 issued by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka under Section 34 of the Finance Leasing Act No. 56 of 2000 is tabulated below.

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
<b>2. The Responsibilities of the Board of Directors</b>			
<b>2 (1) Strengthening the safety and soundness of the Company</b>			
2 (1) (a)	Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company.	Company's strategic objectives and corporate values are determined and approved by the Board of Directors. The decisions are taken by the Board regarding strategic objectives and corporate values are communicated to all levels of staff through structured meetings.	Compliant
2 (1) (b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Company's strategic business plan covering immediate next three years has been approved by the Board. It provides for the overall risk management policy, procedures and mechanisms with measurable goals.  The business strategy is reviewed by the Board on a regular basis with updates on the execution thereof by the management at monthly Board meetings.	Compliant
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis.	Compliant
2 (1) (d)	Approving a policy of communication with all stakeholders, including lenders, creditors, shareholders and borrowers.	Refer Corporate Governance, Pages from 049 to 081 for more information on the Communication Policy.	Compliant
2 (1) (e)	Reviewing the adequacy and the integrity of the Company's internal control systems and management information systems.	The Board Audit Committee, on behalf of the Board undertakes the detailed monitoring and reviewing the internal controls and reports to the Board on its findings. Refer Director's Statement on Internal Control over Financial Statements, Page 093 for further information on the internal control framework of the Company.	Compliant
2 (1) (f)	Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	The Board of Directors, the Senior Management and the Manager – Compliance has been identified and designated as the Key Management Personnel of the Company.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
2 (1) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	The key functions / responsibilities have been defined and approved by the Board and included in their respective job descriptions.	Compliant
2 (1) (h)	Ensuring that there is appropriate oversight of the affairs of the Company by Key Management Personnel, that is consistent with the Company's policy.	Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis.	Compliant
2 (1) (i)	Effectiveness of the governance practices are reviewed and discussed by the Board at Board meetings on a monthly basis.	This direction is overseen by the function of the Board and the Board Nomination Committee.	Compliant
2 (1) (j)	Ensuring that the Company has an appropriate succession plan for Key Management Personnel.	The Board of Directors has considered the Senior Management Personal in relation to the succession plan and was of the view that there is no immediate necessity to identify a succession plan subject to the company's present business model. These positions would be reviewed from time to time annually and as and when required suitable steps would be taken to identify the requirement of succession.	Compliant
2 (1) (k)	Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	The Board meets the key management personal on a monthly basis and respective senior managers who are not members of the board are requested to attend by invitation to discuss specific areas.	Compliant
2 (1) (l)	Understanding the regulatory environment.	On appointment, Directors are apprised comprehensively on the regulatory environment including, governance framework, policies, and processes and their responsibilities as a Director in terms of the applicable rules and regulations.  The Board is apprised of any changes to the regulatory environment through the Integrated Risk Management Committee and also by the Company Secretary.	Compliant
2 (1) (m)	Exercising due diligence in the hiring and oversight of external auditors.	The hiring of external auditors is carried out by the Board on the recommendation of the Board Audit Committee. The Board Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.	Compliant
2 (2)	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	The Chairman and CEO have been duly appointed and their functions and responsibilities have been defined and approved by the Board.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
2 (3)	Availability of a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice at the Company's expense.	Directors are permitted to seek independent professional advice as and when required. The Company Secretary facilitates this process.	Compliant
2 (4)	Avoidance of conflicts of interest of Directors	Each member of the Board has a responsibility to determine whether he has a potential or actual conflict of interest in material matters which may have a bearing on his independent judgment.  Directors who have an interest in a matter under discussion refrain from engaging themselves in the deliberations on that matter and abstain from voting thereon. Such abstentions from decisions are duly recorded by the Company Secretary in the minutes.	Compliant
2 (5)	Availability of a formal schedule of matters specifically reserved for the Company's Board for decision and control.	The Company is having a policy on the delegation of authority, which emphasise the authority level of Directors.	Compliant
2 (6)	If the Company is or is likely to be insolvent, the Board to inform the Director - Department of Supervision of Non-Bank Financial Institutions of the Central Bank prior to making any decisions or actions.	No such situation has arisen to date. Directors objectively review and evaluate the financial performance and position of the Company so that any such indicator can be identified well in advance.	Compliant
2 (7)	Inclusion of an Annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report.	The Company has placed greater focus on compliance with the regulations of the Central Bank of Sri Lanka. The Board has published an Annual Corporate Governance Report on pages from 049 to 081 in this Annual Report.	Compliant
2 (8)	Adoption of an annual scheme of self-assessment by the Directors and maintain records of such assessments.	The Board has adopted a scheme of self-assessment to be undertaken by each Director annually.	Compliant

### 3. Meetings of the Board

3(1)	Convening Board meetings at least twelve times a financial year at monthly intervals.	The Board met seven (7) times for the financial year 2022.	Partly Compliant
3(2)	Making arrangements to enable Directors to include matters and proposals relating to promotion of the business and management of its risk in the agenda of regular Board meetings.	All directors are provided an equal opportunity to include proposals for the promotion of business and management of risk in the agenda of the monthly Board meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
3(3)	At least seven days of notice to be given to all the Directors for regular Board meetings and reasonable notice period for other Board meetings.	Board meeting calendar for the financial year is prepared by the Company Secretary. The date of the next Board meeting is collectively agreed to, by the members present during the current Board meeting and subsequently communicated to all the members to ensure that at least 7 days notice is given of the monthly Board meeting. Reasonable notice is given for any other special Board meeting.	Compliant
3(4)	A Director who has not attended at least two-thirds of the meetings or three consecutive Board meetings shall cease to be a Director.	Directors' attendance are monitored. Please refer to Page No 050 for details on the number of Board meetings held during the year and the individual attendance of the Directors. All Directors have regularly attended Board meetings.	Compliant
3(5)	Appointment of a Company Secretary.	Company has appointed PW Corporate Secretarial (Pvt) Ltd as the Company Secretary. The Company secretary advises the Board on matters relating to provisions of the Companies Act, Board procedures and other applicable rules and regulations.	Compliant
3(6)	Chairman has delegated the Company Secretary the function of preparing the agenda for the Board meetings.	The chairman had delegated the preparation of the Board Meeting agenda to the Company Secretary. The Company Secretary is responsible for the same.	Compliant
3(7)	Directors' access to advice and services of the Company Secretary.	All directors have access to the advise and services of the Company Secretary who is responsible to the Board to ensure that the board procedures and the applicable rules and regulations are complied with. Articles of the Company provides authority to the Board to appoint/ remove the Company Secretary.	Compliant
3(8)	The Company Secretary shall maintain the minutes of Board meetings and the minutes are open for inspection at any reasonable time on reasonable notice by any Director.	The Company Secretary maintains the minutes of Board meetings with sufficient details and the same is available for inspection by any Director.	Compliant
3(9)	Recording of minutes of Board meetings in sufficient detail to demonstrate that the Board acted with due care and prudence in performing its duties.	The Company Secretary records the proceedings of the meetings and the decisions taken there at in sufficient detail so as to satisfy all the requirements specified in this rule.	Compliant

#### 4. Composition of the Board

4(1)	The number of Directors on the Board shall not be less than five (5) and not more than nine (9).	The Board comprised six Non-Executive Directors as at December 31, 2022.	Compliant
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Section	Governance Requirement	Implementation and Compliance	Status of Compliance
4(2)	The total period of service of a Director other than the Director who holds the position of Executive Director or Chief Executive Officer shall not exceed nine (9) years.	All the present Directors have held their positions for less than nine (9) years.	Compliant
4(3)	An employee of the Company may be appointed, elected or nominated as a Director provided that the total number of Executive Directors shall not exceed half of the number of Directors of the Board.	Employees have not been elected as Directors of the Company.	Compliant
4(4)	Number of Independent Non-Executive Directors on the Board (as per the criteria specified in this section) shall be at least one fourth of the total numbers of Directors.	Five (5) out of six (6) Directors that held office as at December 31, 2022 are Independent Non - Executive Directors.	Compliant
4(5)	Alternate Director for an Independent Non-Executive Directors should also meet the criteria for independent non-executive status of the appointer.	No alternate Directors were appointed during the financial year 2022.	Compliant
4(6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	All Non-Executive Directors have the necessary skills and experience to bring independent and objective judgment on matters relating to strategy, performance and resources. The composition of the Board also ensures the balance between executive expediency and independent judgment.	Compliant
4(7)	Each Board meeting quorum constitutes of at least one-third of Non-Executive Directors.	Each and every Board meeting held in 2022 fulfils this criteria.	Compliant
4(8)	The Independent Non-Executive Directors shall be expressly identified in all corporate communications that disclose the names of Directors of the Company. The Company shall disclose the composition of the Board, by category of directors including the name of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	The Independent Non-Executive Directors are identified in all corporate communications that contain the names of Directors of the Company.  Corporate Governance Report published on page 050 of this Annual Report provides details of composition of the Board including the Chairman by their name and category of Directorship.	Compliant
4(9)	Availability of a formal and transparent procedure to appoint new Directors to the Board through the Nominating Committee.	The Articles of Association of the Company provides for a formal and transparent procedure applicable to the selection and appointment of Directors to the Board through the Nomination Committee.	Compliant
4(10)	Directors appointed to fill casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	All the directors that held office as at December 31, 2022 have been appointed by shareholders at the AGM.	Compliant



Section	Governance Requirement	Implementation and Compliance	Status of Compliance
4(11)	Disclosure of resignations/removal of Directors to the shareholders and to the Director – Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka with reasons for resignation/removal including such Director's disagreement with the Board if any.	All resignations/removals and appointments of Directors are informed to the Shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Prior approval for such resignations/removals and appointments are obtained from the Central Bank of Sri Lanka in terms of the applicable regulations.	Compliant

## 5. Criteria to assess the fitness and propriety of directors

5(1)	SLC shall permit a Director who is already holding office and who attains the age of 70 years on or after the direction continue in office as a Director subject to prior approval of the Director – DSNBFI (Amendment)	All Directors that held the office as at December 31, 2022 are below the age of 70 years.	Not Applicable
5(2)	A Director of the Company shall not hold office as a Director of more than 20 companies including subsidiaries and associates of the Company.	Details of other directorships/equivalent positions held by the Directors are set out in their profiles on pages 046 of the Annual Report. Accordingly, all Directors have complied with this rule.	Compliant

## 6. Management Functions Delegated by the Board

6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personal to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its function.	Company has a policy on delegation of authority which ensures that the ability of the Board as a whole to discharge its function are not reduced or hindered.	Compliant
6(2)	Board shall review delegation of authority on a periodic basis.	The Board regularly reviews the policy on delegation of authority to ensure that they remain relevant to the needs of the Company.	Compliant

## 7. The Chairman and the Chief Executive Officer

7(1)	The role of Chairman and Chief Executive Officer shall not be performed by the same person.	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company.	Compliant
7(2)	When the Chairman is a Non-Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director of the Company.	The Chairman is a Non-Executive Director. The Chairman's role provides effective leadership and strategic insight into the issues of the Board. Mr. M. S. A. Wadood has been appointed as a Senior Director to comply with the rule. This is disclosed on the Director profiles on page 046.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
7(3)	Disclosure of relationship (specified under this rule) between the Chairman and the Chief Executive Officer and relationships among members of the Board in the Corporate Governance Report.	No such relationships that require disclosure under this rule exist as at December 31, 2022.	Compliant
7(4)	Role of the Chairman.	The Chairman provides leadership to the Board and is responsible for governance and the effective operations of the Board.	Compliant
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meetings. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	The Chairman has delegated this responsibility to the Company Secretary. The monthly agenda for Board meetings is prepared by the Company Secretary under the supervision of the Chairman and sent to all Directors by the Company Secretary.	Compliant
7(6)	Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	The Chairman ensures, that all Directors are properly briefed on issues arising at each Board meeting.	Compliant
7(7)	Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company.	The Chairman sets the agenda and ensures that Board deliberations are done in an objective manner and opinions of all Directors are appropriately considered in decision making thereby promoting active contributions by the individual Directors to the Board's affairs.	Compliant
7(8)	Chairman shall ensure effective contribution of Non-Executive Directors and ensure constructive relationships between Executive and Non-Executive Directors.	There were no Executive Directors in the Board for the financial year 2022.	Compliant
7(9)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties.	The Chairman is a Non-Executive Director who does not get involved directly in any of the executive duties of the Company and does not supervise any Key Management personnel.	Compliant
7(10)	The Chairman shall maintain effective communications with the shareholders and communicate the view of shareholders to the Board.	At general meetings, shareholders are given the opportunity to take up matters for which clarifications needed by the Chairman and the Board. In addition, matters raised by the shareholders outside general meetings are adequately clarified by the Chairman, CEO and/ or any other officer.	Compliant
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Company's operations and business.	The Chief Executive Officer is responsible for the day to-day operations and business of the Company with the assistance of the Corporate Management and is accountable to the Board.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
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## 8. Board Appointed Committees

8(1)	Presence of at least two Board Committees reporting directly to the Board such as Audit Committee, Integrated Risk Management Committee.	The following Board and Sub-committees have been appointed by the Board and reports directly to the Board. 1. Audit Committee 2. Remuneration Committee 3. Integrated Risk Management Committee 4. Related Party Transaction Review Committee 5. Nomination Committee	Compliant
	Each Committee appoints a secretary to arrange meetings and maintain minutes under the supervision of the Chairman of such Committee.	Each Committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the Chairman of the respective Committee.	Compliant
	The Board shall present a report on performance, duties, functions of each Committee at the Annual General Meeting.	Refer to Committee reports published in this Annual Report on pages 086 to 092.	Compliant

### 8(2) Audit Committee

8(2) (a)	The Chairman of the Audit Committee shall be a Non-Executive director who possesses qualifications and experience in accountancy and or audit.	The Chairman of the Audit Committee is Independent Non-Executive Director. He is a Member of the Institute of Chartered Management Accountants-UK He possesses over 30 years of Experience in finance and accountancy.	Compliant
8(2) (b)	Majority of Board members appointed to the Committee shall be Non-Executive Directors.	Audit Committee consists of three Independent Non- Executive Directors.	Compliant
8(2) (c)	Audit Committee shall make recommendations on matters in connection with		
	(i) the appointment of the external auditor	The Committee has recommended M/s. KPMG, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2022.	Compliant
	(ii) implementation of the Central Bank guidelines issued to external auditors	The Committee has implemented Central Bank guidelines issued to auditors.	Compliant
	(iii) application of the relevant accounting standards;	The Committee ensures that the relevant accounting standards are applied.	Compliant
	(iv) the service period, audit fee and any resignation or dismissal of the External auditor provided that the engagement of an audit partner shall not exceed five years and not to re-engage for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee has taken steps to ensure compliance to this Section.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
8(2) (d)	The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes.	The Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process.	Compliant
8(2) (e)	The Committee shall develop and implement a Board approved policy on the engagement of an external auditor to provide non-audit services based on the criteria specified in this rule.	The Board as a general policy discourages the engagement of external auditors for non-audit services. However, if required, non-audit services will be obtained from the external auditors with the prior approval of the Committee and the Board in full compliance with the criteria set out in this rule for such engagements.	Compliant
8(2) (f)	The Committee shall discuss and finalise the nature and scope of the audit (including all aspects set out in this rule) with the external auditors before commencing the audit.	The Auditors make a presentation at the Committee Meeting with details of the proposed audit plan and the scope. The Committee approves the engagement after ensuring that all criteria and required approval is obtained to that effect.	Compliant
8(2) (g)	The Committee shall review the financial information of the Company, in order to monitor the integrity of the financial statements, annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Quarterly financial statements and annual financial statements are circulated to all members of the Committee. The Committee reviews all such financial statements in detail and obtain clarifications from the management where necessary during the review. Once the Committee determines that the said financial statements are prepared according to the applicable accounting standards and the required disclosures are in place, the committee recommends the financial statements for approval by the Board of Directors.	Compliant
8(2) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss in the absence of key management personnel if necessary.	No interim audit was conducted for the year under review. The Committee met the external auditors without the presence of management in May 2023 to discuss the matters pertaining to the 2022 statutory audit.	Compliant
8(2) (i)	The Committee shall review the external auditor's management letter and the management's response thereto.	Once the management letter is received, the external auditors are invited to make a presentation to the Committee. During this meeting, all findings mentioned in the management letter is discussed in detail. Thereafter, the Committee decides on remedial action to be taken in respect of such findings.	Compliant
8(2) (j)	The Committee shall take the following steps with regard to the Internal Audit function of the Company.	The Company does not have an in-house Internal Audit Department. Instead, the internal audit function is outsourced to M/s. Deloitte, Chartered Accountants.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
	i) Review the adequacy of the scope, functions and resources of the Internal Audit Department.	The scope of the internal audit is decided by the Committee at the beginning of the financial year based on risk and operational priorities. The Committee can call for special internal audits of any area outside the given scope if required during the year.	Compliant
	ii) Review the internal audit programme and results of the internal audit process;	The annual audit plan is prepared by the internal auditors and submitted to the Committee for approval.	Compliant
	iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	At the end of each year, the Committee assesses the performance of the internal audits carried out during the year.	Compliant
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	The Committee agrees with the outsourced service provider on the quality of the staff members carrying out the Company's internal audit.	Compliant
	v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers; provide opportunity to submit reason for resigning.	Any change to the engagement manager or engagement partner of the internal audit assignment is discussed and agreed with the Committee.	Compliant
	vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Internal auditors share their draft report with the Manager – Compliance to obtain management comments for the internal audit findings and the final report is directly submitted to the Audit Committee.	Compliant
8(2) (k)	The Audit Committee shall consider the major findings of internal investigations and management's responses thereto;	All findings of internal audit along with the responses of the management are tabled and discussed at the Audit Committee meetings.	Compliant
8(2) (l)	The Chief Finance Officer, the Chief Internal Auditor and representative of the external auditors may normally attend meetings.	The Head of Finance and the Chief Executive Officer attends Committee meetings on invitation. Since the internal audit function is outsourced, the Company does not have a Chief Internal Auditor.	Compliant
	Other Board members and the Chief Executive Officer may also attend meeting upon the invitation of the committee.	The Chief Executive Officer is invited for Committee meetings.	Compliant
	At least once in six months the committee shall meet with the external auditors without the executive directors being present.	The committee met external auditors without the presence of Corporate Management in May 2023.	Compliant



Section	Governance Requirement	Implementation and Compliance	Status of Compliance
8(2) (m)	Committee shall have authority to investigate any matter, access to information, obtain external professional advice and all other resources required by the Committee.	The Committee has authority over all aspects referred in this rule. Refer Audit Committee Report given on pages from 086 to 088 of the Annual Report for more details on this.	Compliant
8(2) (n)	The Committee shall meet regularly and record its conclusions.	The Committee had 4 meetings in 2022 and its decisions are recorded by the Company Secretary who also acts as the secretary to the Committee.	Compliant
8(2) (o)	Disclose activities of the Committee, number of meetings held and attendance of members at meetings in the Annual Report.	This information has been disclosed in the Audit Committee Report given on pages from 086 to 088 of the Annual Report	Compliant
8(2) (p)	The secretary to the Committee shall record and maintain detailed minutes of the Committee meetings.	The Company Secretary is the secretary of the Committee. Detailed minutes of the Committee proceedings are recorded and Committee minutes are maintained by the Company Secretary.	Compliant
8(2) (q)	The Committee shall review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	The Committee has implemented whistle blower policy to facilitate an informal procedure by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	Compliant

### 8(3) Integrated Risk Management Committee (IRMC)

8(3)(a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer and key management personnel supervising credit, marketing operational and strategic risks.	The Committee composition is in full compliance with the provisions of this rule. Please refer Report of the IRMC on page 092 of the Annual report for the composition of the Committee.	Compliant
8(3)(b)	The Committee shall assess all risks to the Company both on individual basis as well as group basis, monthly through appropriate risk indicators and management information.	The Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators.	Compliant
8(3)(c)	Committee shall review the adequacy and effectiveness of Credit Committee, Assets and Liability Committee (ALCO) and other management committees to ensure that those committees manage risks within the quantitative and qualitative limits specified by the IRMC.	ALCO and credit committee proceedings are reviewed by the IRMC and feedback is provided to members of those committees on risk limits.	Compliant
8(3)(d)	Committee shall take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the Committee.	IRMC has determined risk tolerance levels which are being timely updated considering the factors such as strategic objectives of the Company, changes in regulatory requirements and future economic conditions. Each risk category in the risk profile of the Company has been reviewed against the risk tolerance levels by the Committee at their meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
8(3)(e)	Committee shall at least quarterly assess all aspects of risk management including updated business continuity plans.	The Integrated Risk Management Committee has met four (4) times during the financial year 2022.	Compliant
8(3)(f)	Responsibility of the IRMC to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/ or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Risks are identified collectively by the Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively. Further, no instances of non-compliance with this rule were found in 2022.	Compliant
8(3)(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board.	The Committee Chairman updates the Board within a week of each meeting.	Compliant
8(3)(h)	The committee shall establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Manager - Compliance carried out the compliance officer function for the year 2022 and for all compliance related matters. The Manager - Compliance reports directly to the IRMC.	Compliant

## 9. Related party transactions

9(2)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment with any person, who shall be considered as "related parties" under this rule.	A Board approved process is in place to ensure that there are no conflicts of interest in transactions with related parties, as defined in the direction. The transactions carried out with related parties during normal course of business are disclosed in Note 41 on page 168 of the Annual Report.	Compliant
9(3)	Nature of transactions with Related Parties to which the Corporate Governance Directions apply.	Board approved process is in place to ensure the compliance. No accommodation provided to Directors and/or close relatives.	Compliant
9(4)	The Board shall ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to an unrelated comparable counterparty of the Company.	Board approved process is in place to ensure the compliance.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
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## 10. Disclosures

10(1)	Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2022 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards.	Compliant
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### 10(2) Responsibility of the Board to ensure appropriate disclosures in the Annual Report

a)	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.	Disclosures on the compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Financial Statement have been made in the 'Directors Responsibility Statement' on page 097.	Compliant
b)	A report by the Board on the Company's internal control mechanism confirming 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 has been done in accordance with relevant accounting principles and regulatory requirements.	Report by board on the effectiveness of the internal controls mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of Financial reporting, is given on 'Directors responsibility Statement'.	Compliant
c)	External auditor's certification on the effectiveness of the internal control mechanism.	External auditor has issued the certification on the effectiveness of the internal control mechanism on May 30, 2023.	Compliant
d)	Details of Directors, including names, transactions with the Company.	Details of the Directors are given on page 046 and Directors' transactions with the Company have been disclosed in Note 41.1 to the Financial Statements on page 168.	Compliant
e)	Fees/remuneration paid by the Company to the Directors in aggregate.	The Fees/remuneration paid to the Board of Directors is disclosed in aggregate in Note 41.2.1 (a) on page 168.	Compliant
f)	Total net accommodation outstanding 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 Company's capital funds.	Total net accommodation 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 Company's capital funds is given Note 41.1 on page 168.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
	g) The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year.	The aggregate values of remuneration paid by the Company to its Key Management Personnel is disclosed in Note 41.2.1 (b) on page 168.	Compliant
	h) A report containing details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any noncompliance.	<p>"The Annual Report of the Board of Directors on the Affairs of the Company" on pages from 082 to 085 and the Corporate Governance Report on pages from 049 to 081 describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the year 2022.</p> <p>There was no material non-compliance to prudential requirements, regulations, laws and internal controls during 2022 affecting the Company.</p>	Compliant
	i) External Auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance report.	External auditor's certification on the effectiveness of the internal control mechanism and corporate governance has been issued by the external auditor on May 30, 2023.	Compliant

**Company's adherence with 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**

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
<b>A. Directors</b>			
<b>A.1 The Board</b>			
Principle A.1	Every public company should be headed by an effective Board, which should direct, lead and control the Company.	The Company is headed by an effective Board of Directors comprised of experienced and influential individuals with diverse backgrounds and expertise as reflected in their profiles on page 046 of the Annual Report .	Compliant
A.1.1	Board meetings should be held at least once in every quarter of a financial year, in order to effectively execute board's responsibilities, while providing information to the board on a structured and regular basis.	The Board met Seven (7) times during the financial year 2022.	Compliant
A.1.2	The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed.	Board of Directors provide entrepreneurial leadership of the Company and is collectively responsible for the formulation, implementation and monitoring of business strategies of the Company, monitoring the effectiveness of the Company's risk management strategies and internal controls and compliance with ethical and legal standards.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
A.1.3	The Board collectively, and Directors individually, must act in accordance with the laws of the Country, as applicable to the business enterprise. There should be a procedure agreed by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense.	The Board collectively as well as individually complied with the laws of the country that are applicable to the Company. A process is in place for the Board to obtain independent professional advice at the expense of the Company.	Compliant
A.1.4	All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board in ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Removal of the Company Secretary should be a matter for the Board as a whole.	All Directors have access to the Company Secretary who advises the Board and ensures that applicable rules and regulations are complied with. There's no change in Company Secretary during the year under review.	Compliant
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.	All directors exercise independent judgment in all decisions made by the Board.	Compliant
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged.	Every Director has dedicated adequate time and effort to the meetings of the Board and Subcommittee meetings to ensure that the duties and responsibilities are satisfactorily discharged. All Board papers are shared with the Board members at least seven days prior to the Board meetings allowing the Directors adequate time to prepare for the Board meeting.	Compliant
A.1.7	Training for New and Existing Directors.	Any new Director who joins the Board is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company. Where required, the Corporate Management and external experts make presentation with regard to the economic and social environment to update the knowledge of any newly appointed Directors.	Compliant

## A.2 Chairman and the Chief Executive Officer (CEO)

Principle A.2	Chairman and CEO are two key tasks at the top of the Company. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no individual has unfettered powers of decision.	The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separated ensuring the balance of power and authority. The Chairman is a Non-Executive Director while the Chief Executive Officer is an employee of the Company.	Compliant
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	The Roles of Chairman and CEO have not been combined.	Compliant



Section	Governance Requirement	Implementation and Compliance	Status of Compliance
<b>A.3 Chairman's Role</b>			
Principle A.3	The Chairman's role in preserving good Corporate Governance is crucial. As the person, responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.	The Chairman provides leadership to the Board preserving good Corporate Governance and preserves order and facilitate the effective discharge of Board functions.	Compliant
A.3.1	The Chairman should conduct Board proceedings in a proper manner.	The Chairman has conducted all Board meetings in compliance with the provisions of this rule and ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Compliant
<b>A.4 Financial Acumen</b>			
Principle A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	The Board includes members with sufficient financial acumen and knowledge including Chartered Accountants who can provide the Board with necessary guidance in conducting its business. Please refer to Director profiles on page 046.	Compliant
<b>A.5 Board Balance</b>			
Principle A.5	It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	The Board for the financial year 2022 comprised of six (6) Non-Executive Directors.	Compliant
A.5.1	The Board should include Non-Executive Directors of sufficient caliber and number for their views to carry significant weight in the Board's decisions.	The current Board comprises only Non-Executive Directors and their views carry significant weight in the Board's decisions.	Compliant
A.5.2	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non- Executive Directors should be 'independent'.	Five out of the six Non-Executive Directors are deemed as Independent Directors (Please refer page 046 of the Annual Report).	Compliant
A.5.3	For a Director to be deemed 'independent' such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.	The independency of the Directors has been decided with full compliance to this rule.	Compliant
A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/ her independence or non-independence against the specified criteria set out in the Code of Best Practice on Corporate Governance.	Non-Executive Directors have submitted declaration on their independency or non-independency in the required form.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
A.5.5	The Board should make a determination annually as to the independence or non-independence of each Non- Executive Director based on such a declaration made of decided criteria and other information available to the Board and should set out in the Annual Report the names of Directors determined to be 'independent'.	Based on the declarations submitted by each Board member who held office in 2022, the Board has determined that five Independent Non-Executive Directors were in the Company in 2022. The names of the Independent Directors are disclosed in the Annual report. Please refer page 046 of the Annual Report for profiles of the Board of Directors.	Compliant
A.5.6	If an Alternate Director is appointed by a Non- Executive Director such Alternate Director should not be an executive of the Company and such appointee should meet the criteria for Non- Executive Director.	No Alternative Directors were appointed in 2022.	Compliant
A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the independent Non- Executive Directors to be the "Senior Independent Director" (SID) and disclose this appointment in the Annual Report.	Although the requirement to appoint a Senior Independent Director does not arise according to the Code of Best Practices on Corporate Governance, the Company has appointed Mr. M.S.A. Wadood as a Senior Director with effect from September 20, 2018 to comply with Section 7 (2) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009.	Compliant
A.5.8	Senior Independent Director should make himself available for confidential discussions with other directors who may have concerns.	The Senior Independent Director has made himself available for any confidential Discussions with other Directors.	Compliant
A.5.9	The Chairman should hold meetings with the Non- Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Board members are Non-Executive Directors and the Chairman holds meeting with the Non- Executive Directors regularly throughout the year.	Compliant
A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	All proceedings at meetings are recorded by the Company Secretaries.	Compliant

#### A.6 Supply of Information

Principle	The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.	Timely and accurate information is provided to the Board to discharge its duties.	Compliant
A.6			
A.6.1	Management has an obligation to provide the Board with appropriate and timely information. The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.	The management provides the Board with monthly information and all matters related to the meeting of the Board and its Subcommittees. In addition, the members of corporate management make representations to the Board Directors on important issues relating to the financial performance, strategy, risk, system and procedures. The Chairman ensures that all Directors are briefed on issues arising at Board meetings.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
A.6.2	The minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct.	The minutes, agenda and all other information required for the Board and its Subcommittees are submitted (7) days before the meetings.	Compliant
<b>A.7. Appointments to the Board</b>			
Principle A.7	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	The Company has appointed a Nomination Committee on January 27, 2016 for making the recommendations on new appointments to the Board. New Directors, including the Chairman are appointed by the Board by referring Articles of Association as recommended by the Nomination Committee.	Compliant
A.7.1	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. The Chairman and members of the Nomination Committee should be identified in the Annual Report.	The company has appointed a Nomination Committee for making recommendations on new appointments to the Board. The Members of the Nomination Committee are Mr. H. R. S. Wijeratne (Chairman - Non-Executive Director) Mr. H. H. A. Chandrsiri (Independent Non-Executive Director) and Mr. T. M. Wijesinghe (Independent Non-Executive Director).	Compliant
A.7.2	The Nomination Committee or in the absence of a Nomination Committee, the Board as a whole should annually assess Board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company.	The combined knowledge and experience of the present composition of the Board matches with the strategic demands of the Company. However, if there is a change in the directorate, the composition of the Board will be reviewed accordingly.	Compliant
A.7.3	Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders: a brief resume of the Director; the nature of his expertise in relevant functional areas, the names of companies in which the Director holds directorships or memberships in Board committees and whether such Director can be considered 'independent'.	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange. Regulatory authorities are also informed as required.	Compliant
<b>A.8 Re-election</b>			
Principle A.8	All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing director will retire and retiring Director shall be eligible for re-election.	Compliant
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment should not be automatic.	In terms of the Articles of Association all Directors are subject to retirement by rotation. At every AGM, the longest standing Director will retire and retiring Director shall be eligible for re-election.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
A.8.2	All Directors including the Chairman should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.	In terms of the Articles of Association of the Company, all Directors will be re-elected by the shareholders at the first AGM that is held soon after their initial appointment.	Compliant

### A.9 Appraisal of Board Performance

Principle A.9	Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily.	Compliant
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2	The Chairman and the Board annually evaluates their performance in the discharge of key responsibilities of the Board including the performance of the Board appointed Sub - Committees.	Compliant
A.9.2	The Board should also undertake an annual self - evaluation of its own performance and that of its Committees.	The Board has adopted a scheme of self-assessment to be undertaken by each Director annually.	Compliant
A.9.3	The Board should state how performance evaluations have been conducted in the Annual Report.	Please refer comment on Principle A.9.1 above and governance principles and activities on page 050.	Compliant

### A.10 Disclosure of Information in respect of Directors

Principle A.10	Shareholders should be kept advised of relevant details in respect of the Directors.	Shareholders are kept advised of all relevant details in respect of Directors through announcement of Colombo Stock Exchange and disclosures via Annul Report.	Compliant
A.10.1	The Annual Report of the Company should set out the information in relation to each director.	Please refer for information on Directors, Profile on page 046. Director's Interest in Contracts on page 168.	Compliant

### A.11 Appraisal of Chief Executive Officer (CEO)

Principle A.11	The Board should be required, at least annually, to assess the performance of the CEO.	CEOs performance is appraised by the Board annually.	Compliant
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO, should set, in line with the short, medium and long- term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	The Board in consultation with the CEO determines both short term and long term targets for the Company that should be met by the CEO.	Compliant
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year.	Annual appraisal of the performance of the CEO is carried out by the Chairman	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
<b>B. Directors</b>			
<b>B. 1 Remuneration Procedure</b>			
Principle B1	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	The Company has established a formal policy on executive remuneration and for fixing the remuneration packages of individual Directors.	Compliant
B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, on the Company's framework of remunerating Executive Directors.	A Remuneration Committee has been set by the Board.	Compliant
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	Independent Non-Executive Director has been appointed as the Chairman of the Remuneration Committee.	Compliant
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report.	This information is disclosed in the Report of the Remuneration Committee. Please refer Page 089.	Compliant
B.1.4	The Board should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	The Board has decided on the remuneration of Non-Executive Directors, including members of the Remuneration Committee.	Compliant
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors.	There were no Executive Directors in the year under review.	Compliant
<b>B. 2 The Level and Makeup of Remuneration</b>			
Principle B2	Levels of remuneration of both Executive and Non- Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	Director remunerations has been set to attract and retain the Directors needed to run the Company.	Compliant
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	There were no Executive Directors in the year under review.	Compliant
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other Companies.	The Remuneration Committee taken into consideration market information when positioning levels of remuneration of the Company.	Compliant



Section	Governance Requirement	Implementation and Compliance	Status of Compliance
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions across the Company when determining annual salary increases.	The Remuneration Committee is sensitive to remuneration and employment conditions across the Company when determining annual salary increases recommended by the Management.	Compliant
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	There were no Executive Directors in the year under review.	Compliant
B.2.5	Executive share options should not be offered at a discount	No share options were offered.	Compliant
B.2.6	In designing schemes of performance - related remuneration, the Committee should follow the provisions set out in the Code.	There are no performance related elements in remuneration. Please refer the Remuneration Committee Report on page 089 for details of the remuneration policy of the Company.	Compliant
B.2.7	Remuneration Committees should consider what compensation commitments (including pension contributions) their Directors' contracts of service entail in the event of early termination.		Not Applicable
B.2.8	Where the initial contract does not explicitly provide for compensation commitments, the Committee should tailor their approach in early termination cases to the relevant circumstances.		Not Applicable
B.2.9	Levels of remuneration for Non Executive Directors should reflect the time commitment and responsibilities of their role.		Not Applicable

### B. 3 Disclosure of Remuneration

Principle B3	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	Report of the Remuneration Committee includes the Company's remuneration policy and details of Director Remuneration is given on page 168 of the Annual Report.	Compliant
B.3.1	The Annual Report should set out the names of directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer to the Remuneration Committee Report on page 089 for details of the remuneration policy of the Company. Details of Director Remuneration is given on page 168 of the Annual Report. There were no Executive Directors in the Company for the year under review.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
<b>C. Relations with Shareholders</b>			
<b>C1. Constructive Use of The Annual General Meeting (AGM) and Conduct of General Meetings</b>			
Principle C1	Board should use the AGM to communicate with shareholders and should encourage their participation	AGMs of the Company is used to effectively communicate with shareholders. Board encourages shareholder participation at AGMs.	Compliant
C1.1	Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	The Company has recorded all proxy votes for each resolution prior to the general meeting. All proxy votes cast at meetings are recorded by the Company Secretaries.	Compliant
C1.2	The Company should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Separate resolutions are passed on all substantial matters at the AGM including a separate resolution relating to the adoption of the report and accounts.	Compliant
C1.3	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Chairmen of the Audit and Remuneration Committees have been available at the Company AGM and have answered questions from the shareholders at AGMs as requested by the Chairman of the Board.	Compliant
C1.4	The Company should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Notice of AGM and other related papers are sent to the shareholders as required by the Companies Act and the Articles of Association.	Compliant
C1.5	A summary of the procedures governing voting at General Meetings should be circulated with every Notice of General Meeting	The Notice of Meeting and Proxy Form with instructions are supplemented to shareholders to vote at the AGM	Compliant
<b>C2. Communication with Shareholders</b>			
Principle C.2	The Board should implement effective communication with shareholders.	The primary mode of communication with shareholders is at the AGM. In addition, the Company maintains an updated website that provides information to all stakeholders. Changes of the Company are also published at the CSE.	Compliant
C.2.1	There should be a channel to reach all shareholders to disseminate information.	The Company maintains an updated website that is used to disseminate financial and other information to shareholders. The website also has contact details of the Company where shareholders can provide their feedback online or via email or telephone.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
C.2.2	The policy for communication with shareholders should be disclosed	Please refer pages from 049 to 081 of the Corporate Governance Report for the Company policy on communications with shareholders. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided.	Compliant
C.2.3	How the above policy is implemented should be disclosed	Shareholders may at any time request to receive the Annual Report from the Company in printed form without any charge.	Compliant
C.2.4	The contact person for such communication should be disclosed.	Shareholders may, at any time, direct questions and request for publicly available information from the Company Secretary.	Compliant
C.2.5	There should be a process to make all Directors aware of major issues and concerns of shareholders.	The Company Secretary shall maintain records of all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual Director/s as applicable.	Compliant
C.2.6	The person to contact in relation to shareholders' matters should be decided (the relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board).	The Company Secretary can be contacted for any queries of shareholders. Shareholders are encouraged to provide frequent feedback to the Board through the Company Secretary.	Compliant
C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	Please refer pages from 049 to 081 of the Corporate Governance Report for the Company policy on communications with shareholders.	Compliant
<b>C.3 Major and Material Transaction</b>			
Principle C.3	In compliance with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets.	During the year 2022, the Company did not engage in or commit any 'Major Transactions' which materially affected the Company's net asset base.	Compliant
C.3.1	Prior to engaging in 'major related party transactions' involving the acquisition, sale or disposal of greater than one third of the value of the Company's assets, Directors should disclose to shareholders all material facts of such transaction and obtain shareholders' approval by ordinary resolution at an Extraordinary General Meeting.	Section 185 of the Companies Act requires that the Company should obtain shareholder approval by way of special resolution for such transactions. In addition, the CSE Rule on Related Party Transactions, a Board Sub Committee will be required to review all related party transactions and propose transactions exceeding this threshold for shareholder approval. However, there was no necessity for such approval during the year 2022.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
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## D Accountability and Audit

### D.1 Financial Reporting

Principle D.1	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.	The Board has presented a balanced and understandable assessment of the Company's financial position, performance and prospects in the Annual Report.	Compliant
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	The Company has reported a true and fair view of its financial position and performance for the year ended on December 31, 2022 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.	Compliant
D.1.2	The Directors' Report in the Annual Report should contain declarations by the directors to the effect set out in the Code.	Please refer Directors' Responsibility Statement on page 097 in the Annual Report.	Compliant
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities. Further, the Annual Report should contain a Report on Internal Controls.	Please refer Director's Responsibility Statement on page 099 Directors' Responsibility Statement on Internal Control Over Financial Reporting on page 093 and Auditor's Report on pages from 100 to 103.	Compliant
D.1.4	The Annual Report should contain a "Management Discussion & Analysis".	Please refer pages from 011 to 044 for the Management Discussion and Analysis.	Compliant
D.1.5	The Directors should report that the business is a going concern.	Please refer the Annual Report of the Board of Directors on pages from 082 to 085.	Compliant
D.1.6	If the net assets of the Company fall below 50% of the value of the shareholders' funds, the directors shall forthwith summon an Extraordinary General Meeting to notify shareholders.		Not Applicable
D.1.7	The Board should adequately disclose related party transactions in the Annual Report.	Please refer Note 41 on page 168 on Related Party Transactions.	Compliant

### D.2 Internal Control

Principle D.2	The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.	The Board has ensured the adequacy and the integrity of the Company's internal control system to safeguard shareholders' investments and the Company assets.	Compliant
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Section	Governance Requirement	Implementation and Compliance	Status of Compliance
D.2.1	The Directors should annually conduct a review of the risks faced by the Company and the effectiveness of the system of internal controls.	The adequacy and integrity of the Company's internal control system is reviewed by the Board Audit Committee through internal audit reports and system reviews.	Compliant
D.2.2	The Company should have an internal audit function.	The Company internal audit function is outsourced to M/s Deloitte, Chartered Accountants.	Compliant
D.2.3	The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board and Board takes the responsibility for the disclosures on internal controls	The Audit Committee reviewed the internal controls and procedures of the Company and the minutes of the meetings are tabled to the Board meetings. The IRMC reviews processes relating to the risk management framework of the Company and minutes of the meetings are tabled to the Board meeting subsequently.	Compliant
D.2.4	Guidance for the responsibility of Directors in maintaining a system of internal control is set out in the Code	The Directors' responsibility for maintaining a sound system of internal control is given in the Directors' responsibility Statement on Internal Control over Financial Reporting on page 097 of the Annual Report.	Compliant

### D.3 Audit Committee

Principle D.3	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.	The Board has established formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles. The Board through the Audit Committee maintains an appropriate relationship with the Company's Auditors.	Compliant
D.3.1	The Audit Committee should be comprised of a minimum of two independent Non- Executive Directors (in instances where a Company has only two directors on its Board) or exclusively by Non- Executive Directors, a majority of whom should be independent, whichever is higher.	The Audit Committee comprises three independent non-executive directors.	Compliant
D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	Please refer to the Audit Committee Report on pages from 086 to 088 for details of the duties and responsibilities of the Committee.	Compliant
D.3.3	The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties	The Audit Committee's Terms of Reference is stated in the Company's, audit committee charter.	Compliant



Section	Governance Requirement	Implementation and Compliance	Status of Compliance
<b>D.4 Disclosures</b>			
Principle D. 4	The names of Directors comprising the Audit Committee should be disclosed in the Annual Report. The Annual Report should contain a report by the Audit Committee mentioning a determination of the independence of the Auditors and the basis of such determination.	Please refer Audit Committee Report on pages 088	Compliant
<b>D.5 Code of Business Conduct &amp; Ethics</b>			
Principle D.5	The Company must adopt a Code of Business Conduct and Ethics for Directors, and Key Management Personnel.	The Company has adopted the Code of Business Conduct and Ethics for Directors, and Key Management Personnel.	Compliant
D.5.1	The existence of a Code of Business Conduct and Ethics for Directors and Key Management Personnel should be disclosed in the Annual Report with an affirmative declaration of compliance.	Please refer to the Annual Report of the Board of Directors on pages from 082 to 085.	Compliant
D.5.2	The Chairman must affirm in the Annual Report that he is not aware of any violation of the Code.	No violations have been reported during the year. Please refer to the Annual Report of the Board of Directors on pages from 082 to 085.	Compliant
<b>D.6 Corporate Governance Disclosures</b>			
Principle D.6	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	Please refer Corporate Governance Report on Pages from 049 to 081.	Compliant
D.6.1	The Directors should include in the Company's Annual Report a Corporate Governance Report.	Please refer Corporate Governance Report on pages from 049 to 081.	Compliant
<b>E. Institutional Investors</b>			
<b>E.1 Shareholder Voting</b>			
Principle E.1	Institutional shareholders have a responsibility to make considered use of their votes.	Institutional shareholders make use of their votes to ensure their voting intentions are translated into practice.	Compliant
E.1.1	A regular and structured dialogue should be conducted with shareholders.	The Annual General Meeting is used as a forum to have a structured and objective dialogue with shareholders.	Compliant
<b>E.2 Evaluation of Governance Disclosures</b>			
	When evaluating governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors.	Institutional investors are encouraged to give weight to governing arrangements.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
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## F. Other Investors

### F.1 Investing/ Divesting Decision

Principle F.1	Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Individual shareholders investing directly in the Company are encouraged seeking independent advice in investing or divesting decisions. The Annual Report contains sufficient information for potential investors to carry out their own analysis and quarterly financial statements contains information on the progress of the Company to take decisions.	Compliant
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### F.2 Shareholder Voting

Principle F.2	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights.	Compliant
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## Compliance with Corporate Governance rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
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### 7.10.1 Non-Executive Directors

7.10.1	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors.	All six directors of the Board are Non-Executive Directors.	Compliant
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### 7.10.2 Independent Directors

7.10.2(a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Five out of the six Non-Executive Directors are deemed as Independent Directors. Please refer the Annual Report of the Board of Directors on pages from 082 to 085.	Compliant
7.10.2(b)	The Board shall require each Non-Executive Director to submit signed declaration of independence/ non- independence annually.	All Directors have been submitted annual declarations during the year.	Compliant

### 7.10.3 Disclosures relating to directors:

7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report.	Please refer pages from 082 to 085 of the Annual Report of the Board of Directors.	Compliant
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria.	Compliant
7.10.3 (c)	A brief résumé of each Director should be published in the Annual Report including the areas of expertise	Please refer page 046 for the profiles of Board of Directors.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public.	When an appointment of a new director, The Company immediately submits a brief resume of such Director to the CSE.	Compliant
<b>7.10.4 Criteria for determination of independence of Directors</b>			
7.10.4	(a-h) Criteria for defining independence of Non-Executive Directors.	All of the Independent Directors of the Company met the criteria for independency specified in this rule.	Compliant
<b>7.10.5 Remuneration Committee</b>			
7.10.5	A listed company shall have a Remuneration Committee.	The Company has a Remuneration Committee appointed by the Board.	Compliant
7.10.5(a)	The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher. One Non- Executive Director shall be appointed as Chairman of the Committee by the Board.	The Remuneration Committee comprises of three non-executive directors and one of them acts as a Chairman of the committee. Please refer the "Report of the Remuneration Committee" on page 089.	Compliant
7.10.5(b)	The Committee shall recommend to the Board the remuneration payable to the executive directors and Chief Executive Officer. The Board will make the final determination upon consideration of such recommendations.	Please refer the Report of the Remuneration Committee on page 089.	Compliant
7.10.5(c)	The annual report should set out the names of directors comprising the Remuneration Committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.	Please refer the Report of the Remuneration Committee on page 089 for the composition of the Remuneration Committee. Total fees and remuneration paid to all Directors is disclosed on Note 41.1 on page 168.	Compliant
<b>7.10.6 Audit Committee</b>			
7.10.6	A Listed Entity shall have an Audit Committee.	Please refer the 'Audit Committee Report' on pages from 086 to 088 in the Annual Report.	Compliant
7.10.6(a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	All the members of the Audit Committee are Non- Executive Directors. One of those Directors acts as the Chairman of the Committee.	Compliant
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Both the Chief Executive Officer and the Head of Finance attends the meetings.	Compliant
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	The Chairman of the Audit Committee is a member of the Chartered Institute of Management Accountants – UK. Please refer page 046 for profiles of the Audit Committee members.	Compliant

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
7.10.6(b)	<p>Overseeing whether the Financial Statements of the Company is in accordance with Sri Lanka Accounting Standards</p> <p>Overseeing the Company's compliance with financial reporting in accordance with the regulations</p> <p>Overseeing to ensure the adequacy of Company's internal control and risk management process</p> <p>Assessment of the independence and the performance of External Auditors</p> <p>To make recommendation to the Board pertaining to the appointment, reappointment and removal of External Auditors and approve their remuneration and Terms of Engagement.</p>	Please refer to the Audit Committee Report on pages from 086 to 088.	Compliant
7.10.6(c)	<p>The Annual Report shall set out</p> <p>The names of the Directors who comprise the Audit Committee.</p> <p>The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</p> <p>A report by the Audit Committee setting out the manner of compliance of the functions set out in above, during the period to which the Annual Report relates.</p>	Please refer to the Audit Committee Report on pages from 086 to 088.	Compliant

### Compliance with Requirements on Disclosures in the Annual Report in Rule 9.3.2 of the Listing Rules

Section	Governance Requirement	Implementation and Compliance	Status of Compliance
9.3.2 (a)	Non-recurrent Related party transactions exceeding 10% of the equity or 5% of the total assets of the entity as per Audited Financial Statements, whichever is lower.	There were no non-recurrent transactions exceeding 10% of the equity or 5% of the total assets.	Compliant
9.3.2 (b)	Recurrent Related party transactions exceeding 10% of the gross revenue/income as per Audited Financial Statements.	There were no recurrent transactions exceeding 10% of the gross revenue/income. The details of the recurrent transactions during the Financial year 2022 are disclosed under "Note 41 Related Party Disclosure" on page 168 of the Financial Statements.	Compliant

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

OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE STEWARDSHIP

FINANCIAL REPORTS

SUPPLEMENTARY INFORMATION

The Directors of SMB Finance PLC have pleasure in submitting their report together with the audited financial statements of the Company, consolidated financial statements of the group for the year ended December 31, 2022, and the auditors' report thereon. The financial statements were accepted and approved by the Board of Directors on April 3, 2023.

The following details are set out in the report to provide the information required by the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange and are guided by the Code of Best Practices on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka.

## Review of Performance for the year ended in December 31, 2022

The operations of the Company for the year ended December 31, 2022 are reviewed in the Chairman's Message and the Chief Executive Officer's Message and in the Management Discussion and Analysis Report.

## Principal Activities and the Structure

SMB Finance PLC (PQ 91) is a public limited liability company that was established in Sri Lanka in September 3, 1992 and has been listed on the main board of the Colombo Stock Exchange since 1993.

The Company is authorized to carry out finance leasing under the Finance Leasing Act No. 56 of 2000 and with effect from December 1, 2022, the Company received the finance business license under the Finance Business Act No. 42 of 2011. During the year, the principal activity of the Company was to carry out the business of finance leasing, mortgage loans, and

gold loans. The major shareholder of the Company is Mr. H. R. S. Wijeratne who has a direct holding of 64.44% as of December 31, 2022.

## Principal Activities of the Subsidiary

The principal activity of the Company's Subsidiary, SMB Money Brokers (Pvt) Ltd is money brokering activities.

## Principal Activities of the Associate

Kenanga Investment Corporation Ltd is engaged in investment banking related activities & providing advisory services.

## Financial Statements

The financial statements of the group and the Company are given on page 104 to 180 of the Annual report.

## Auditors

The financial statements for the year ended December 31, 2022 have been audited by Messrs. KPMG, Chartered Accountants who have been re-appointed at the AGM held on June 30, 2022. The fees paid to the auditors are disclosed in Note 13 on page 136 of the Annual Report. The audit fees and fees paid for other services provided by the auditors are separately disclosed in the aforementioned note. As far as the Directors are aware, the auditors do not have any relationship with the Company other than the services paid for in the aforementioned note. The auditors have provided a declaration confirming their independence.

## Auditors' Report

The auditors' report on the group financial statements is given on the pages from 100 to 103 of the Annual Report as required by section 168 (1) (c) of the Companies Act No. 07 of 2007.

## Board of Directors

The following persons held office as directors of the Company as at December 31, 2022.

Mr. H. R. S. Wijeratne (Chairman)

Mr. T. M. Wijesinghe

Mr. A. T. S. Sosa

Mr. M. S. A. Wadood

Mr. L. Abeysinghe

Mr. H. H. A. Chandrasiri

No person ceased to hold office as director of the Company during the accounting period.

## Retirement of Directors

In terms of Articles 87 and 91 of the Articles of Association of the Company, Mr. L. Abeysinghe and Mr. M. S. A. Wadood retire and are eligible to offer themselves for reelection.

## Independent Directors

During the year, the following Directors were acting as the Independent Non-Executive Directors of the Company.

Mr. T. M. Wijesinghe

Mr. A. T. S. Sosa

Mr. M. S. A. Wadood

Mr. L. Abeysinghe

Mr. H. H. A. Chandrasiri

## Director's Shareholdings

The shareholdings of the Directors of the Company are shown on page 041 of the Annual Report

## Directors' Interest in Contracts

The Directors of the Company have no direct or indirect interest in any contract or proposed contract with the Company, except those specified in Note 41 on page 168 of the Annual report, which has been disclosed and declared at meetings of directors.

## Interests Register

The Directors' Interests' register is maintained by the Company. No entries to the interests register were made during the 2022 financial year.



## Directors' Fees and Remuneration

Directors' fees and remuneration paid for the financial year ended December 31, 2022 are given in Note 41.2.1 (a) of the Annual report.

## Board Sub-Committees

The Board, while assuming the overall responsibility and accountability for the management of SMB Finance PLC, has also appointed the following Board Sub-Committees in 2022 to ensure more effective control over the affairs of the Company, conforming to the Listing Rules of the Colombo Stock Exchange, Directions issued by the Central Bank of Sri Lanka under the Finance Leasing Act No. 56 of 2000 and Finance Business Act No. 42 of 2011 and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

- Audit Committee
- Remuneration Committee
- Integrated Risk Management Committee
- Nomination Committee
- Related Party Transaction Review Committee
- Legal Sub Committee

Audit Committee Report is given on pages 086 to 088 of the Annual Report. The remuneration Committee Report is given on page 089 of the Annual Report. The risk Committee Report is given on page 092 of the Annual Report. Nomination Committee Report is given on page 090 of the Annual Report. Related Party Transaction Review Committee Report is given on page 091 of the Annual Report.

## Directors' Fees and Remuneration

Directors' Fees and Remuneration paid

for the financial year ended December 31, 2022 are given on Note 41.2.1 on page 168 of the Annual Report.

## Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Company to reflect the true and fair view of the state of its affairs. The Directors are of the view that the enclosed audited financial statements have been prepared in conformity with the requirements of the Companies Act No 7 of 2007 and Sri Lanka Accounting Standards (SLFRS and LKAS) issued under Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

## Going Concern

The Directors have made an assessment of the Company's ability to continue a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

## Corporate Governance

The Board of Directors has acknowledged the responsibility to maintain effective corporate governance structures and processes and to be in compliance with all relevant rules, regulations and best practices. The Company is listed on the Colombo Stock Exchange is in compliance with the Listing Rules on Corporate Governance of the Colombo Stock Exchange and with the Corporate Governance directions issued by the Central Bank of Sri Lanka under the Finance Leasing Act No. 56 of 2000

and Finance Business Act No. 42 of 2011. In addition, the Company is also in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Direction No.4 of 2009 on Corporate Governance of the Finance Leasing Act No. 56 of 2000 company's compliance with rules on corporate governance are given in the corporate governance report on pages 049 to 081.

## Compliance with Rules & Regulations

The Company has complied with the regulations and the directions issued by the Central Bank of Sri Lanka (CBSL) and tax and other regulations applicable to the Company and have submitted all the returns and the details to the relevant parties by the due dates. In addition, the Company complies with the Financial Transaction Reporting Act No. 06 of 2006 by sending a monthly report to the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka (CBSL). Compliance Reports have been submitted to the Board on a monthly basis confirming the same.

## Statutory Payments

The Directors confirm that to the best of their knowledge and belief, all statutory payments in relation to all relevant regulatory and statutory authorities have been paid and provided for. A statement of compliance by the Board of Directors in relation to statutory payments is included in the Directors' Responsibility on Financial Reporting Statement on page 097.

## Code of Conduct and Ethics

The Board has approved a Human Resource Policy and Procedure Manual which includes a Code of Conduct for

all its employees and has mandated that it should be followed without any exception.

The Company has also adopted a Code of Conduct and Ethics for Directors. The Directors and the Key Management Personnel had declared compliance with the relevant Code of Conduct and Ethics.

## Equitable Treatment of Stakeholders and Their Interest

The Company has taken all steps to ensure equitable treatment to all stakeholders. The Directors assure that the Company has taken necessary precautions to Safeguard the Interest of its stakeholders.

## Risk Management and Internal Controls

The Board of Directors considers that strong internal controls are integrated to the sound management of the Company and is committed to maintaining strict financial, operational and risk management controls overall activities of the Company.

## Change in Accounting Policies

There were no changes to the accounting policies for the financial year 2022. Significant accounting policies adopted in preparation for the 2022 financial statements are given in Note 5 of the audited financial statements.

## Group Revenue

The revenue of the group was Rs. 577 Mn (2021 - Rs. 347 Mn). An analysis of revenue based on segments are disclosed in Note 45 on page 178 of the Annual report.

## Financial Investments

Financial investments mainly comprise investment portfolios, which have been segregated into different categories

as required by Sri Lanka Accounting Standards (SLFRS and LKAS). The amount of financial investments held by the group as at December 31, 2022 amounted to Rs. 114.8 Mn (2021 - Rs. 99.8 Mn). A detailed description of the financial investments are disclosed in Note 20 on pages 143 to 146 of the Annual Report.

## Property, Plant & Equipment

Details relating to property, plant & equipment are disclosed in Note 24 on pages 150 to 152 of the Annual Report.

## Intangible Assets

Capital expenditure on the acquisition of intangible assets during the year is Rs. 239.6 Mn (2021 - Rs. Nil). The carrying value of intangible assets as at the reporting date amounted to Rs. 245.1 Mn (2021 - Rs. 5.6 Mn). Movement of the intangible assets from January 1, 2022 to December 31, 2022, additions and disposals made and amortization charge for the year is disclosed in Note 26 on page 153 of the Annual report. Following their initial recognition, intangible assets other than the ones with perpetual life are carried at cost less accumulated amortization and accumulated impairment losses.

## Investment Properties

Investment property owned by the group including extents, locations and valuations are stated in Note 23 on pages from 148 to 149 of the Annual report.

## Reserves

The reserves consist of the statutory reserve fund, fair value reserve and retained reserves. The reserves of the group are disclosed in the statement of changes in equity in Notes 34 to 36 on pages from 159 to 160 of the Annual Report.

## Taxation

A detailed description of the income tax rate applicable to the Company and a reconciliation of the accounting profits with taxable profits are given in Note 15 on pages 136 to 138 of the Annual Report.

The group policy is to provide for deferred taxation on all known temporary differences as of the reporting date on the liability method. The deferred tax details of the group are disclosed in Note 27 on pages from 154 to 155 of the Annual Report.

## Donations

No donations were made by the Company during the year 2022 (2021 - Nil).

## Provisions

The Directors have taken all responsible steps to ensure adequate provisioning has been made for all known liabilities. The basis adopted for provisioning is disclosed in the accounting policy No. 3.2.7 on page 114 of the Annual Report.

As at the date of the report, the Directors are not aware of any circumstances, which would render inadequate amounts provided for in the audited financial statements.

## Events after the Reporting Date

No events have occurred after the reporting date which requires disclosure as confirmed in Note 40 on page 167 of the Annual Report.

## Capital Commitments

There are no capital commitments as at December 31, 2022, as confirmed in Note 39.1 on page 167 of the Annual Report.

## Contingent Liabilities

There are no material contingent liabilities as at December 31, 2022 as

confirmed in the Note 39.2 on page 167 of the Annual Report.

## Statutory Payments

The Directors confirm that to the best of their knowledge and belief, all statutory payments in relation to all relevant regulatory and statutory authorities have been paid and provided for.

## Environmental Protection

The Directors have ensured that every possible step has been taken to comply with the relevant environmental laws and regulations in the country. The Company has not engaged in any activity that is harmful or hazardous to the environment.

## Stated Capital

The Stated Capital of the Company as at December 31, 2022 was Rs. 3,062,681,524 comprising 9,551,978,760 numbers of ordinary shares.

## Loan Capital

The Company had issued quoted / unquoted, unsecured, subordinated, redeemable debentures to mobilize funds to be used in the disbursement of lease and loan facilities.

## Related Party Transactions

The Board wishes to declare that the Company has complied with Section 9 of the Listing Rules of CSE and accordingly has disclosed the transactions with related parties in terms of the Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures. The details of the Related Party Transactions are disclosed in

Note 41 on page 168 of the Annual Report in the audited financial statements. Apart from such disclosed transactions, the Company had no other related party transactions for the year 2022.

## Share Information

Information relating to Earnings, Net Assets, Market value per share and share trading are given on page 042 of the Annual Report.

## Major Shareholders

Details of the top twenty-five largest holders of voting and non-voting Shareholders of the Company and the percentages held by each of them are disclosed on pages from 039 to 040 of the Annual Report.

## The Distribution and Analysis of the Shareholders

The details of the distribution and analysis of shareholders is given on pages from 043 to 044 of the Annual Report.

## Human Resources Policy

It is the Company's policy to practice equal opportunity for all employees. The Company continuously invests in the training and development of staff in order to maintain a dedicated and highly motivated team to achieve service excellence.

A brief description of the Company's HR Policy and the Remuneration Methodology is given in the Human Capital Management Report on pages 031 to 036 of the Annual Report.

The staff strength of the Company as at December 31, 2022 were 47 (2021 - 39). The Company does not have any material issues pertaining to employees and industrial relations of the Company.

## Annual Report

The Board of Directors approved the Company Financial Statements together with the reviews which form part of the Annual Report on May 30, 2022.

The appropriate number of copies will be submitted to the Colombo Stock Exchange, Central Bank of Sri Lanka, Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar of Companies within the time frame.

## Annual General Meeting

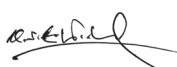
The Board of Directors has decided to hold the Annual General Meeting as a virtual meeting on June 30, 2022 at 2.00 p.m. in line with the Guidelines issued by the Colombo Stock Exchange for hosting virtual AGMs. The notice of the Annual General Meeting is given on pages 185 and 194 of the Annual Report.

In addition, the notice of meeting, circular to shareholders, request form for an annual report hard copy, guidelines for the registration process for the virtual AGM, registration form for the virtual AGM and proxy forms are available on the Company's website.

This report is signed for and on behalf of the Board of Directors by,



**A. T. S. Sosa**  
Director



**M. S. A. Wadood**  
Director



**P W Corporate Secretarial (Pvt) Ltd**  
Company Secretaries

Colombo.  
May 30, 2023

## Report of the Audit Committee

### Composition of the Committee

The Board Audit Committee (BAC) appointed by and responsible to the Board of Directors comprises three Independent Non-Executive Directors and are in line with the Audit Committee composition requirements specified in the Finance Leasing (Corporate Governance) Direction issued by the Central Bank of Sri Lanka and the requirements in Section 7.10.6 of the listing rules issued by the Colombo Stock Exchange. All members of the Committee have a depth of financial expertise and business acumen and the Committee is conscious of the need to keep its knowledge up to date. More information on the experience and brief profiles of the Committee members are given on page 046 in the Annual Report.

Name	Directorship Status	Status
Mr. A. T. S. Sosa	Independent/Non-Executive Director	Chairman
Mr. M. S. A. Wadood	Independent/Non-Executive Director	Member
Mr. L. Abeysinghe	Independent/Non-Executive Director	Member

### The Charter

The Audit Committee charter defines the terms of reference of the Committee and has been periodically revised by the Board of Directors to ensure that developments to the Committee's functions and concerns are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly to the Board.

The functions of the Committee are geared to assist the Board of Directors in carrying out its oversight functions in relation to the accuracy and integrity of the financial statements and compliance with legal and regulatory requirements with a view to safeguarding the interests of shareholders and other stakeholders. The Committee also oversees the effectiveness of the system of internal controls and the independence and performance of the internal and external auditors.

### Meetings

The Committee met on four (4) occasions during the financial year ending December 31, 2022. Proceedings of these meetings with adequate

details of matters discussed are regularly reported to the Board of Directors.

Mr. A.T.S. Sosa	4/4
Mr. M.S.A. Wadood	4/4
Mr. L. Abeysinghe	4/4

As per Section 7.10.6 (a) of the Listing Rules, the Chief Executive Officer and the Head of Finance attended the Committee meetings by invitation. The Company's internal auditor, Messrs. Deloitte was invited to participate in meetings where internal audit reports were discussed. The members of the management team were invited to participate in meetings as and when required. The Company's external auditor Messrs. KPMG was invited to a meeting on May 2023 to discuss the audit engagement.

Any individual member of the Committee had the opportunity to raise specific issues at the meetings. The undersigned was in regular contact with the Chief Executive Officer and the Head of Finance on matters coming under the purview of the Committee. P W Corporate Secretarial Ltd acted as Secretaries to the BAC.

### Activities of the Committee

**Financial Reporting** – The Committee assisted the Board in its oversight of the preparation of financial statements to evidence a true and fair view of the financial position and performance of the Company. The BAC has reviewed and discussed with the management, the annual and interim financial statements prior to their release. The review included the extent of compliance with the Sri Lanka Accounting Standards, provisions of the Companies Act and other legal and regulatory requirements applicable to the Company.

The Committee also reviews the effectiveness of the financial reporting systems in place to ensure the reliability of the information provided in the financial statements and the accounting policies to determine the appropriateness of accounting policies and recommend changes to accounting policies where necessary. BAC also reviewed significant estimates and judgments made by the management in preparing financial statements.

**Internal Controls** – Finance Leasing (Corporate Governance) Direction requires the Committee to assess the Company's compliance with Directions issued by CBSL and the management's internal controls over financial reporting. Section 7.10.6 b of Listing Rules requires the Committee to oversee the processes to ensure that the Company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.

The Committee is assisted by the internal and external auditors to closely monitor the procedures designed to maintain an effective

internal control mechanism to provide reasonable assurance that the above requirements are being complied with thereby ensuring that the financial reporting system can be relied upon in the preparation and presentation of financial statements.

A report by the Board on the Company's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given in page 093 The external auditor's certification of the effectiveness of the internal control mechanism was issued on May 30, 2023.

**Internal Audit –** On behalf of the Committee, the internal auditor Messrs. Deloitte performs a comprehensive exercise that entails reviewing all aspects of internal controls of the Company including controls over financial reporting, operations, and regulatory risks. The Committee reviews the adequacy of the scope, annual internal audit plan, functions and resources of the internal auditors and satisfies itself that the internal auditors have the necessary authority to carry out their work. The Committee provides a forum to review internal audit reports, consider the findings and recommend corrective actions to be taken by the management with a follow-up monitoring mechanism that manages significant business risk and controls.

**External Audit –** The BAC is primarily responsible for making recommendations to the Board on the appointment, reappointment,

or removal of the external auditor in line with professional standards and regulatory requirements. The Committee also evaluates and makes recommendations to Board regarding the external audit fee.

On the recommendation of the Board, the shareholders have approved the reappointment of Messrs. KPMG (Chartered Accountants) as the external auditor of the Company for the financial year 2022. Messrs. KPMG has been the external auditor of the Company since its inception in 1992. However, the engagement audit partner is rotated every five (5) years.

As far as the BAC is aware, the external auditors do not have any relationship (other than that of auditors and associated therewith) with the Company. The Committee has also received a declaration from Messrs. KPMG, Chartered Accountants as required by the Company's Act No.7 of 2007, confirming that they do not have any relationship with the Company, which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the listing rules issued by the Securities and Exchange Commission of Sri Lanka. The Committee reviewed the non-audit services provided by the auditors to ensure that the provisions of these services do not impair their independence to the best of the knowledge and belief of the Committee.

The BAC met the external auditors in May 2023 without the presence of the CEO and the corporate management. This meeting provided an opportunity for the external auditor to discuss any

issues, problems and reservations that arose during the 2022 financial statement audit and also to ensure that there was no limitation of scope in relation to the audit and to allow disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit. The BAC concluded that there was no cause for concern.

### **Oversight on Regulatory Compliance**

- The Committee closely scrutinizes compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements. The quarterly internal audit reports submitted by the internal auditor and the monthly reports submitted by the compliance officer were used by the Committee to monitor compliance with all such legal and statutory requirements.

**Ethics and Good Governance -** The Committee ensures the highest standards of good governance and ensures full compliance with the applicable rules on corporate governance under the Listing Rules of the Colombo Stock Exchange. In addition, the Committee also ensures that the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the CBSL Directions on corporate governance.

**Whistle Blowing –** The Board has approved a whistleblower policy that intends to serve as an informal channel for corporate risk management. An employee, who observes or notices any improper activity or unethical practices in the Company or receives credible



information of the same, may forthwith report the same to the Committee in compliance with the procedures laid down in the HR Policy and Procedure Manual. The Committee shall take swift and objective steps to conduct independent investigations into all such incidents that are reported through the whistleblowing mechanism. The Committee has the authority to investigate any matter, including calling an employee to

be questioned at a meeting of the Committee and the authority to obtain external professional advice as deemed necessary by the Committee.

### Conclusion

The Audit Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that

the Company's assets are safeguarded and that the financial statements of the Company are reliable. In addition, the Committee is satisfied that the Company's compliance framework provides reasonable assurance that all relevant laws, rules, regulations, codes of ethics and standards of conduct have been followed and complied with by the Company.



**A. T. S. Sosa**

*Chairman, Audit Committee*

*May 30, 2023*

## Report of the Remuneration Committee

### Composition of the Committee

The Remuneration Committee appointed by the Board of Directors comprises three Non-Executive Directors and meets composition requirements stated in Section 7.10.5 of the Listing Rules issued by the Colombo Stock Exchange. The following members served on the Committee during the year 2022. More information on the experience of and brief profiles of the Committee members are given on page 046 in the Annual Report.

Name of the Board Sub Committee Member	Directorship Status	Membership status
Mr. H. H. A. Chandrasiri	Independent/Non-Executive Director	Chairman
Mr. H. R. S. Wijeratne	Non-Executive Director	Member
Mr. M. S. A. Wadood	Independent/Non-Executive Director	Member

### Terms of Reference

The Committee operates within Board approved terms of reference and assists the Board of Directors in developing and administering fair and transparent HR procedures and policies and in implementing the overall human resources strategy of the Company.

The Committee evaluates, assesses, and recommends the remuneration of Directors to the Board interview external applicants for DGM grade and above and determine remuneration packages for the senior corporate management personnel recruited by the Committee based on their qualifications, experience, competency, and comparable market statistics. The Committee also interviews internal candidates recommend for promotion to Chief Manager grade and above positions to ensure a consistent leadership competency framework is applied to judge the suitability of the candidates. The Committee consults the Board as and when required in achieving the above objectives. The Committee is authorized to seek external professional advice on matters within its purview.

### Meetings

The Committee meets when required to make recommendations to the Board

on matters related to its functions.

The Chairman of the Committee can convene a special meeting in the event a requirement arises. Though the Committee did not meet in 2022, the Chairman of the Committee continuously provided insights to the Board of Directors when HR-related matters were discussed at Board meetings.

The Chief Executive Officer and the Senior Manager of the HR Department may be invited to participate in the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meetings. The proceedings of the Committee meetings are regularly reported to the Board of Directors. P W Corporate Secretarial Ltd acted as Secretaries to the Committee.

Activities of the Remuneration Committee

The activities of the Remuneration Committee during the year under review included the following.

- Making recommendations to the Board on the Company's organizational structure and HR policies.
- Aligning the human resources department with the corporate strategy function to facilitate a human resource transformation.

- Ensuring employees of the Company at all levels are adequately rewarded for their performance in line with the remuneration policy of the Company.
- Recommending bonuses to the Board for adoption.
- Deliberate on succession planning, human capital risks and plans to mitigate them.
- Determine a performance appraisal policy and a performance rating system for the annual performance appraisal of employees.

### Remuneration Policy

The remuneration policy of the Company aims to attract, motivate, and retain high-caliber staff with the appropriate professional, managerial, and operational expertise, necessary to achieve the strategies and objectives of the Company and reward their performance commensurate with each employee's qualifications, level of experience and contribution, bearing in mind the business performance and shareholder returns.

### Directors' Remuneration

The Board decides the remuneration of the Non-Executive Directors based on the recommendation of the Committee. All Non-Executive Directors receive a fee for attending Board meetings and Committee meetings. No performance or incentive payments are made to the Non-Executive Directors and they are not entitled to retirement benefits. The Company does not have share option plans for Directors and no Director is entitled to Company loans. The total of Directors' remuneration paid during the year under review is set out in Note No.41.2.1 of the Financial Statements on page 168 of the Annual Report.



**H. H. A. Chandrasiri**

Chairman, Remuneration Committee  
May 30, 2023

## Report of the Nomination Committee

### Composition of the Committee

The Nomination Committee appointed by the Board of Directors comprises three Non-Executive Directors and meets composition requirements stated in the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The following members served on the Committee during the year 2022. More information on the experience of and brief profiles of the Committee members are given on page 046 in the Annual Report.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. T. M. Wijesinghe	Independent/Non-Executive Director	Chairman
Mr. H. R. S. Wijeratne	Non-Executive Director	Member
Mr. H. H. A. Chandrasiri	Independent/Non-Executive Director	Member

### Terms of Reference

The Nomination Committee makes recommendations to the Board on all new Board appointments. Terms of Reference of the Nomination Committees include the following.

- Propose appointments to the Board of Directors and provide advice and recommendations to the Board and/ or the Chairman on any such appointment.
- Advise the Board on qualifications, competencies and independence of Directors and relationships which have the potential to give rise to conflict vis-a-vis the business of the Company.
- Consider if a director is able to and has been adequately carrying out his or her duties as a director, taking into consideration the number of listed company boards on which the Director is represented and other principal commitments.

The Committee is authorized by the Board to seek appropriate professional advice inside and outside the Company as and when it considers necessary.

### Meetings

The Committee meets when required to make recommendations to the Board on matters related to its functions. The Chairman of the Committee can convene a special meeting in the event a requirement arises. Members of the Nomination Committee do not participate in decisions relating to their own appointment. During the year 2022, the Committee formally met once.

The Secretary of the Company, P W Corporate Secretarial Ltd acted as Secretaries to the Committee. The Minutes of the meetings of the Committee are circulated to all members of the Board.

Mr. T. M. Wijesinghe	1/1
Mr. H. H. A. Chandrasiri	1/1
Mr. H. R. S. Wijeratne	1/1

### Activities in 2022

During the year, the Committee continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



**T. M. Wijesinghe**

Chairman, Nomination Committee  
May 30, 2023

## Report of the Related Party Transactions Review Committee

### Composition of the Committee

The Related Party Transactions Review Committee appointed by the Board of Directors comprises three Non-Executive Directors and meets composition requirements stated in Section 9 of the Listing Rules issued by the Securities and Exchange Commission of Sri Lanka. The following members served on the Committee during the year 2022. More information on the experience and brief profiles of the Committee members are given on page 046 in the Annual Report.

Name	Directorship Status	Status
Mr. L. Abeysinghe	Independent/Non-Executive Director	Chairman
Mr. M. S. A. Wadood	Independent/Non-Executive Director	Member
Mr. A. T. S. Sosa	Independent/Non-Executive Director	Member

### Terms of Reference

The purpose of the Committee is to provide independent review, approval, and oversight of Related Party Transactions of the Company. Terms of Reference of the Related Party Transactions Committee include the following,

- Advising the Board in making immediate market disclosures on applicable RPT as required by Section 9 of the Continuing Listing Requirements of the Colombo Stock Exchange.
- Advising the Board in making appropriate disclosures on RPT in the Annual Report as required by Section 9 of the Continuing Listing Requirements of the Colombo Stock Exchange.

The Committee is authorized by the Board to seek appropriate professional advice inside and outside the Company as and when it considers necessary.

### Meetings

The Committee meets regularly and minutes of all meetings are properly documented and communicated to the Board of Directors. The Chairman of the Committee can convene a special meeting in the event a requirement arises. During the year 2022, the Committee met five (5) times.

The proceedings of the Committee meetings were regularly reported to the Board of Directors. The Committee is assisted by the Chief Executive Officer and the Head of Finance who attended the meetings of the Committee on a regular basis. The Secretary of the Company, P W Corporate Secretarial Ltd acted as Secretaries to the Committee.

Mr. L. Abeysinghe	5/5
Mr. M. S. A. Wadood	5/5
Mr. A. T. S. Sosa	5/5

### Activities in 2022

During 2022, the Committee periodically reviewed all potential related party transactions in accordance with the rules pertaining to RPTs under the Listing Rules of the Colombo Stock Exchange.

In the opinion of the Committee, there were no transactions with Related Parties that were more favourable or preferential during the period under review and there were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds as stipulated by Listing Rules of the Colombo Stock Exchange.

Details of other Related Party Transactions are given in Note 41 to the Financial Statements on page 168 of the Annual Report.

### Declaration

The declaration by the Board of Directors in the annual report that no related party transactions other than the recurrent transactions disclosed under “Note 41 – Related Party Disclosures” of the Financial Statements contained in the Annual Report of the Board of Directors on the Affairs of the Company are given on pages from 082 to 085.



**L. Abeysinghe**

Chairman, RPT Committee  
May 30, 2023

## Report of the Integrated Risk Management Committee

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The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and to ensure the adequacy and effectiveness of the risk management framework of the Company. The Committee meets the composition requirements stated in the Finance Leasing (Corporate Governance) Direction No.4 of 2009 issued by the Central Bank of Sri Lanka. The committee comprises the following members.

Mr. M. S. A. Wadood	INED & Chairman
Mr. H. H. A. Chandrasiri	INED & Member
Mr. A. T. S. Sosa	INED & Member
Mr. T. M. Wijesinghe	INED & Member
Chief Executive Officer	Member
Head of Credit	Member
Head of Finance	Member
Head of Sales	Member
Senior Manager – Legal	Member
Senior Manager – Recovery	Member
Senior Manager – HR & Admin	Member
Manager - Compliance	Member
Manager - IT	Member
Manager - Pawning	Member
Manager - Treasury	Member

INED – Independent Non-Executive Director

### Terms of Reference

The Committee adopted the provisions of Section 8 (3) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009 issued by the Central Bank of Sri Lanka as its terms of reference. A detailed approach to the Company's risk management process is given on pages 037 to 038 of the Annual Report.

### Meetings

The Committee held four (4) meetings for the year under review. The minutes of the IRMC were tabled at the Board meetings.

Mr. M. S. A. Wadood	4/4
Mr. A. T. S. Sosa	4/4
Mr. T. M. Wijesinghe	4/4
Mr. H. H. A. Chandrasiri	4/4

### Activities of the Integrated Risk Management Committee

The Committee is responsible for:

- Identifying, assessing, and managing broad risk categories, i.e., credit, market, liquidity, operational and strategic risks through risk indicators;
- Reviewing the adequacy and effectiveness of all management-level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits;

- Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Company's policies;
- Taking appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions; and
- Establishing a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies in all areas of business operations.

During the year, the Committee reviewed the process for identification, evaluation, and management of all significant risks throughout the Company and provided the necessary guidance in line with the risk appetite of the Company. The Committee submitted risk assessment reports to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions pursued and seeking the Board's views. In addition, proceedings of meetings are also tabled at a subsequent meeting of the Board.

The IRMC is satisfied that the risk exposure of the Company is being appropriately managed.



**M. S. A. Wadood**

Chairman, IRMC

May 30, 2023



## Directors' Responsibility Statement on Internal Control Over Financial Reporting

### Responsibility

In line with Section 10 2(b) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009, as amended by Finance Leasing (Corporate Governance – Amendment) Direction No. 1 of 2013 and Finance Business (Corporate Governance) Direction No. 5 of 2020, the Board of Directors presents this report on internal controls over financial reporting.

The Board of Directors have overall responsibility over SMB Finance PLC's internal controls over financial reporting and reviewing its adequacy and effectiveness.

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 system of internal controls over financial reporting as and when there are changes to the business environment or regulatory guidelines. This process is regularly reviewed by the Board.

The Board is of the view that the system of internal controls over financial reporting in place is adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of the financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control, by identifying and assessing the risks faced, and in the design, operation, and monitoring of suitable internal controls over financial reporting to mitigate and control these risks.

Internal controls over financial reporting are checked by the internal auditors of the Company for suitability of design and effectiveness on an ongoing basis. The scope, quality, and reports of internal audits are reviewed by the Board Audit Committee at its meetings, and improvements are recommended wherever necessary.

### Confirmation

Based on the above processes, 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 has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

### Review of the Statement by External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting on May 30, 2023.

By order of the Board,



**A. T. S. Sosa**

*Independent Non-Executive Director*



**M. S. A. Wadood**

*Independent Non-Executive Director*

Colombo

May 30, 2023



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426  
Fax +94 - 11 244 5872  
+94 - 11 244 6058  
Internet [www.kpmg.com/lk](http://www.kpmg.com/lk)

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

## To the Board of Directors of SMB Finance PLC

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

We were engaged by the Board of Directors of SMB Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control ("Statement").

### Management responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company and Finance Leasing Company on the Directors' Statements on Internal Control" issued in compliance with section 10 (2) (b) No 03 of 2008 amended by the Direction 06 present the report on internal control finance reporting. The Finance Companies (Corporate Governance) Direction No. 3 of 2008 and section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirements 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, due care, confidentiality, and professional behavior.

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

### Auditor's Responsibilities

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

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

This standard requires that the auditor plan and perform procedures to obtain limited assurance about whether Management has prepared, in all

material respects, the Statement on Internal Control.

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

### Summary of work performed

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

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

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors.
- Reviewed the documentation prepared by the Management to support their Statement made.

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

C. P. Jayatilake FCA  
Ms. S. Joseph FCA  
S. T. D. L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA

T. J. S. Rajakarier FCA  
Ms. S.M.B. Jayasekara FCA  
G. A. U. Karunaratne FCA  
R. H. Rajan FCA  
A.M.R.P. Alahakoon ACA

W. J. C. Perera FCA  
W. K. D. C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasekara FCA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTII

- (c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and relevant Board Committees.
- (e) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (f) Obtained written representations from Directors on matters material to the Statement on Internal

Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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


The procedures selected depend on the auditor's judgment, having regard

to the auditor's understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared

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

**Auditor's conclusion**

Based on the procedures performed, nothing has come to the attention that causes us to believe that the Statement 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 of the Company.

  
**Chartered Accountants**  
30 May 2023  
Colombo

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## Chief Executive Officer's and Head of Finance's Responsibility Statement

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The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS and LKAS) issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 07 of 2007, and the Listing Rules of the Colombo Stock Exchange.

We accept responsibility for the integrity and accuracy of these financial statements.

Significant accounting policies have been applied consistently. Application of significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the external auditors. Estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order to ensure that the financial statements are true and fair. To ensure this, our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us and for safeguarding the Company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material

weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

The financial statements were audited by Messrs. KPMG, Chartered Accountants, and the Independent Auditors. The Audit Committee of the Company meets periodically with the internal auditors and the external auditors to review the manner in which these auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company ensured compliance with the guidelines for the audit of Listed Companies where required. It is further confirmed that all statutory payments have been appropriately settled or where relevant provided for by the Company.



**Menaka Silva**  
Head of Finance



**Supul Wijesinghe**  
Chief Executive Officer

Colombo  
May 30, 2023

# Directors’ Responsibility to Financial Reporting

The Directors of the Company state below their responsibilities in relation to the Financial Statements of the Company. These differ from the Auditors’ responsibilities, which are set out in their report given on pages from 100 to 103.

The Companies Act No. 7 of 2007 requires the Directors to prepare Financial Statements giving a true and fair view of the income of the financial year and the state of affairs of the Company as at the end of the financial year.

In preparing these Financial Statements, the Directors are required to select appropriate Accounting Policies and apply them consistently, subject to any material departures being disclosed and explained and to make judgments and best estimates and to ensure Sri Lanka Accounting Standards (SLFRS /LKAS) have been followed.

The Directors are required to prepare these Financial Statements on a going concern basis unless it is not

appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the Financial Statements continue to be prepared on the said basis.

The Directors consider that in preparing the Financial Statements on pages from 104 to 180, the Company has used appropriate accounting policies, consistently applied, unless otherwise disclosed in Notes to the Financial Statements and supported by reasonable judgments and best estimates and that all accounting standards which are applicable have been followed.

The Directors also have the responsibility for ensuring that the Company keeps accounting records, which disclose with reasonable accuracy, the financial position of the Company and enable them to ensure that the Financial Statements comply with the Sri Lanka Accounting Standards (SLFRS/LKAS) and the requirements of the Companies Act No. 7 of 2007.

The Directors have further responsibility that all financial and non-financial requirements stipulated under the Companies Act No. 7 of 2007 pertaining to Directors’ duties and responsibilities have been complied with.

The Directors have a general responsibility for taking such steps that are reasonably open to them, to safeguard the assets of the Company and to establish appropriate internal controls to prevent and detect fraud and other irregularities.

The Directors also confirm to the best of their knowledge, that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the reporting date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out above.

On behalf of the Board.



**A. T. S. Sosa**  
*Independent Non-Executive Director*

Colombo  
May 30, 2023

OVERVIEW
MANAGEMENT DISCUSSION AND ANALYSIS
CORPORATE STEWARDSHIP
FINANCIAL REPORTS
SUPPLEMENTARY INFORMATION



# FINANCIAL REPORTS

Financial Calendar

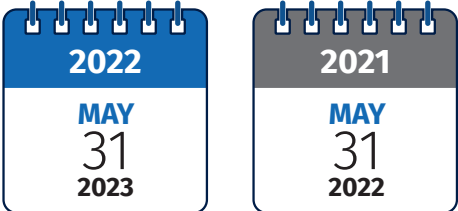
Interim Financial Statements Publication to Colombo Stock Exchange (CSE)



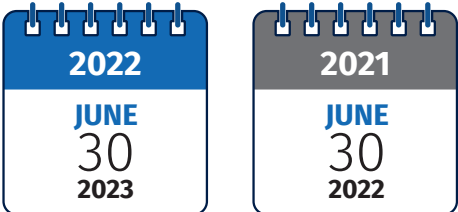
Audited Financial Statement 2022



Annual Report Publication



Annual General Meeting (AGM)



OVERVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE STEWARDSHIP

FINANCIAL REPORTS

SUPPLEMENTARY INFORMATION



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel +94 - 11 542 6426  
Fax +94 - 11 244 5872  
+94 - 11 244 6058  
Internet www.kpmg.com/lk

## Independent Auditor's Report

### TO THE SHAREHOLDERS OF SMB FINANCE PLC

#### Report on the Audit of the Financial Statements

##### Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of

the Company and the Group as at 31 December 2022, and of their 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group 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 our audit of the Company financial statements and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### 01. Allowance for Expected credit losses of loans and receivables to customers

Refer to the accounting policies in the Financial Statements: Impairment of Loans and Receivables to Customers, "Note 5.3.3 and 19" to the Financial Statements: Significant Accounting Judgments and Estimates, "Note 3.2.2" to the Financial Statements.

Risk Description	Our Response
As disclosed in Note 19 to these financial statements, the Company has recorded financial assets at amortized cost against loans and receivables to customers amounting to Rs. 1,855,368,149/- as at 31 December 2022. High degree of complexity and judgment are involved in estimating ECL of Rs.636,865,081/- against loans and receivables to customers as at the reporting date.	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Assessing the methodology inherent within the impairment models against the requirements of SLFRS 9, specially taking into consideration the prevailing uncertain volatile macro-economic environment;</li> <li>Challenging the key assumptions in the ECL models, including staging PD and LGD and evaluating the reasonableness of Management's key judgments and estimates;</li> </ul>

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

C. P. Jayatilake FCA  
Ms. S. Joseph FCA  
S. T. D. L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA

T. J. S. Rajakarier FCA  
Ms. S.M.B. Jayasekara FCA  
G. A. U. Karunaratne FCA  
R. H. Rajan FCA  
A.M.R.P. Alahakoon ACA

W. J. C. Perera FCA  
W. K. D. C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasekara FCA

Principals: S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. F.R. Ziyad FCMA (UK), FTII

Risk Description	Our Response
<p>The Company uses the Expected Credit Loss (ECL) model to calculate the loss allowance in accordance with SLFRS 9 – Financial Instruments (SLFRS 9). These models are reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR). There are also a number of key assumptions made by the Company in applying the requirements of SLFRS 9 to the models including the identification of loss stage, forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios used and the post-model adjustments including their weighting and judgments over the use of data inputs required.</p> <p>Additional subjectivity and judgement have been introduced into the Company's measurement of ECL due to the heightened uncertainty associated with the impact of the economic outlook to the Company customers, increasing our audit effort thereon,</p> <p>Allowance for expected credit losses is a key audit matter due to the significance of the loans and receivables balance to the financial statements and the inherent complexity of the Company's ECL models used to measure ECL allowances.</p>	<ul style="list-style-type: none"> <li>Testing the accuracy and completeness of the data inputs to the systems and ECL models and challenging the economic information used within, and weightings applied to, forward looking scenarios;</li> <li>Testing IT System Controls which records loan days past due, and non performing loan classification.</li> <li>Recalculating the ECL on sample basis, by using the key assumptions used in the models, such as PD and LGD;</li> <li>Evaluating the completeness of customers/facilities assessed individually based on the criteria set for the same and checking the accuracy of the provision for impairment for such identified individually significant exposures.</li> <li>Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the loan and lease portfolios against the Company's assessment;</li> <li>Working with our Financial Risk Management (FRM) specialists, and evaluating and challenging the key assumptions in the components of the Company's post-model adjustments to the ECL allowance balance.</li> <li>Assessing the adequacy of disclosures made in the financial statements in compliance with relevant accounting standards requirements.</li> </ul>

## 02. Valuation of Investment Property

Refer to the accounting policies in the Financial Statements: Investment Property, "Note 5.3.7 and 23"

Risk Description	Our Response
<p>As at 31 December 2022, the Group's Investment Properties carried at fair value amount to Rs. 402.92 Mn. Further, the fair value gain recognised in the statement of profit or loss for the year, amounted to Rs. 46.94 Mn.</p> <p>The Company has engaged an independent external professional valuer with appropriate expertise in valuing properties, to determine the fair value of investment property in accordance with recognized industry standards.</p> <p>Estimating the fair value is a complex process which involves a significant degree of judgement and estimates in respect of price per perch of the land, capitalisation rates, value per square feet, fair market rental and diversity of locations and nature of the land and buildings and investment properties.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> <li>Assessing the objectivity, independence, competence and qualifications of the external valuer.</li> <li>Assessing the key assumptions applied and conclusion made by the external valuer in deriving the fair value of the properties and comparing the same with evidence of current market values and consultation with internal valuation specialist.</li> <li>Inquiring how valuers had assessed the impact of the prevailing uncertain and volatile macro-economic environment to assess whether that it was appropriately considered in the measurement in valuing properties to determine the fair value of the investment property.</li> </ul>

Risk Description	Our Response
We identified this as a key audit matter because of the significant judgments and estimations in the selection of appropriate valuation methodology to be used and in estimating the key assumptions applied. These key assumptions include market comparable used, taking into consideration for difference such as location, size and tenure. A change in the key assumptions will have an impact on the valuation.	<ul style="list-style-type: none"> <li>Assessing the adequacy of the disclosures in the financial statements, including the description and appropriateness of the inherent degree of subjectivity and key assumptions in the estimates.</li> </ul>

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The 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 do 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 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.

When we read the annual report if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements 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.

## Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when

it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the

financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- 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 relevant 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 auditors' 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 auditors' report is 2599.



**CHARTERED ACCOUNTANTS**

Colombo, Sri Lanka  
April 03, 2023



## Statement of Profit or Loss and Other Comprehensive Income

Rs. For the year ended December 31,	Note	Company		Group	
		2022	2021	2022	2021
Interest income	7	289,361,235	163,970,711	289,361,235	163,970,711
Interest expenses	8	(134,737,070)	(51,818,785)	(134,803,986)	(52,068,675)
<b>Net interest income</b>		<b>154,624,165</b>	<b>112,151,926</b>	<b>154,557,249</b>	<b>111,902,036</b>
Fee and commission income	9	9,905,419	3,625,443	9,905,419	3,625,443
<b>Net interest, fee and commission income</b>		<b>164,529,584</b>	<b>115,777,369</b>	<b>164,462,668</b>	<b>115,527,479</b>
Other operating income (Net)	10	210,220,245	81,336,021	230,889,765	134,116,264
Changes in fair value of investment property	23	44,649,600	46,553,000	46,949,600	44,812,600
<b>Total operating income</b>		<b>419,399,429</b>	<b>243,666,390</b>	<b>442,302,033</b>	<b>294,456,343</b>
Allowance for expected credit loss - Charge	11	(166,520,963)	(57,158,193)	(166,520,962)	(57,158,193)
<b>Net operating income</b>		<b>252,878,466</b>	<b>186,508,197</b>	<b>275,781,071</b>	<b>237,298,150</b>
Personnel expenses	12	(76,812,014)	(55,959,275)	(121,029,687)	(108,749,937)
Other expenses	13	(68,965,862)	(64,158,838)	(82,779,700)	(78,482,986)
<b>Operating profit before taxes on financial services</b>		<b>107,100,590</b>	<b>66,390,084</b>	<b>71,971,684</b>	<b>50,065,227</b>
Taxes on financial services	14	(18,985,049)	(10,753,675)	(18,985,049)	(10,753,675)
<b>Profit after taxes on financial services</b>		<b>88,115,541</b>	<b>55,636,409</b>	<b>52,986,635</b>	<b>39,311,552</b>
Impairment provision for subsidiary company	22	(12,750,000)	-	-	-
Share of profit of associate company	21.3	743,655	151,844	743,655	151,844
<b>Profit before income tax</b>		<b>76,109,196</b>	<b>55,788,253</b>	<b>53,730,290</b>	<b>39,463,396</b>
Income tax reversal / (expense)	15	3,473,036	(2,357,092)	3,205,986	(1,520,296)
<b>Profit for the year</b>		<b>79,582,232</b>	<b>53,431,161</b>	<b>56,936,276</b>	<b>37,943,100</b>
<b>Profit attributable to :</b>					
Owners of the Company		79,582,232	53,431,161	74,280,295	45,532,250
Non - controlling interest	37	-	-	(17,344,019)	(7,589,150)
<b>Profit for the year</b>		<b>79,582,232</b>	<b>53,431,161</b>	<b>56,936,276</b>	<b>37,943,100</b>
Basic earnings per share	16	0.01	0.01	0.01	0.01
Diluted earnings per share	16.1	-	-	-	-

The notes to the financial statements from pages 110 to 180 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## Statement of Profit or Loss and Other Comprehensive Income (contd.)

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
<b>Profit for the year</b>	<b>79,582,232</b>	<b>53,431,161</b>	<b>56,936,276</b>	<b>37,943,100</b>
<b>Other Comprehensive Income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial gain on defined benefit plans	1,680,945	1,404,303	5,242,300	8,924,911
Equity investments at FVOCI – Net change in fair value	22,872,981	21,341,656	22,872,981	21,341,656
Net tax on other comprehensive income	-	-	(1,068,406)	(1,804,946)
<b>Other comprehensive income for the year (Net of taxes)</b>	<b>24,553,926</b>	<b>22,745,959</b>	<b>27,046,875</b>	<b>28,461,621</b>
<b>Total comprehensive income for the year</b>	<b>104,136,158</b>	<b>76,177,120</b>	<b>83,983,151</b>	<b>66,404,721</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Company	104,136,158	76,177,120	100,105,625	71,193,196
Non - controlling interest	-	-	(16,122,474)	(4,788,475)
<b>Total comprehensive income for the year</b>	<b>104,136,158</b>	<b>76,177,120</b>	<b>83,983,151</b>	<b>66,404,721</b>

The notes to the financial statements from pages 110 to 180 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## Statement of Financial Position

Rs. As at December 31,	Note	Company		Group	
		2022	2021	2022	2021
<b>Assets</b>					
Cash and cash equivalents	17	55,302,042	103,558,886	55,494,870	105,179,888
Placements with banks	18	2,364,017,662	2,393,446,509	2,364,049,831	2,410,549,184
Financial assets at amortised cost - Loans and receivables to customers	19	1,855,368,149	1,115,518,279	1,855,368,149	1,115,518,279
Financial investments	20	104,249,453	82,076,924	114,789,453	99,752,274
Investments in associate	21	42,577,031	41,833,376	42,577,031	41,833,376
Investments in subsidiary	22	-	12,750,000	-	-
Investment properties	23	385,728,000	142,778,000	402,928,000	157,678,000
Property, plant & equipment	24	19,963,487	7,305,871	22,405,148	11,910,542
Right-of-use assets	25.1	16,070,409	23,266,033	16,070,405	24,195,608
Intangible assets	26	245,092,403	5,614,625	245,092,403	5,614,625
Deferred tax assets	27	-	-	1,202,705	2,538,161
Other assets	28	98,857,571	67,795,098	105,380,384	80,772,776
<b>Total assets</b>		<b>5,187,226,207</b>	<b>3,995,943,601</b>	<b>5,225,358,379</b>	<b>4,055,542,713</b>
<b>Liabilities</b>					
Due to financial institutions	29	1,568,220,236	526,274,284	1,568,507,907	526,274,284
Due to other customers	30	126,786,485	122,275,914	126,786,485	122,275,914
Retirement benefit obligations	31	8,961,310	7,544,568	23,159,659	25,887,414
Lease liabilities	25.2	14,880,212	15,649,074	14,880,212	16,705,769
Other liabilities	32	112,425,504	72,383,460	118,982,132	75,340,499
<b>Total liabilities</b>		<b>1,831,273,747</b>	<b>744,127,300</b>	<b>1,852,316,395</b>	<b>766,483,880</b>
<b>Equity</b>					
Stated capital	33	3,062,681,524	3,062,681,524	3,062,681,524	3,062,681,524
Statutory reserves	34	41,732,329	37,753,217	41,732,329	37,753,217
Fair value reserve	35	52,465,265	29,592,284	52,465,265	29,592,284
Retained earnings	36	199,073,342	121,789,276	207,657,674	134,404,142
<b>Total equity attributable to equity holders of the Company</b>		<b>3,355,952,460</b>	<b>3,251,816,301</b>	<b>3,364,536,792</b>	<b>3,264,431,167</b>
Non - controlling interests	37	-	-	8,505,192	24,627,666
<b>Total equity</b>		<b>3,355,952,460</b>	<b>3,251,816,301</b>	<b>3,373,041,984</b>	<b>3,289,058,833</b>
<b>Total equity and liabilities</b>		<b>5,187,226,207</b>	<b>3,995,943,601</b>	<b>5,225,358,379</b>	<b>4,055,542,713</b>
Commitments and contingencies	39	-	425,322,570	-	425,322,570

The notes to the financial statements from pages 110 to 180 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

It is certified that the financial statements have been prepared and presented in compliance with the requirements of the Companies Act No. 7 of 2007.



**Menaka Silva**  
Head of Finance

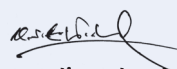


**Supul Wijesinghe**  
Chief Executive Officer

The Board of Directors are responsible for the preparation and presentation of these financial statements.  
Approved and signed on behalf of the Board by,



**Shardha Sosa**  
Director  
Colombo  
April 3, 2023



**Saadi Wadood**  
Director

## Statement of Changes in Equity - Company

Rs.	Stated Capital		Statutory Reserve Fund	Fair Value Reserve	Retained Earnings	Total Equity
	Ordinary Voting Shares	Ordinary Non-Voting Shares				
<b>Balance as at January 1, 2021</b>	708,445,963	210,618,151	35,081,659	8,250,628	74,872,132	1,037,268,533
Profit for the year	-	-	-	-	53,431,161	53,431,161
Other comprehensive income (Net of tax)	-	-	-	21,341,656	1,404,303	22,745,959
<b>Total comprehensive income for the year</b>	-	-	-	<b>21,341,656</b>	<b>54,835,464</b>	<b>76,177,120</b>
Rights issue during the year	1,847,512,897	296,104,513	-	-	-	2,143,617,410
Rights issue expenses	-	-	-	-	(5,246,762)	(5,246,762)
Transfers to statutory reserve	-	-	2,671,558	-	(2,671,558)	-
Dividend paid	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	<b>1,847,512,897</b>	<b>296,104,513</b>	<b>2,671,558</b>	<b>-</b>	<b>(7,918,320)</b>	<b>2,138,370,648</b>
<b>Balance as at December 31, 2021</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>37,753,217</b>	<b>29,592,284</b>	<b>121,789,276</b>	<b>3,251,816,301</b>
<b>Balance as at January 1, 2022</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>37,753,217</b>	<b>29,592,284</b>	<b>121,789,276</b>	<b>3,251,816,301</b>
Profit for the year	-	-	-	-	79,582,232	79,582,232
Other comprehensive income (Net of tax)	-	-	-	22,872,981	1,680,945	24,553,926
<b>Total comprehensive income for the year</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>37,753,217</b>	<b>52,465,265</b>	<b>203,052,453</b>	<b>3,355,952,460</b>
Transfers to statutory reserve	-	-	3,979,112	-	(3,979,112)	-
Dividend paid	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	<b>-</b>	<b>-</b>	<b>3,979,112</b>	<b>-</b>	<b>(3,979,112)</b>	<b>-</b>
<b>Balance as at December 31, 2022</b>	<b>2,555,958,860</b>	<b>506,722,664</b>	<b>41,732,329</b>	<b>52,465,265</b>	<b>199,073,342</b>	<b>3,355,952,460</b>

The notes to the financial statements from pages 110 to 180 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## Statement of Changes in Equity - Group

Rs.	Attributable to the Equity holders of the parent						Non - Controlling Interest	Total Equity
	Stated Capital		Statutory Reserve Fund	Fair value reserve	Retained Earnings	Total		
	Note	Ordinary Voting Shares						
<b>Balance as at January 1, 2021</b>								
Profit/(Loss) for the year								
Other comprehensive income (Net of tax)								
<b>Total comprehensive income/ (expense) for the year</b>								
Rights issue during the year								
Rights issue expenses								
Transfers to statutory reserve								
Dividend paid								
<b>Total transactions with equity holders</b>								
<b>Balance as at December 31, 2021</b>								
<b>Balance as at January 1, 2022</b>								
Profit / (Loss) for the year								
Other comprehensive income (Net of tax)								
<b>Total comprehensive income/ (expense) for the year</b>								
Transfers to statutory reserve								
Dividend paid								
<b>Total transactions with equity holders</b>								
<b>Balance as at December 31, 2022</b>								

The notes to the financial statements from pages 110 to 180 form an integral part of these financial statements.  
Figures in brackets indicate deductions.

## Statement of Cash Flows

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Interest receipts	275,662,980	160,860,686	275,662,980	160,860,686
Interest payments	(120,426,505)	(47,616,457)	(120,461,616)	(47,649,082)
Fees and commission receipts	178,061,807	78,914,213	198,618,923	127,725,023
Cash payments to employees and suppliers	(127,501,115)	(95,251,404)	(176,089,350)	(153,693,399)
<b>Profit before changes in operating assets</b>	<b>205,797,167</b>	<b>96,907,038</b>	<b>177,730,937</b>	<b>87,243,228</b>
Loans and receivables	(875,754,225)	(104,614,858)	(875,754,225)	(105,515,079)
Other assets	(9,494,293)	(3,671,233)	(3,039,428)	(4,496,541)
Other liabilities	43,615,477	22,465,650	43,697,040	22,137,905
<b>Cash (used in) / generated from operating activities</b>	<b>(635,835,874)</b>	<b>11,086,597</b>	<b>(657,365,677)</b>	<b>(630,487)</b>
Tax paid	(12,097,436)	(9,753,675)	(12,097,436)	(10,040,225)
Gratuity paid	-	(1,010,500)	(1,828,750)	(1,610,500)
<b>Net cash (used in) / generated from operating activities</b>	<b>(647,933,310)</b>	<b>322,422</b>	<b>(671,291,863)</b>	<b>(12,281,212)</b>
<b>Cash flow from investing activities</b>				
Decrease / (Increase) in financial investments 20	-	(2,165,000,000)	15,302,675	(2,170,300,500)
Net of acquisition and disposal of shares	-	-	5,683,744	3,915,148
Purchase of property, plant & equipment & intangible assets 24,26	(256,834,069)	(1,930,120)	(256,912,969)	(2,862,094)
Purchase of Investment properties 23	(198,300,400)	-	(198,300,400)	-
Dividend received 10	740,279	690,000	796,137	880,256
Proceeds from disposal of property, plant & equipment	-	-	-	-
<b>Net cash used in investing activities</b>	<b>(454,394,190)</b>	<b>(2,166,240,120)</b>	<b>(433,430,812)</b>	<b>(2,168,367,190)</b>
<b>Cash flow from financing activities</b>				
Borrowings obtained from financial institutions 29	1,300,000,000	340,000,000	1,300,000,000	340,000,000
Repayment of borrowings from financial institutions 29	(267,548,898)	(312,355,701)	(267,548,898)	(312,355,701)
Decrease in public borrowings	(14,000)	(14,000)	(14,000)	(14,000)
Lease liability payment	(8,634,200)	(8,212,000)	(9,722,700)	(10,052,500)
Rights issue during the period	-	2,143,617,410	-	2,143,617,410
Right issue expenses	-	(5,246,762)	-	(5,246,762)
<b>Net cash generated from financing activities</b>	<b>1,023,802,902</b>	<b>2,157,788,947</b>	<b>1,022,714,402</b>	<b>2,155,948,447</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(78,524,598)</b>	<b>(8,128,751)</b>	<b>(82,008,274)</b>	<b>(24,699,955)</b>
Cash and cash equivalents at the beginning of the year	132,223,886	140,352,637	135,644,888	160,344,843
<b>Cash and cash equivalents at the end of the year</b>	<b>53,699,288</b>	<b>132,223,886</b>	<b>53,636,614</b>	<b>135,644,888</b>
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents 17	55,302,042	103,558,886	55,494,870	105,179,888
REPO investment with banks 18	501,000	28,665,000	533,169	30,465,000
	<b>55,803,042</b>	<b>132,223,886</b>	<b>56,028,039</b>	<b>135,644,888</b>
Bank overdraft 29	(2,103,754)	-	(2,391,425)	-
<b>Cash and cash equivalents at the end of the year</b>	<b>53,699,288</b>	<b>132,223,886</b>	<b>53,636,614</b>	<b>135,644,888</b>

The notes to the financial statements from pages 110 to 180 form an integral part of these financial statements.  
Figures in brackets indicate deductions.



# Notes to the Financial Statements

## NOTE 01. Corporate Information

### 1.1 Reporting Entity

SMB Finance PLC (the 'Company'), is a Public Limited Liability Company incorporated on September 3, 1992 and domiciled in Sri Lanka. It is a Licensed Finance company under the Finance Business Act No 42 of 2011 and amendments three to. The Company has a primary listing on the Colombo Stock Exchange since 1993. The Company was re-registered under the Companies Act No. 07 of 2007.

The registered office and the principal place of business of the Company is located at No 282/1, CBS Building, Galle Road, Colombo 03, Sri Lanka.

The Finance licence in terms of the Finance Business Act, No. 42 of 2011 has been issued by the Monetary Board of the Central Bank of Sri Lanka to SMB Finance PLC with effect from December 1, 2022.

### 1.2 Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2022 comprise of SMB Finance PLC (Parent Company), its subsidiary (together referred to as the 'Group') and the Group's interest in its associate company.

### 1.3 Number of Employees

The staff strength of the Company as at December 31, 2022 is 47 (2021 – 39).

### 1.4 Principal Activities and Nature of Operations

#### Company – SMB Finance PLC

As per the current business model the principal business activities are accepting deposits, granting finance leases, loans and gold loans.

#### Subsidiary – SMB Money Brokers (Pvt) Ltd

The principal business activity is money brokering activities

#### Associate – Kenanga Investment Corporation Ltd

The principal business activity is investment banking and providing advisory services.

The percentage of ownership is as follows;

Shareholdings in Subsidiary and Associate	Holding Percentage
SMB Money Brokers (Pvt)Ltd	50.99%
Kenanga Investment Corporation Ltd	48.99%

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

## NOTE 02. Basis of Accounting

### 2.1. Statement of Compliance

The consolidated financial statements of the Group and the separate financial statements of the Company as at December 31, 2022 and for the year then ended, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No 7 of 2007, the 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. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting. These SLFRSs and LKASs are available at [www.casrilanka.com](http://www.casrilanka.com).

The Company did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the financial statements. Details of the Company's significant accounting policies followed

during the year are given in Notes 4 to 5 on pages from 114 to 133.

### 2.2. Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the financial statements of the Group and the Company as per the provisions of the Companies Act No. 7 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for financial statements as set out in the Annual Report of the Board of Directors,

## Notes to the Financial Statements (Contd.)

Statement of Directors' Responsibility and the certification on the Statement of Financial Position on pages from 097 and 106 respectively.

These financial statements include the following components:

- A). A Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Company for the year under review. (Refer pages 104 to 105)
- B). A Statement of Financial Position (SOPF) providing the information on the financial position of the Group and the Company as at the year end. (Refer page 106)
- C). A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Company. (Refer pages 109 to 108)
- D). A Statement of Cash Flows providing the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and utilisation of those cash flows. (Refer page 109)
- E). Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. (Refer pages from 110 to 180)

### 2.3. Approval of Financial Statements by the Board of Directors

The financial statements of the Group and the Company for the year ended December 31, 2022 (including comparatives for 2021), were approved and authorised for issue in accordance with the resolution of the Board of Directors on April 3, 2023.

### 2.4. Basis of Measurement

The financial statements of the Company and the Group have been prepared on the historical cost basis except for the following material items stated in the statement of financial position.

Item	Basis of Measurement	Note No	Page No
Financial assets measured at fair value through profit or loss (FVTPL)	Fair value	20.1	143
Unquoted equity investments measured at fair value through other comprehensive income (FVTOCI)	Fair value	20.2	145
Investment Property	Fair Value	23	148-149
Defined benefit obligation	Liability is recognised at the present value of the defined benefit obligation, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.	31	156-157

### 2.5. Going Concern Basis of Accounting

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

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

### 2.6. Functional and Presentation Currency

The consolidated financial statements are presented in Sri Lankan Rupees (Rs.), which is the Group's and Company's functional and presentation currency. There was no change in the Group's presentation and functional currency during the year under review.

### 2.7. Presentation of Financial Statements

The assets and liabilities of the Company and the Group presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or

## Notes to the Financial Statements (Contd.)

settlement within 12 months after the reporting date (Current) and after more than 12 months from the Reporting date (Non-current) is presented in Note 45 on page 178 (Current/Non-current Analysis). No adjustments have been made for inflationary factors affecting the financial statements.

### 2.8. Rounding

The amounts in the financial statements are presented in absolute values for the financial statements to be more understandable. However, in certain notes to the financial statements, figures have been rounded-off to the nearest Rupees thousands for better presentation as permitted by the Sri Lanka Accounting Standard LKAS 01 - Presentation of Financial Statements.

### 2.9. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated

statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

### 2.10. Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial

Statements of the Company and the Group.

Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

### 2.11. Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability.

## NOTE 03. Use of Significant Accounting Judgements, Assumptions and Estimates

In preparing the financial statements of the Company and the Group in conformity with SLFRSs and LKASs, the management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Accounting judgements, estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised prospectively. Significant areas of critical accounting judgements, assumptions and estimation uncertainty, in applying accounting policies that have most

significant effects on the amounts recognised in the financial statements of the Company and the Group are as follows.

### 3.1. Significant Accounting Judgements

Information about accounting judgements made in applying accounting policies that have the most significant effects on the amounts recognised in these financial statements are included in Notes 3.1.1 to 3.2.7 below.

#### 3.1.1. Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 5.1.3.2 and 5.1.3.4 on pages from 120 to 121

indicates that the Company controls the investees.

#### 3.1.2. Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Company provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the criteria given in Note 5.3.3 on pages 126 to 128.

#### 3.1.3. Determination of impairment losses relating to financial assets

Establishing the criteria for determining whether credit risk on

## Notes to the Financial Statements (Contd.)

the financial asset has increases significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval of models used to measure ECL set out in the Note 5.2.5 on page 122.

### 3.2. Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 3.2.1 to 3.2.7 below.

#### 3.2.1. Fair Value of financial instruments

The fair values of financial assets and financial liabilities recognised on the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Group measures fair value using the fair value hierarchy that reflects the significance of inputs used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 38.5 and 38.6 on pages from 164 to 165 respectively.

#### 3.2.2. Impairment losses on financial assets

The measurement of impairment losses both under 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. Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the statement of profit or loss.

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. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- Groups of homogeneous loans and leases that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Company's Expected Credit Loss (ECL) calculations are outputs of a complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates

include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of a ECL model, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD).

#### 3.2.3. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value

## Notes to the Financial Statements (Contd.)

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of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists, the Group estimates the asset's or cash- generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/ amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognised in profit or loss.

### 3.2.4. Useful lifetime of the property, plant and equipment

The Company reviews the residual values, useful lives and methods of

depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. Refer Note 5.3.8 on page 129.

### 3.2.5. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Refer Note 27 on pages from 154 to 155.

### 3.2.6. Defined benefit obligation

The cost of the defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. This includes making assumptions about discount rates, future salary increments, retirement age. Due to the long- term nature of such obligation, these estimates are subjected to

significant uncertainty. All assumptions are reviewed at each reporting date. Refer Note 31 on pages from 156 to 157.

### 3.2.7. Provisions for liabilities, commitments and contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the consolidated financial statements are described in Notes 5.1.3 from pages 120 to 121.

## NOTE 04. Changes in Significant Accounting Policies

The Group has consistently applied the accounting policies as set out in Notes 5 on pages from 115 to 133 all periods presented in these financial statements.



## Notes to the Financial Statements (Contd.)

### NOTE 05. Significant Accounting Policies

The Significant Accounting Policies set out in Note 5 on pages from 115 to 133 below have been applied consistently to all periods presented in the Financial Statements of the Company and Group. These Accounting Policies have been applied consistently by the Company and the Group.

Summary of Significant Accounting Policies	Policy Note No	Page	FS Note No	Page
<b>Significant Accounting Policies – General</b>				
Financial assets and liabilities	5.1.1	116	38	161
Fair value measurement	5.1.2	118	38.5	164
Consolidated financial statements	5.1.3	120	-	-
<b>Significant Accounting Policies – Recognition of Income and Expense</b>				
Revenue	5.2.1	121	7,9,10	134-135
Net interest income	5.2.2	121	8	135
Fee and commission income	5.2.3	122	9	135
Other operating income	5.2.4	122	10	135
Expected credit losses on financial assets	5.2.5	122	11	135
Personnel expenses	5.2.6	124	12	136
Other expenses	5.2.7	124	13	136
Value added tax (VAT) on financial services	5.2.8	124	14	136
Social Security Contribution Levy (SSCL)	5.2.9	124	14	136
Income tax	5.2.10	125	15	136
Earnings per share	5.2.11	125	16	138
Dividend per share	5.2.12	125	16.1	139
<b>Significant Accounting Policies – Recognition of Assets and Liabilities</b>				
Cash and cash equivalents	5.3.1	126	17	139
Placements with banks	5.3.2	126	18	139
Loans and receivables	5.3.3	126	19	140
Financial investments	5.3.4	128	20	143
Investment in associate	5.3.5	128	21	146
Investment in subsidiary	5.3.6	128	22	147
Investment property	5.3.7	129	23	148
Property, plant and equipment	5.3.8	129	24	150
Right of use assets and lease liabilities	5.3.9	129	25	152
Intangible assets	5.3.10	130	26	153
Other assets	5.3.11	131	28	155
Due to financial institutions	5.3.12	131	29	156
Due to other customers	5.3.13	131	30	156
Retirement benefit obligations	5.3.14	132	31	156
Other liabilities	5.3.15	132	32	158
Statutory reserve	5.3.16	132	34	159
Fair value reserve	5.3.17	132	35	159
<b>Significant Accounting Policies – Statement of Cash Flows</b>				
Statement of cash flows	5.4.1	132	-	-
<b>Significant Accounting Policies – Other</b>				
Events that occurred after the reporting date	5.5.1	132	40	167
Capital Commitments	5.5.2	132	39.1	167
Capital Contingencies	5.5.3	132	39.2	167
Operating segments	5.5.4	132	46	179
Maturity analysis	5.5.5	133	43.3.3	170



## Notes to the Financial Statements (Contd.)

### 5.1. Significant Accounting Policies – General

#### 5.1.1. Financial Assets and Liabilities

##### 5.1.1.1. Recognition and initial measurement

The Group initially recognizes loans and receivables, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. For an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

##### 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 valuation technique whose variables include only data from observable markets the Group recognises the difference between transaction price and fair value in interest income and respective expenses. In case where fair value is determined using data which is not observable, the difference between the transaction price and model value is recognized in the Statement of Profit or Loss when the input becomes observable or when the instrument is derecognized.

The Day 1 loss arising in the case of loans granted to employees at concessionary rates under uniform applicable schemes is deferred and amortized using effective interest rates

over the remaining service period of the employees or tenure of the loan whichever is shorter. The subsequent measurement of financial assets depend on their classification.

##### 5.1.1.2. Classification

###### A. Financial Assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting; Contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

##### Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets.

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is

## Notes to the Financial Statements (Contd.)

not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;

- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

### B. Financial liabilities

The Group classifies its financial liabilities other than loan commitments, as measured at amortised cost or FVTPL.

#### 5.1.1.3. Reclassifications

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

#### 5.1.1.4. Derecognition

##### A. Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised

in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for

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the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest- only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

### B. Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

#### 5.1.1.5. Modifications of financial assets and financial liabilities

##### A. Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in

derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

### B. Financial liabilities

The Group derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

#### 5.1.1.6. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRS standards, or for gains and losses arising from a group of

similar transactions such as in the Group's trading activity.

### 5.1.2. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received.

If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially

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measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### Valuation Models

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The Group measures fair values using the following fair value hierarchy, which reflects the

significance of the inputs used in making the measurements.

**Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis,

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using:

- quoted market prices in active markets for similar instruments;
- quoted prices for identical or similar instruments in markets that are considered less than active; or
- other valuation techniques in which all significant inputs are directly or indirectly observable from market data

**Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect

differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premier used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective, and it yields ranges of possible inputs and estimates of

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fair value and management uses judgement to select the most appropriate point in the range.

The Group's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the "waterfall" applicable to the security and discounted at a risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

### 5.1.3. Consolidated Financial Statements

#### 5.1.3.1. Basis of consolidation

The Group's financial statements comprise of, consolidated financial Statements of the Company and its subsidiary in terms of the Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" (SLFRS 10) and the proportionate share of the profit or loss and net assets of its associate in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" (LKAS 28). The financial statements of the Company's subsidiary and associate are prepared for a common financial year which ends on December 31 using consistent accounting policies.

#### 5.1.3.2. Subsidiary

Subsidiary is an entity that is controlled by the Group. Subsidiary is fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investment details of the subsidiary within the Group are provided in Note 22 on page 147 to the financial statements.

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity related to the subsidiary. Any resulting gain or loss arising on the loss of control is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an associate or as a financial investment depending on the level of influence retained.

There are no significant restrictions on the ability of the subsidiary to transfer funds to the parent (the Company) in the form of cash dividend or repayment of loans and advances. The subsidiary of the Company has been incorporated in Sri Lanka.

#### 5.1.3.3. Non-controlling interests

Non-controlling interests (NCI) represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company. NCI are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position but separate from parent

shareholders' equity.

Any losses applicable to the non-controlling interests are allocated against the interests of the NCI even if this results in a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

#### 5.1.3.4. Associate

Associate is an entity in which the Company has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of the other entity unless it can be clearly demonstrated that despite having more than 20% hold in an entity.

Investment in associate is accounted for using the equity method and is recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized but is subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity movements of the associate after adjustments to align the accounting policies with those of the group from the date that significant influence effectively commences until the date that significant influence ceases.

Accordingly, under the equity method,



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investments in associate is carried at cost plus post-acquisition changes in the Company's share of net assets of the associate and is reported as a separate line item in the statement of financial position. The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of the associate is presented as part of the group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the group recognises its share of any changes, when applicable, in equity through OCI. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in associate.

When the Company's share of losses exceeds its interest in the associate, the carrying amount of that interest, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments”. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained

investment and proceeds from disposal is recognised in profit or loss.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the loss as “Share of profit of Associate” in the statement of profit or loss.

Investment details of the Associate within the Group are provided in Note 21 pages from 146 to 147 in the financial statements.

### 5.1.3.5. Transactions eliminated on consolidation

All intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### 5.1.4. Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

## 5.2. Significant Accounting Policies – Recognition of Income and Expense

### 5.2.1. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group and the revenue can be reliably measured. Income from early settlement and overdue rentals have been accounted for on a cash basis.

### 5.2.2. Net Interest Income

For all financial instruments measured at amortised cost, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as ‘Interest and similar income’ for financial assets and ‘Interest and similar expense’ for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash



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receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of ensuring the impairment loss.

### 5.2.3. Fee and Commission Income

Fees and commission that are integral to the effective interest rate on financial asset or liability are included in the effective interest rate of respective asset or liability. Fees and commission income, including commission, service fees are recognised as the related services are performed.

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories;

- 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.

### 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 the documents and inspection of vehicle are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised

after fulfilling the corresponding criteria.

### 5.2.4. Other Operating Income

#### 5.2.4.1. Gain or losses on disposal of property, plant and equipment

Gains/losses from sale of property, plant and equipment is recognised in the period in which the sale occurs and is classified as other income/expense.

#### 5.2.4.2. Dividend income

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when the shareholders approve the dividend income from equity investments at FVTPL is recognised in the Statement of Profit or Loss on an accrual basis when the Group's right to receive the dividend is established.

#### 5.2.4.3. Income from government securities and securities purchased under resale agreements

Discounts/ premium on treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the income statement of profit or loss on an accrual basis over the period of the agreement.

#### 5.2.4.4. Recovery of bad and doubtful debts written off

Recovery of amounts written off as bad and doubtful debts is recognised on cash basis.

### 5.2.5. Expected Credit Losses on Financial Assets

The Group recognises loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers

and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

The Group recognises loss allowances for ECL on loans and receivables other financial assets measured at amortised cost. Accordingly, this note covers expected loss allowances for;

- Loans and receivables from customers
- Placements with banks

#### 5.2.5.1. Loans and receivables from customers

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk. If a particular loan is credit impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

Segmentation of the portfolio is done based on homogeneous characteristics. However, segmentation needs to be done to the extent for which representative sample data is available to estimate PD using transition matrix. (Need to combine where sample size is not adequate)

#### Segmentation

- Lease – Machinery
- Lease – Other
- Loan – Other
- Loan – QC
- Gold loan

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### Other Investments

The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward-looking information.

● PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per “definition of default and credit impaired” on Significant Accounting Policy Balance Sheet Note 19 below) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

● 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. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a

percentage of the EAD.

● EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans EAD is considered for default events over the lifetime of the financial instrument.

The Group measures loss allowances using both lifetime ECL and 12-month ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is equal more than 90 days past due.

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

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

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

### Measurement of ECL

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

ECL are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised are credit impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise.

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- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

### Restructured financial assets

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

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

### Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the

amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### Other financial assets measured at amortised cost

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". This policy is applicable to deposits with licensed commercial banks measured at amortised cost.

#### 5.2.5.2.Placements with banks

Deposits with licensed commercial banks comprises the fixed deposits with licensed commercial banks which are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using EIR. The Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. The Group measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date.

### 5.2.6.Personnel expenses

Personnel expenses include salaries and bonus, terminal benefit charges and other employee related expenses.

The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

### 5.2.7.Other expenses

All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency, has been charged to the statement of profit or loss in arriving at the profit for the year under other expenses.

### 5.2.8.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 is the accounting profit before VAT and income tax adjusted for economic depreciation and benefits paid to employees including cash benefits, non- cash benefits and provisions relating to terminal benefits. VAT on financial services rate applied during the financial year ended December 31, 2022 was 18%.

### 5.2.9. Social Security Contribution Levy (SSCL)

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

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services by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act No. 14 of 2002.

### 5.2.10. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. 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 intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

#### Current Tax

Current tax is the expected tax payable on the taxable income for the year. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date and any adjustment to tax payable in respect of previous 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 below. Income tax on profit from operations for the year ended December 31, 2022 is calculated at the rate of 24% in First 09 months and next 03 months at 30% (2021 – 24%).

#### Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. Deferred

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### 5.2.11. Earnings Per Share (EPS)

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as per the requirements of the Sri Lanka Accounting Standard LKAS 33 – “Earnings per Share”.

Diluted EPS is computed by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### 5.2.12. Dividend Per Share

Provision for final dividend is recognised at the time the dividend is recommended and declared by the Board of Directors and approved by the shareholders. However interim cash dividend is recognised when

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the Board approves such dividend in accordance with Companies Act No. 07 of 2007.

### 5.3. Significant Accounting Policies – Recognition of Assets and Liabilities

#### 5.3.1. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and balances with banks which are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Bank overdraft that are repayable on demand and form an integral part of the Company's cash resources and it is only included as a component of cash equivalents for the purpose of the Cash Flow Statements.

#### 5.3.2. Placements with Banks

Deposits with licensed commercial banks comprise of fixed deposits with licensed commercial banks and securities purchased under agreements to re-sell.

Fixed deposits with licensed commercial banks are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking into account any discount or premium on acquisition and other fees and cost that are an integral part of EIR. The Group recognises loss allowances for ECL on assets subsequently measured at amortised cost. Company measures loss allowance at an amount equal to lifetime ECL, except financial investments that are determined to have low credit risk at the reporting date.

Securities purchased under agreements to re-sell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is accrued over the life of the agreement using the EIR and recorded in other operating income.

#### 5.3.3. Loans and Receivables

"Loans and advances to customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

The Group initially recognises loans and advances to customers on the date on which they are originated. The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. The Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

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

The subsequent measurement of financial assets depends on their classification.

All financial assets other than those classified at amortised cost or FVOCI

are classified as measured at fair value through profit or loss (FVTPL). Accordingly, loans and receivables from customers are measured at FVTPL. Financial assets designated at fair value through profit or loss are recorded in the statement of financial position at fair value.

There were no significant changes in the gross carrying amount of the financial assets at amortised cost – loans and receivables to other customers which contributed to significant changes in the loss allowance during the year under review.

During the year under review, the Company granted debt moratorium to its lease and loan customers in compliance with the circulars issued by the Central Bank of Sri Lanka to provide relief measures to COVID - 19 affected businesses and individuals.

When providing debt moratoriums for lease facilities, the Company recognized the moratorium interest in financial statements as a charge and recorded in financial statements accordingly to SLFRS 16 – "Leases".

Through the debt moratoriums granted for loan facilities were updated in the loan system as a charge, the Company recorded the interest impact of the debt moratorium in the 2022 financial statements and provided for allowance for expected credit losses in 2022 in compliance with SLFRS 9 – "Financial Instruments".

The Group records an allowance for expected credit losses for loans and other credit facilities to customers measured at amortised cost. SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.



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● **Stage 1:** A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

● **Stage 2:** If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Group records an allowance for LTECL. Refer Note 19 for a description on how the Group determines when a significant increase in credit risk has occurred.

● **Stage 3:** If a financial asset is credit impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%.

The key assumptions, judgements and estimates adopted by the Group in addressing the requirements of SLFRS 9 is given below.

### Significant increase in credit risk

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – “Financial Instruments”. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and expert credit assessment and including forward looking information. The criteria for determining whether

credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due rebutting the presumption in the SLFRS 9 permitted in accordance with the provisions of SLFRS 9. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

### Definition of Default

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

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower is past due equal more than 180 days on any material credit obligation to the Group.

In determination of default the Group largely aligns with the regulatory definition of default which is 180 days and above. In assessing whether a borrower is in default, the Group considers indicators that are:

- Qualitative – e.g., breaches of covenant;
- Quantitative – e.g., overdue status and non-payment on another obligation of the same issuer to the Group; and

- Based on data developed internally and obtained from external sources

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

In assessing whether a borrower is in default, the Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers non performing credit facilities/customers with one or more of the following indicators and assessed accordingly in ECL computations.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of the customer.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of the customer.
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- When the customer is deceased/insolvent.
- When the Group is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year.



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### Expected Credit Loss (ECL)

The Group calculates ECL either on a collective or an individual basis. Those financial assets for which, the Group determines that no provision is required under individual impairment are then collectively assessed for ECL.

For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped into homogeneous portfolios, based on a combination of product characteristics.

The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward-looking information.

● PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

● 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. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counter parties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.

● EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans EAD is considered for default events over the lifetime of the financial instrument.

The Group measures loss allowances using both lifetime ECL and 12-month ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information.

### Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral

comes in various forms such as real estate, gold, repossessed vehicles and repossessed machinery. When computing the ECL for individually significant loans, the discounted value of respective collateral is taken into consideration. The Group's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity.

### 5.3.4. Financial Investments Unquoted Equity Investments at FVOCI

Upon initial recognition, the Group elected to classify irrevocably some all unquoted equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

### 5.3.5. Investment in Associate

Investment in associate is accounted for at cost in the Group's financial statements and under the equity method in the consolidated financial statements. Under the equity method, the investment in associate is initially accounted at cost and the carrying amount is adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the Group's net investment in associate. Refer Note 21 on page 146.

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### 5.3.6. Investment in Subsidiary

Investments in subsidiary is stated at cost, net of any impairment losses which are charged to the statement of profit or loss in the Group's financial statements. Refer Note 22 on page 147.

### 5.3.7. Investment Property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment Properties of the Group are stated at market value less provision for Impairment.

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property every 3 years. In financial periods within that period, the fair value is determined by the board of directors.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

### 5.3.8. Property, Plant and Equipment

#### Basis of Recognition

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year. Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will

flow to the Group and cost of the asset can be measured reliably.

#### Basis of 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 or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as a part of computer equipment. When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (Major components) of property, plant and equipment. The Company & Group apply the cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

#### Subsequent Costs

The cost of replacing a part 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 the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property, plant and equipment are charged to the profit or loss as incurred.

### Repairs & Maintenance

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

### Derecognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of profit or loss in the year the asset is derecognized.

### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows;

Class of Asset	% Per Annum	Period
Motor vehicles	20%	5 Years
Computer hardware	20%	5 Years
Office equipment	20%	5 Years
Furniture and fittings	20%	5 Years

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to

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

### 5.3.9 Right - of - use Assets and Lease Liabilities

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

This policy is applied to contracts entered into, on or after January 1, 2019.

#### As a lessee

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

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount

of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

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

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

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

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

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

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

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments

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associated with these leases as an expense on a straight-line basis over the lease term.

### Presentation

As per SLFRS 16 Right-of-use assets are either presented separately from other assets on the balance sheet or disclosed separately in the notes. Similarly, lease liabilities are either presented separately from other liabilities on the balance sheet or disclosed separately in the notes.

The Company has elected to present Right-of-use assets separately from other assets on the statement of financial position. Similarly, lease liabilities are presented separately from other liabilities on the statement of financial position.

Depreciation expense and interest expense cannot be combined in the statement of profit or loss. In the cash flow statement, principal payments on the lease liability are presented within financing activities; interest payments are presented based on an accounting policy election in accordance with LKAS 7 “Statement of Cash Flows”.

### 5.3.10. Intangible Assets

The intangible assets include the value of computer software developed inhouse in partnership with a vendor.

#### Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably, in accordance with Sri Lanka Accounting Standard 38 – “Intangible Assets”. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset

when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

#### 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.

#### Useful economic lives, amortisation and impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their

residual values over their estimated useful economic lives at the rates as specified below;

Class of Asset	% Per Annum	Period
Computer software	20%	5 years

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

#### Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

### 5.3.11. Other Assets

Other assets mainly comprise of refundable deposits, prepayments, performance bank guarantee, receivable from escrow agreement and other advances carried at historical cost.

### 5.3.12. Due to Financial Institutions

This represents loans and overdraft facilities from licensed commercial banks. These facilities are initially recognised at fair value net of transaction cost. Subsequent to initial recognition, borrowings are measured at their amortised cost using the effective interest method. Amortised cost is computed by taking into account any discount or premium identified at initial recognition which are an integral part of EIR. Interest paid/payable on these borrowings are recognised in Profit or Loss.



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### 5.3.13. Due to Other Customers

These represents the funds borrowed in the form of debentures and promissory Notes. Interest Expense is recognized in the statement of profit or loss based on the effective interest rate method.

### 5.3.14. Retirement Benefit Obligations

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard LKAS 19 – "Employee Benefits". The Group continues to use an internally developed method to measure retirement benefit liability. This is stated under other liabilities in the statement of financial position.

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income during the period in which it occurs. The gratuity liability is not externally funded.

### 5.3.15. Other Liabilities

A provision is recognised if, as a result of past event, the Group 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. Other liabilities mainly comprise accrued expenses, supplier payables, insurance payable, consent motion advance, EPF/ ETF/PAYE payables, etc.

### 5.3.16. Statutory Reserve

Statutory Reserve Fund has been created during the year 2006 in accordance with the Finance Leasing (Amendment) Act No 24 of 2005. Statutory reserve fund is a capital

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

### 5.3.17 Fair Value Reserve

"Fair value reserve" comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income. Refer Note 35 on page 159.

## 5.4. Significant Accounting Policies – Statement of Cash Flows

### 5.4.1. Statement of Cash Flows

The Statement of Cash Flow has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – "Statement of Cash Flows", whereby operating activities, investing activities and financing activities are separately recognised.

Cash and cash equivalents comprise of cash in hand and cash at bank. Cash and cash equivalents as referred to in the statement of cash flow are comprised of those items as explained in the Note 17 given in the statement of cash flow page 139.

## 5.5. Significant Accounting Policies – Other

### 5.5.1. Events after the reporting period

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. In this regard, all material and important events that occurred

after the reporting period have been considered and appropriate disclosures are made in Note 40 on page 167 where necessary.

### 5.5.2. Capital Commitments

During 2022, the Company did not enter into any contract that will give rise to capital expenses in the future.

### 5.5.3. Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events on present obligations where the transfer of economic benefit is not probable or can't be reliably measured.

Summary cases against the Group have been disclosed in the Note 42 on page 169 to the financial statements. However, based on the available information and the available legal advice, the Group do not expect the outcome of any action to have any material effect on the financial position of the group.

### 5.5.4. Operating segments

The Group's segmental reporting is based on operating segments.

A segment is a distinguishable component of the Group that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Group. Inter- segment transfers are accounted for at competitive fair

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market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which discrete finance information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on reasonable basis.

For management purposes, the Company is organised into business

units based on their products and services.

No operating segments have been aggregated to form the reportable operating segments.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from statement of profit or loss in the financial statements.

The Group's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items

directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill. The activities of the Group are located mainly in Sri Lanka. Consequently, the economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

Operating segment	Category of Information	Details
Leasing	Nature of product	Leasing facilities to acquire movable properties
	Classification of product	Motor cars, busses, trucks, machinery
	Revenue derived from	<ul style="list-style-type: none"> <li>Interest income</li> <li>Service fee income &amp; commission income</li> </ul>
Loans	Nature of product	Loan facilities to acquire movable and immovable properties and personal loans
	Classification of product	Land, motor cars, personal loans
	Revenue derived from	<ul style="list-style-type: none"> <li>Interest income</li> <li>Service fee income</li> </ul>
Treasury	Nature of product	Investing activities
	Classification of product	Placement with banks, REPOS, Treasury bonds
	Revenue derived from	Investment income and fair value gains and losses on investments
Money Brokering	Nature of product	Money brokering activities
	Classification of product	Call money, FOREX, Treasury bills, treasury bonds
	Revenue derived from	<ul style="list-style-type: none"> <li>Commission income</li> <li>Investment income and fair value gains losses on investments</li> </ul>

Details of the 5.5.4. Operating segments are given in Note 46 on page 179.

### 5.5.5. Maturity Analysis

The Company has disclosed an analysis of assets and liabilities into relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date. Remaining contractual period to maturity as at the date of statement of financial position of the assets, liabilities and share holders' funds are given in Note 43.3.3 on pages 170 to 171.



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### NOTE 06. New Accounting Standards Issued but not yet Effective

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

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

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

financial statements in the period of initial application. The Group is closely monitoring the developments.

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

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences. Eg. Leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after January 1, 2023. For leases and decommissioning liabilities associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment

to retained earnings or other components of equity at that date. For all other transactions the amendments apply to transactions that occur after the beginning of the earliest period presented. The Group does not recognise any deferred tax asset or liability of such single transactions.

#### 6.3 Other standards

- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2).
- Definition of accounting estimates (amendments to LKAS 8).
- Amendments to Sri Lanka Accounting Standard - LKAS 28 "Investments in Associates and Joint Ventures".

None of the new or amended pronouncements are expected to have a material impact on the consolidated financial statements of the Group.

## Income

Rs. For the year ended December 31,	Note	Company		Group	
		2022	2021	2022	2021
Interest income	7	289,361,235	163,970,711	289,361,235	163,970,711
Fee and commission income	9	9,905,419	3,625,443	9,905,419	3,625,443
Other operating income	10	210,220,245	81,336,021	230,889,765	134,116,264
		<b>509,486,899</b>	<b>248,932,175</b>	<b>530,156,419</b>	<b>301,712,418</b>

### NOTE 07. Interest Income

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Lease rental receivable	102,069,130	75,410,163	102,069,130	75,410,163
Loans and advances	132,937,200	66,210,144	132,937,200	66,210,144
Gold loans advances	54,354,905	22,350,404	54,354,905	22,350,404
<b>Total interest income</b>	<b>289,361,235</b>	<b>163,970,711</b>	<b>289,361,235</b>	<b>163,970,711</b>

## Notes to the Financial Statements (Contd.)

### NOTE 08. Interest Expenses

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Due to banks	127,813,402	44,504,635	127,848,513	44,537,260
Due to other customers	4,528,771	4,560,610	4,528,771	4,560,610
SLFRS 16 – Incremental borrowing cost	2,394,897	2,753,540	2,426,702	2,970,805
<b>Total interest expenses</b>	<b>134,737,070</b>	<b>51,818,785</b>	<b>134,803,986</b>	<b>52,068,675</b>
<b>Net interest income</b>	<b>154,624,165</b>	<b>112,151,926</b>	<b>154,557,249</b>	<b>111,902,036</b>

### NOTE 09. Net Fee And Commission Income

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Fee and commission income	9,905,419	3,625,443	9,905,419	3,625,443
<b>Net fee and commission income</b>	<b>9,905,419</b>	<b>3,625,443</b>	<b>9,905,419</b>	<b>3,625,443</b>

### NOTE 10. Other Operating Income

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Interest income on placements with banks	193,449,806	64,799,968	194,917,650	64,799,968
Investment with government securities	844,898	774,498	844,898	774,498
Service charges	452,330	542,324	452,330	542,324
Recovery of loans and lease written off in prior years	515,394	858,219	515,394	858,219
Dividend income	740,279	690,000	796,137	880,256
Money brokering income	-	-	19,089,272	48,787,468
Profit on gold loan auction	260,120	332,307	260,120	332,307
Profit on sale of shares	-	-	56,546	3,802,519
Provision reversals for value of financial investment	-	77,828	-	77,828
Sundry income	11,006,714	9,132,477	11,006,714	9,132,477
Profit on Consent Motion loan settlement	2,950,704	4,128,400	2,950,704	4,128,400
	<b>210,220,245</b>	<b>81,336,021</b>	<b>230,889,765</b>	<b>134,116,264</b>

### NOTE 11. Allowance for Expected Credit Loss - Charge

Rs. For the year ended December 31,	Note	Company		Group	
		2022	2021	2022	2021
Allowance for expected credit loss for loans and advances	19.5	171,244,848	60,958,213	171,244,848	60,958,213
Unwinding interest adjustment		(6,992,480)	(6,452,924)	(6,992,480)	(6,452,924)
Allowance for expected credit loss for placement with banks		1,264,847	205,192	1,264,847	205,192
Write-offs and disposal losses		1,003,748	2,447,712	1,003,747	2,447,712
		<b>166,520,963</b>	<b>57,158,193</b>	<b>166,520,962</b>	<b>57,158,193</b>

## Notes to the Financial Statements (Contd.)

### NOTE 12. Personnel Expenses

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Salaries and bonus	51,312,555	36,928,198	83,682,596	71,236,198
Defined contribution plan costs - EPF	5,681,399	4,365,894	10,233,964	9,163,974
Defined contribution plan costs - ETF	1,420,350	1,091,473	2,558,491	2,290,993
Defined benefit plan cost	3,097,687	2,069,611	4,343,295	6,057,091
Others	15,300,023	11,504,099	20,211,341	20,001,681
	<b>76,812,014</b>	<b>55,959,275</b>	<b>121,029,687</b>	<b>108,749,937</b>

### NOTE 13. Other Expenses

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Auditors' remuneration - Audit related services	1,560,464	1,020,000	1,942,022	1,307,000
- Non audit services	2,182,041	724,000	2,182,041	724,000
Depreciation and amortisation	17,364,741	19,200,132	20,536,226	23,534,692
Legal expenses	3,770,044	5,973,946	3,770,044	5,973,946
Directors' emoluments	4,905,000	4,995,000	6,850,025	6,710,000
Premises and equipment cost	20,987,406	18,787,185	23,612,884	21,666,154
Others	18,196,166	13,458,575	23,886,458	18,567,194
	<b>68,965,862</b>	<b>64,158,838</b>	<b>82,779,700</b>	<b>78,482,986</b>

### NOTE 14. Taxes on Financial Services

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Value added tax on financial services	15,598,412	10,753,675	15,598,412	10,753,675
Social security contribution levy (SSCL)	3,386,637	-	3,386,637	-
	<b>18,985,049</b>	<b>10,753,675</b>	<b>18,985,049</b>	<b>10,753,675</b>

### NOTE 15. Taxation

Rs. For the year ended December 31,	Note	Company		Group	
		2022	2021	2022	2021
Income tax claim on profits	15.1	6,129,285	-	6,129,285	-
ESC written off during the year		-	(2,357,092)	-	(2,357,092)
Provision for the year		(2,656,249)	-	(2,656,249)	-
(Provision) / reversals for deferred tax	27.1	-	-	(267,050)	836,796
		<b>3,473,036</b>	<b>(2,357,092)</b>	<b>3,205,986</b>	<b>(1,520,296)</b>

## Notes to the Financial Statements (Contd.)

### 15.1 Reconciliation of Accounting (Loss) / Profit and the Income Tax Expense

Rs. For the year ended December 31,	Note	Company		Group	
		2022	2021	2022	2021
Profit before income tax		76,109,196	55,788,253	53,730,290	39,463,396
Share of profit of associate company		(743,655)	(151,844)	(743,655)	(151,844)
Aggregate disallowed expenses		215,183,804	(23,642,169)	206,882,702	(15,102,865)
Aggregate allowable expenses		(279,957,303)	(77,784,428)	(283,331,497)	(80,696,992)
Capital portion of lease receivable		6,997,344	21,223,394	6,997,344	21,223,394
Aggregate exempt / allowable income		(45,905,273)	(48,027,202)	(44,404,768)	(46,184,801)
<b>Loss from the business</b>		<b>(28,315,888)</b>	<b>(72,593,996)</b>	<b>(60,869,585)</b>	<b>(81,449,712)</b>
Profit / (loss) from other source of income		2,336,587	-	(3,880,247)	(3,657,628)
Dividend income		740,000	-	740,000	-
Tax loss incurred / (claimed) during the year	15.4	-	72,593,996	-	85,107,341
<b>Taxable loss</b>		<b>(25,239,301)</b>	<b>-</b>	<b>(64,009,832)</b>	<b>-</b>
Tax on business income (First 09 months) @ 24%		6,235,033	-	6,235,033	-
Tax on business income (Next 03 Months) @ 30%		-	-	-	-
Tax on dividend income @ 14%		(73,538)	-	(73,538)	-
Tax on dividend income @ 15%		(32,210)	-	(32,210)	-
<b>Income tax claim</b>		<b>6,129,285</b>	<b>-</b>	<b>6,129,285</b>	<b>-</b>

### 15.2 Aggregate disallowed expenses

According to the Inland Revenue Act No 24 of 2017, the impairment provision of the Company, provisions made on impairment on subsidiary and other provisions over assets are disallowed.

Rs.	Company		Group	
	2022	2021	2022	2021
Balance as at January 1,	208,069,184	173,720,385	208,069,184	173,720,385
During the year charge	214,974,838	34,348,800	214,974,838	34,348,800
<b>Balance as at December 31,</b>	<b>423,044,022</b>	<b>208,069,185</b>	<b>423,044,022</b>	<b>208,069,185</b>

### Capital Allowances for Intangible Assets

Intangible Asset Capital Allowances, when it comes to capital allowances, the Act treats intangible assets different manner than it does for tangible assets.

## Notes to the Financial Statements (Contd.)

### 15.3 Reconciliation of Effective Tax Rate

A reconciliation between the tax expense and the product of accounting (loss) / profit multiplied by the applicable tax rate for the year ended December 31, 2022 is given below;

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Accounting profit before income tax	76,109,196	55,788,253	53,730,290	39,463,396
Income tax expense at the average statutory income tax rate @ 30%	22,832,759	13,389,181	16,119,087	9,471,215
Tax effect of disallowable expenses	64,555,141	(5,674,121)	62,064,811	(3,624,688)
Tax effect of allowable expenses	(83,987,191)	(18,668,263)	(84,999,449)	(19,367,278)
Capital portion of lease receivable	2,099,203	5,093,615	2,099,203	5,093,615
Tax effect of aggregate exempt / allowable income	(13,994,679)	(11,562,971)	(13,544,527)	(11,120,795)
Tax effect of profit from other source of income	700,976	-	(1,164,074)	(877,831)
Tax effect of tax profit claimed during the year	-	17,422,559	-	20,425,762
Tax on dividend income @ 14%	73,538	-	73,538	-
Tax on dividend income @ 15%	32,210	-	32,210	-
<b>Income tax claim for the year</b>	<b>6,129,285</b>	<b>-</b>	<b>6,129,285</b>	<b>-</b>
<b>Effective tax rate</b>	<b>-8.05%</b>	<b>0.00%</b>	<b>-11.41%</b>	<b>0.00%</b>

Since the proposed amendment has not been substantively enacted at the end of the reporting period, the income tax provision of the Group for 2022 is calculated based on the tax rates specified in the Inland Revenue Act No. 24 of 2017.

Income tax provision for the year ended December 31, 2022 of SMB Finance PLC has been calculated at for First 09 Months 24% and for the next three months 30% (2021-24%) on its taxable profit in terms of Inland Revenue Act No. 24 of 2017, and amendments thereto. Profits of SMB Money Brokers (Private) Limited, subsidiary of the group is liable to income tax at First 09 Months 24% and for the next three months 30% (2021-24%).

### 15.4 Accumulated Tax Losses

Rs.	Company		Group	
	2022	2021	2022	2021
Balance as at January 1,	142,472,645	70,568,649	154,985,990	70,568,649
Adjustment in respect of prior years	(142,472,645)	-	(154,985,990)	-
Tax loss claimed against investment income	-	(690,000)	-	(690,000)
Tax loss incurred / (claimed) during the year	-	72,593,996	-	85,107,341
<b>Balance as at December 31,</b>	<b>-</b>	<b>142,472,645</b>	<b>-</b>	<b>154,985,990</b>

## NOTE 16. Earnings Per Share

### Basic Earnings Per Share

Basic earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the Company by the number of ordinary shares, as per the requirements of the Sri Lanka Accounting Standard LKAS 33 - "Earnings per Share".

For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Profit attributable to equity holders of the Company (Rs)	79,582,232	53,431,161	74,280,295	45,532,250
No. of ordinary shares outstanding during the year	9,551,978,760	9,551,978,760	9,551,978,760	9,551,978,760
<b>Basic earnings per share (Rs.)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>

## Notes to the Financial Statements (Contd.)

### 16.1 Diluted Earnings Per Share

There were no potentially dilutive ordinary shares as at December 31, 2022 and there have been no transactions involving ordinary shares or potential ordinary shares as at the reporting date which would require restatement of EPS.

#### NOTE 17. Cash and Cash Equivalents

Rs. As at December 31,	Note	Company		Group	
		2022	2021	2022	2021
Cash in hand		40,870,875	15,354,115	40,885,875	15,369,115
Balances with banks		14,431,167	88,204,771	14,608,995	89,810,773
<b>Cash and cash equivalents in the statement of financial position</b>		<b>55,302,042</b>	<b>103,558,886</b>	<b>55,494,870</b>	<b>105,179,888</b>
Repo investment with banks	18	501,000	28,665,000	533,169	30,465,000
Bank overdrafts repayable on demand and used for cash management purpose	29	(2,103,754)	-	(2,391,425)	-
<b>Cash and cash equivalents in the statement of cash flow</b>		<b>53,699,288</b>	<b>132,223,886</b>	<b>53,636,614</b>	<b>135,644,888</b>

#### NOTE 18. Placements With Banks

Rs. As at December 31,	Note	Company		Group	
		2022	2021	2022	2021
Fixed deposits with banks		2,365,000,000	2,365,000,000	2,365,000,000	2,380,302,675
REPO investment with banks - Overnight		501,000	28,665,000	533,169	30,465,000
<b>Gross placements with banks</b>		<b>2,365,501,000</b>	<b>2,393,665,000</b>	<b>2,365,533,169</b>	<b>2,410,767,675</b>
Allowance for expected credit loss - (charge)	18.1	(1,483,338)	(218,491)	(1,483,338)	(218,491)
<b>Net placements with banks</b>		<b>2,364,017,662</b>	<b>2,393,446,509</b>	<b>2,364,049,831</b>	<b>2,410,549,184</b>

### 18.1 Movement in Impairment During the Year - Company / Group

Rs.	2022	2021
Balance as at January 1,	218,491	13,299
Charge to the income statement	1,264,847	205,192
<b>Balance as at December 31,</b>	<b>1,483,338</b>	<b>218,491</b>



## Notes to the Financial Statements (Contd.)

### NOTE 19. Financial Assets at Amortised Cost - Loans and Receivables to Customers

#### 19.1 Stage-wise Analysis of Loans and Receivables

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
<b>Gross loans and receivables</b>				
Stage 1	1,593,971,826	831,519,330	1,593,971,826	831,519,330
Stage 2	285,176,896	144,783,745	285,176,896	144,783,745
Stage 3	613,084,508	604,835,437	613,084,508	604,835,437
	<b>2,492,233,230</b>	<b>1,581,138,512</b>	<b>2,492,233,230</b>	<b>1,581,138,512</b>
<b>Provision for impairment</b>				
Stage 1	(98,411,429)	(58,717,513)	(98,411,429)	(58,717,513)
Stage 2	(88,434,040)	(58,608,709)	(88,434,040)	(58,608,709)
Stage 3	(450,019,612)	(348,294,011)	(450,019,612)	(348,294,011)
	<b>(636,865,081)</b>	<b>(465,620,233)</b>	<b>(636,865,081)</b>	<b>(465,620,233)</b>
<b>Net loans and advances</b>	<b>1,855,368,149</b>	<b>1,115,518,279</b>	<b>1,855,368,149</b>	<b>1,115,518,279</b>

#### 19.1.1 Loans

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
<b>Gross loans receivables</b>				
Stage 1	645,034,758	390,941,773	645,034,758	390,941,773
Stage 2	181,961,895	67,948,694	181,961,895	67,948,694
Stage 3	322,315,147	271,311,242	322,315,148	271,311,242
	<b>1,149,311,800</b>	<b>730,201,709</b>	<b>1,149,311,801</b>	<b>730,201,709</b>
<b>Provision for impairment</b>				
Stage 1	(63,196,502)	(28,660,912)	(63,196,502)	(28,660,912)
Stage 2	(63,714,856)	(19,667,273)	(63,714,856)	(19,667,273)
Stage 3	(205,448,144)	(164,012,252)	(205,448,144)	(164,012,252)
	<b>(332,359,502)</b>	<b>(212,340,437)</b>	<b>(332,359,502)</b>	<b>(212,340,437)</b>
<b>Net loans receivable</b>	<b>816,952,298</b>	<b>517,861,272</b>	<b>816,952,299</b>	<b>517,861,272</b>

#### 19.1.2 Leases

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
<b>Gross lease receivables</b>				
Stage 1	565,456,453	286,922,642	565,456,453	286,922,642
Stage 2	79,473,261	72,007,687	79,473,261	72,007,687
Stage 3	281,771,152	327,471,645	281,771,152	327,471,645
	<b>926,700,866</b>	<b>686,401,974</b>	<b>926,700,866</b>	<b>686,401,974</b>
<b>Provision for impairment</b>				
Stage 1	(33,049,568)	(30,056,601)	(33,049,568)	(30,056,601)
Stage 2	(24,223,282)	(38,941,436)	(24,223,282)	(38,941,436)
Stage 3	(243,044,864)	(183,093,592)	(243,044,864)	(183,093,592)
	<b>(300,317,714)</b>	<b>(252,091,629)</b>	<b>(300,317,714)</b>	<b>(252,091,629)</b>
<b>Net lease receivable</b>	<b>626,383,152</b>	<b>434,310,345</b>	<b>626,383,152</b>	<b>434,310,345</b>

## Notes to the Financial Statements (Contd.)

### 19.1.3 Gold loan Advances Receivable

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
<b>Gold loan advances receivables</b>				
Stage 1	383,480,615	153,654,916	383,480,615	153,654,916
Stage 2	23,741,740	4,827,363	23,741,740	4,827,363
Stage 3	8,998,209	6,052,550	8,998,209	6,052,550
	<b>416,220,564</b>	<b>164,534,829</b>	<b>416,220,564</b>	<b>164,534,829</b>
<b>Provision for impairment</b>				
Stage 1	(2,165,359)	-	(2,165,359)	-
Stage 2	(495,902)	-	(495,902)	-
Stage 3	(1,526,604)	(1,188,167)	(1,526,604)	(1,188,167)
	<b>(4,187,865)</b>	<b>(1,188,167)</b>	<b>(4,187,865)</b>	<b>(1,188,167)</b>
<b>Net gold loan receivables</b>	<b>412,032,699</b>	<b>163,346,662</b>	<b>412,032,699</b>	<b>163,346,662</b>

### 19.2 Product-wise Analysis of Loans and Receivables

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Lease rental receivables	926,700,866	686,401,974	926,700,866	686,401,974
Personal loans	111,385,935	142,051,020	111,385,935	142,051,020
Term loans	770,328,507	412,213,708	770,328,507	412,213,708
Easy payment loans	9,091,129	11,592,556	9,091,129	11,592,556
Other loans	258,506,229	164,344,425	258,506,229	164,344,425
Gold loan advances	416,220,564	164,534,829	416,220,564	164,534,829
	<b>2,492,233,230</b>	<b>1,581,138,512</b>	<b>2,492,233,230</b>	<b>1,581,138,512</b>

### 19.3 Sector-wise Analysis of Loans and Receivables

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Industry	178,057,212	126,714,755	178,057,212	126,714,755
Agriculture	242,555,845	214,390,056	242,555,845	214,390,056
Trade	182,471,640	97,735,121	182,471,640	97,735,121
Transport	536,603,685	262,168,905	536,603,685	262,168,905
Construction	128,021,371	119,888,552	128,021,371	119,888,552
Services	228,524,320	171,417,570	228,524,320	171,417,570
Personal	904,566,142	478,255,142	904,566,142	478,255,142
Others	91,433,015	110,568,411	91,433,015	110,568,411
	<b>2,492,233,230</b>	<b>1,581,138,512</b>	<b>2,492,233,230</b>	<b>1,581,138,512</b>

## Notes to the Financial Statements (Contd.)

### 19.4 Gross Lease Rental Receivable

#### 19.4.1 Gross lease rental receivable within one year

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Total lease rentals within one year from reporting date	464,338,294	339,021,829	464,338,294	339,021,829
Unearned lease Income	(117,200,600)	(77,142,796)	(117,200,600)	(77,142,796)
<b>Balance as at December 31,</b>	<b>347,137,694</b>	<b>261,879,033</b>	<b>347,137,694</b>	<b>261,879,033</b>

#### 19.4.2 Gross lease rental receivable after one year and five years

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Total lease rentals receivable after one year from reporting date	659,424,201	522,610,809	659,424,201	522,610,809
Unearned lease Income	(105,648,432)	(109,430,913)	(105,648,432)	(109,430,913)
<b>Balance as at December 31,</b>	<b>553,775,769</b>	<b>413,179,896</b>	<b>553,775,769</b>	<b>413,179,896</b>

#### 19.4.3 Gross lease rental receivable after five years

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Total lease rentals receivable after five years from reporting date	25,897,358	11,418,788	25,897,358	11,418,788
Unearned lease Income	(109,955)	(75,743)	(109,955)	(75,743)
<b>Balance as at December 31,</b>	<b>25,787,403</b>	<b>11,343,045</b>	<b>25,787,403</b>	<b>11,343,045</b>
<b>Total lease rentals receivables</b>	<b>926,700,866</b>	<b>686,401,974</b>	<b>926,700,866</b>	<b>686,401,974</b>

### 19.5 Movement in Individual and Collective Impairment During the Year - Company / Group

Rs.	2022	2021
<b>Stage 1</b>		
Balance as at January 1,	58,717,513	25,941,331
Charge to the income statement	39,693,916	32,776,182
<b>Balance as at December 31,</b>	<b>98,411,429</b>	<b>58,717,513</b>
<b>Stage 2</b>		
Balance as at January 1,	58,608,709	35,277,675
Charge to the income statement	29,825,331	23,331,034
<b>Balance as at December 31,</b>	<b>88,434,040</b>	<b>58,608,709</b>
<b>Stage 3</b>		
Balance as at January 1,	348,294,011	343,443,012
Charge to the income statement	101,725,601	4,850,999
<b>Balance as at December 31,</b>	<b>450,019,612</b>	<b>348,294,011</b>
<b>Total net impairment charge for the year</b>	<b>171,244,848</b>	<b>60,958,213</b>

Significant changes in financial instrument disclosure the cause for it and its impact on ECL

Income from leases, loans, and gold loans has increased this year. Comparing the current year to the previous year of 2021, loans increased by 57.5%, leases by 35%, and gold loans by 153%. As a result, impairment provision has increased this year 2022.

## Notes to the Financial Statements (Contd.)

### NOTE 20. Financial Investments

The Company's financial investments are summarised by category as follows:

Rs.		Note	Company		Group	
As at December 31,			2022	2021	2022	2021
Fair value through profit or loss (FVTPL)		20.1	-	700,452	-	7,835,802
Fair value through other comprehensive income (FVTOCI)		20.2	104,249,453	81,376,472	104,249,453	81,376,472
Other financial assets		20.3	-	-	10,540,000	10,540,000
<b>Total financial investments</b>			<b>104,249,453</b>	<b>82,076,924</b>	<b>114,789,453</b>	<b>99,752,274</b>

The following table compares the fair values of the financial investments to their carrying values:

Rs.		Company				Group			
As at December 31,		Note	2022	2021		2022	2021		
			Carrying Value	Fair Value		Carrying Value	Fair Value	Carrying Value	Fair Value
Fair value through profit or loss (FVTPL)		20.1	-	700,452		700,452	700,452	7,835,802	7,835,802
Fair value through other comprehensive income (FVTOCI)		20.2	104,249,453	81,376,472		104,249,453	104,249,453	81,376,472	81,376,472
Other financial assets		20.3	-	-		-	10,540,000	10,540,000	10,540,000
<b>Total financial investments</b>			<b>104,249,453</b>	<b>104,249,453</b>		<b>82,076,924</b>	<b>114,789,453</b>	<b>99,752,274</b>	<b>99,752,274</b>

### 20.1 Fair Value Through Profit or Loss (FVTPL)

#### 20.1.1 Quoted Shares held by SMB Finance PLC

Rs.		2022				2021			
As at December 31,		No of shares	Carrying Value	Fair Value		No of shares	Carrying Value	Fair Value	
<b>Banking, Finance &amp; Insurance</b>									
The Finance Co. PLC		97	-	-		97	-	-	-
<b>Manufacturing</b>									
Blue Diamond Jewelry Worldwide PLC		778,280	-	-		778,280	700,452	700,452	
Metal Recyclers Colombo PLC		69	-	-		69	-	-	-
<b>Land &amp; Property</b>									
Seylan Developments PLC		43	-	-		43	-	-	-
<b>Total carrying amount</b>							<b>700,452</b>	<b>700,452</b>	

Upon initial recognition, the Company elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of equity under SLFRS 9 – “Financial Instruments” and are not FVTPL. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment. Unrealised gains and losses were recognised in fair value reserve transferred to retained earnings. Dividend earned while holding financial assets – FVOCI were the cumulative gain or loss previously recognised in fair value reserve transferred to retained earnings. Dividend earned while holding financial assets – FVOCI were recognised in the Statement of profit or loss as “Operating income” when the right to receive the payment had been established.

## Notes to the Financial Statements (Contd.)

### 20.1.2 Quoted Shares held by SMB Money Brokers (Pvt) Ltd.

As at December 31, Rs.	2022			2021		
	No. of Shares	Carrying Value / Fair Value	Fair Value	No. of Shares	Carrying Value / Fair Value	Fair Value
<b>Banking, Finance &amp; Insurance</b>						
HNB Finance PLC	-	-	-	30,000	312,000	312,000
Lanka Orix Finance PLC	-	-	-	12,000	240,000	240,000
People's Leasing & Finance PLC	-	-	-	30,000	321,000	321,000
Commercial Leasing & Finance PLC	-	-	-	10,000	299,000	299,000
LOLC Development Finance Co. PLC	-	-	-	1,700	552,925	552,925
LB Finance PLC	-	-	-	6,000	408,000	408,000
Associated Motor Finance Co. PLC	-	-	-	55,000	748,000	748,000
Lanka Credit & Business Finance Ltd.	-	-	-	35,000	136,500	136,500
		-	-		<b>3,017,425</b>	<b>3,017,425</b>
<b>Other</b>						
Pelawatta Sugar Industries PLC	3,000	-	-	3,000	-	-
Brown Investments PLC	-	-	-	20,000	326,000	326,000
Renuka Agri Foods PLC	-	-	-	65,000	357,500	357,500
Softlogic Capital PLC	-	-	-	10,000	88,000	88,000
Industrial Asphalts (CEYLON) PLC	-	-	-	500,000	350,000	350,000
Maskeliya Plantations PLC	-	-	-	28,000	442,400	442,400
Dipped Products PLC	-	-	-	6,000	304,200	304,200
Expo Lanka Holdings PLC	-	-	-	100	37,525	37,525
Dankotuwa Porcelain PLC	-	-	-	5,000	73,000	73,000
Ceylon Investment PLC	-	-	-	10,000	536,000	536,000
Ceylon Tea Brokers PLC	-	-	-	5,000	21,000	21,000
E B Creasy & Company PLC	-	-	-	15,000	397,500	397,500
Ex-Pack Corrugated Cartons Ltd.	-	-	-	15,000	325,500	325,500
Shaw Wallace Investments PLC	-	-	-	10,000	129,000	129,000
Laugh Gas PLC	-	-	-	10,000	242,000	242,000
Renuka Holdings PLC	-	-	-	5,000	97,000	97,000
WindForce PLC	-	-	-	21,500	391,300	391,300
		-	-		<b>4,117,925</b>	<b>4,117,925</b>
<b>Total quoted shares</b>		-	-		<b>7,135,350</b>	<b>7,135,350</b>
<b>Carrying amount</b>		-	-		<b>7,835,802</b>	<b>7,835,802</b>

### 20.1.3 Determination of Fair Value - Company / Group

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices.

## Notes to the Financial Statements (Contd.)

### 20.2 Fair Value Through Other Comprehensive Income (FVTOCI)

#### 20.2.1 Unquoted Shares held by SMB Finance PLC

As at December 31, Rs.	2022			2021		
	No. of Shares	Cost	Carrying Value / Fair Value	No. of Shares	Cost	Carrying Value / Fair Value
Ceylinco Sports Complex Ltd.	300,000	3,000,000	-	300,000	3,000,000	-
Ceylinco Investment & Realty	100,000	1,000,000	-	100,000	1,000,000	-
Seraka Investment Ltd. *	5,655,900	48,645,300	-	5,655,900	48,645,300	-
South Asian Travels	30,000	300,000	-	30,000	300,000	-
Ceylinco Savings Bank Ltd.	1,189,600	11,896,000	-	1,189,600	11,896,000	-
Ceylinco Coloured Stone (Pvt) Ltd.	500,000	5,000,000	-	500,000	5,000,000	-
Openarc Global Solutions (Pvt) Ltd.	45,000	450,000	-	45,000	450,000	-
Magpek Exports Ltd.	125,000	5,000,000	-	125,000	5,000,000	-
Pugoda Textiles Mills Ltd.	7,500	252,525	-	7,500	252,525	-
Nestor Properties Ltd. (Formerly known as SMB Real Estate Ltd.)	61,739	30,282,196	-	61,739	30,282,196	-
Nestor Stock Brokers (Private) Ltd. (Formerly known as SMB Securities (Pvt) Limited)	5,000,000	50,000,000	104,249,453	5,000,000	50,000,000	81,376,472
<b>Total carrying amount</b>	-	-	<b>104,249,453</b>	-	-	<b>81,376,472</b>

\* The investment in Seraka Investment Limited is 10% non - cumulative non - redeemable preference shares.

The Group designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities represent investment that the Group intends to hold for the long term for strategic purpose.

No strategic investments were disposed of during the year 2022 and there were no transfers of any cumulative gain or loss within equity relating to these investments.

#### 20.2.2 Unquoted Debentures held by SMB Finance PLC

As at December 31, Rs.	2022	2021
	Cost	Cost
Ceylinco Automobiles Ltd.	17,600,000	17,600,000
Provision for impairment	(17,600,000)	(17,600,000)
<b>Carrying amount</b>	-	-
<b>Total carrying amount</b>	<b>104,249,453</b>	<b>81,376,472</b>

### 20.3 Other Financial Assets

Rs. As at December 31,	Group	
	2022	2021
Corporate Finance & Capital Market Limited (6% Non redeemable, Non participative preference shares)	10,540,000	10,540,000
<b>Total carrying amount</b>	<b>10,540,000</b>	<b>10,540,000</b>



## Notes to the Financial Statements (Contd.)

### 20.4 Movement of Financial Investment

Rs.	Company			Group		
	Fair Value Through Profit or Loss (FVTPL)	Fair Value Through Other Comprehensive Income (FVTOCI)	Financial instruments at amortised cost (AC)	Fair Value Through Profit or Loss (FVTPL)	Fair Value Through Other Comprehensive Income (FVTOCI)	Financial instruments at amortised cost (AC)
As at January 1, 2021	622,624	60,034,817	-	8,168,844	60,034,817	10,540,000
Purchases	-	-	-	-	-	-
Maturities	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Fair value gain / (loss) recorded in the statement of profit or loss	77,828	-	-	(333,042)	-	-
Fair value gain recorded in the other comprehensive income	-	21,341,655	-	-	21,341,655	-
Interest Income	-	-	-	-	-	-
<b>As at December 31, 2021</b>	<b>700,452</b>	<b>81,376,472</b>	<b>-</b>	<b>7,835,802</b>	<b>81,376,472</b>	<b>10,540,000</b>
As at January 1, 2022	700,452	81,376,472	-	7,835,802	81,376,472	10,540,000
Purchases	-	-	-	-	-	-
Maturities	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Fair value loss recorded in the statement of profit or loss	(700,452)	-	-	(5,683,744)	-	-
Fair value gain / (loss) recorded in the other comprehensive income	-	22,872,981	-	(2,152,058)	22,872,981	-
Interest Income	-	-	-	-	-	-
<b>As at December 31, 2022</b>	<b>-</b>	<b>104,249,453</b>	<b>-</b>	<b>-</b>	<b>104,249,453</b>	<b>10,540,000</b>

### 20.5 Disclosure of Financial Risk

The Company's exposure to credit, currency and interest rate risks related to investments are disclosed in Note 43 on pages from 169 to 177 the financial statements.

### 20.6 Financial Investments Pledged as a Security

Financial investments are not pledged as a security as at the reporting date. (2021- Nil)

## NOTE 21. Investment in Associate

### 21.1 Associate Company

Principal Activity	2022			2021		
	Holding	No. of Shares	Initial Cost Rs.	Holding	No. of Shares	Initial Cost Rs.
Kenanga Investment Corporation Ltd. Investment banking	48.99%	4,900,000	49,000,000	48.99%	4,900,000	49,000,000

### 21.2 Movement in Investment in Associate Company

Rs.	Note	Company		Group	
		2022	2021	2022	2021
Balance as at January 1,		41,833,376	41,681,532	41,833,376	41,681,532
Share of profit after tax	21.3	743,655	151,844	743,655	151,844
<b>Balance as at December 31,</b>		<b>42,577,031</b>	<b>41,833,376</b>	<b>42,577,031</b>	<b>41,833,376</b>

## Notes to the Financial Statements (Contd.)

### 21.3 Share of Profit of Associate Company

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Kenanga Investment Corporation Ltd.	743,655	151,844	743,655	151,844
	<b>743,655</b>	<b>151,844</b>	<b>743,655</b>	<b>151,844</b>

### 21.4 Summarised Financial Information of Associate Company

Rs. For the year ended / As at December 31,	Kenanga Investment Corporation Ltd	
	2022 (Audited)	2021 (Audited)
Revenue	9,430,325	8,371,785
Total comprehensive income for the year	1,517,976	1,720,228
Total assets	90,567,993	89,785,018
Total equity	86,909,637	85,391,663
Total liabilities	3,658,356	4,393,355

## NOTE 22. Investment In Subsidiary

Principal Activity	2022			2021		
	Holding	No. of Shares	Carrying Value Rs.	Holding	No. of Shares	Carrying value Rs.
SMB Money Brokers (Pvt) Ltd. Money market activities	50.99%	1,275,000	12,750,000	50.99%	1,275,000	12,750,000
Provision for impairment			(12,750,000)			-
<b>Balance as at December 31,</b>			<b>-</b>			<b>12,750,000</b>

### 22.1 Summarised Financial Information of Subsidiary

Rs. For the year ended / As at December 31	SMB Money Brokers (Pvt) Ltd	
	2022 (Audited)	2021 (Audited)
Revenue	19,089,271	47,083,975
Total comprehensive expenses for the year	(32,903,009)	(9,772,398)
Total asset	38,132,183	72,349,114
Total equity	19,510,291	52,413,299
Total liabilities	18,621,892	19,935,815

**22.2** The Company has fully provided for the investment made on SMB Money Brokers (Pvt) Ltd due to continued losses and taking into account the country's current economic crisis as well as the disruptions experienced by traders in their day-to-day trading activities.

## Notes to the Financial Statements (Contd.)

### NOTE 23. Investment Properties

Rs.	Company		Group	
	2022	2021	2022	2021
Balance as at January 1,	142,778,000	96,225,000	157,678,000	112,656,900
Addition during the year	198,300,400	-	198,300,400	-
Capitalised during the year	-	-	-	208,500
Sale of investment property	-	-	-	-
Fair value gain	44,649,600	46,553,000	46,949,600	44,812,600
<b>Balance as at December 31,</b>	<b>385,728,000</b>	<b>142,778,000</b>	<b>402,928,000</b>	<b>157,678,000</b>

There is a building in the Ja-Ela and no rental income or expenses from the above investment property.

### 23.1 Property Location

Rs.'000	Extent (Perches)	Company				Group			
		2022		2021		2022		2021	
		Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
Kaduwela, Malabe	118.97	32,700	141,078	32,700	141,078	32,700	141,078	32,700	141,078
Ahangama, Dikkumbura	21.00	1,204	1,900	1,204	1,700	1,204	1,900	1,204	1,700
Gangatennwatta, Angunawala, Kandy	195.85	55,838	64,000	-	-	55,838	64,000	-	-
Reality Plaza, Colombo Road, Ja-Ela	685 sq.ft	10,487	9,750	-	-	10,487	9,750	-	-
De Alwis Avenue, Mount Lavinia	42.30	131,975	169,000	-	-	131,975	169,000	-	-
Malabe	8.38	-	-	-	-	3,352	6,700	3,352	7,100
Ahangama	111.20	-	-	-	-	7,405	10,500	7,405	7,800
		<b>232,204</b>	<b>385,728</b>	<b>33,904</b>	<b>142,778</b>	<b>242,961</b>	<b>402,928</b>	<b>44,661</b>	<b>157,678</b>

### 23.2 Valuation of Investment Properties - Group

Property Location	Extent (Perches)	Forced Sale Value (Rs.)	Date of valuation	Name of the Valuer and Qualification
Kaduwela, Malabe	118.97	141,078	January 7, 2023	P.B Fonseka - Incorporated Valuer
Ahangama, Dikkumbura	21.00	1,900	December 8, 2022	D.Jayawardana - Incorporated Valuer
Kuruduwattha Road, Angunawala, Peradeniya	195.85	64,000	December 8, 2022	D.Jayawardana - Incorporated Valuer
Reality Plaza, Colombo Road, Ja-Ela	685 sq.ft	9,750	December 9, 2022	D.Jayawardana - Incorporated Valuer
De Alwis Avenue, Mount Lavinia	42.30	169,000	November 29, 2022	D.Jayawardana - Incorporated Valuer
Malabe	8.38	6,700	February 3, 2023	D.Jayawardana - Incorporated Valuer
Ahangama	111.20	10,500	February 3, 2023	D.Jayawardana - Incorporated Valuer
		<b>402,928</b>		

The Company carries investment properties at fair value. Market valuations of the above investment properties were carried out as stated in above disclosure No. 23.2, by Messrs.P.B Fonseka, D.Jayawardana who are independent qualified valuers not connected with the Company.

### 23.3 The Company purchased below investment properties on February 25, 2022 from Swarnamahal Financial Services PLC.

Nature of the Property	Property
Bare Land	Gangatennwatta, Angunawala, Kandy
Land & Building	No. 10, De Alwis Avenue, Mt. Lavinia
Condominium Prpoerty	Three shops in Ja-Ela, Reality Plaza

## Notes to the Financial Statements (Contd.)

### 23.4 Assumptions used for property valuations.

Description	Valuation techniques	Significant Unobservable inputs	Sensitivity of the input
Land	Market comparable method :- This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for difference in size, nature, cost of development and location of the property.	Construction cost per square foot for the building and compare the market value of the building. The land value in compare to the Market price per perch. The valuer has used a range of prices for respective lands based on adjusted fair value taking into account other valuation considerations.	The estimated fair value would increase/ (decrease) if cost per square feet was higher/ (lower)
Land and building	Income method:- The net income generated by the property is used in conjunction with certain factors is used to calculate its fair value.	Estimate the monthly income if the building is rented out and take the gross annual income. The next reduce outgoings calculate net income from this gross annual income. This income is capitalized as a 6% to 25% and calculate the value of the property since these are commercial property.	The estimated fair value would increase/ (decrease) if Contractual rentals were higher/(lower) Occupancy rates were higher/(lower) Capitalization rate was (higher)/lower Repair and insurance was (higher)/lower Market value per perch was higher/(lower)

### Valuation of Investment Properties - Group

Valuation technique	Significant unobservable inputs	Sensitivity of the input to the fair value
Market comparable method – This method considers the selling price of a similar property within a reasonably recent period in determining the fair value of the property being revalued. This involves the evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, and location of the property.	Market price per perch. The valuer has used a range of prices for respective lands based on adjusted fair value taking into account other valuation considerations. The market price per perch ranges between Rs. 100,000 - Rs. 5,500,000 per perch.	The estimated fair value would increase / (decrease) if: <ul style="list-style-type: none"> <li>• Cost per square foot was higher /(lower); or</li> <li>• Market value per perch was higher / (lower)</li> </ul>
Income method: - The net income generated by the property is used in conjunction with certain factors is used to calculate its fair value	Contractual rentals agreed on Occupancy rates 100% Capitalization rates 6% Repairs and insurance 22.5% Valuer has used market price per perch for excess land in the existing location using a range of prices for similar lands based on adjusted fair value taking into account other valuation considerations ranging between Rs. 1,700,000.00 per perch.	Estimated fair value will increase / (decrease) if the market interest rate increases / (decreases)

## Notes to the Financial Statements (Contd.)

### NOTE 24. Property, Plant and Equipment

#### Company

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2022 Total
<b>Cost</b>					
As at January 1,	28,695,299	13,006,383	20,807,677	986,892	63,496,251
Additions for the year	17,181,850	9,400	5,250	-	17,196,500
Disposals	-	-	-	-	-
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>45,529,341</b>	<b>12,740,948</b>	<b>20,747,496</b>	<b>986,892</b>	<b>80,004,677</b>
<b>Accumulated Depreciation</b>					
As at January 1,	26,771,259	10,657,299	17,774,930	986,892	56,190,380
Charge for the year	2,712,529	817,084	1,009,271	-	4,538,884
Disposals	-	-	-	-	-
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>29,135,980</b>	<b>11,199,548</b>	<b>18,718,770</b>	<b>986,892</b>	<b>60,041,190</b>
<b>Net book value as at December 31, 2022</b>	<b>16,393,361</b>	<b>1,541,400</b>	<b>2,028,726</b>	<b>-</b>	<b>19,963,487</b>

#### Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2021.

#### Company

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2021 Total
<b>Cost</b>					
As at January 1,	28,480,149	12,050,314	20,604,542	986,892	62,121,897
Additions for the year	215,150	956,069	203,135	-	1,374,354
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>28,695,299</b>	<b>13,006,383</b>	<b>20,807,677</b>	<b>986,892</b>	<b>63,496,251</b>
<b>Accumulated Depreciation</b>					
As at January 1,	25,836,737	8,544,605	14,583,737	976,893	49,941,972
Charge for the year	934,522	2,112,694	3,191,193	9,999	6,248,408
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>26,771,259</b>	<b>10,657,299</b>	<b>17,774,930</b>	<b>986,892</b>	<b>56,190,380</b>
<b>Net book value as at December 31, 2021</b>	<b>1,924,040</b>	<b>2,349,084</b>	<b>3,032,747</b>	<b>-</b>	<b>7,305,871</b>

## Notes to the Financial Statements (Contd.)

### Group

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2022 Total
<b>Cost</b>					
As at January 1,	30,833,090	16,815,366	22,742,281	10,246,793	80,637,530
Additions for the year	17,260,750	9,400	5,250	-	17,275,400
Disposals	-	-	-	-	-
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>47,746,032</b>	<b>16,549,931</b>	<b>22,682,100</b>	<b>10,246,793</b>	<b>97,224,856</b>
<b>Accumulated Depreciation</b>					
As at January 1,	27,916,970	14,243,158	19,704,995	6,861,865	68,726,988
Charge for the year	2,987,876	927,123	1,013,814	1,851,981	6,780,794
Disposals	-	-	-	-	-
Write off	(347,808)	(274,835)	(65,431)	-	(688,074)
<b>As at December 31,</b>	<b>30,557,038</b>	<b>14,895,446</b>	<b>20,653,378</b>	<b>8,713,846</b>	<b>74,819,708</b>
<b>Net book value as at December 31, 2022</b>	<b>17,188,994</b>	<b>1,654,485</b>	<b>2,028,722</b>	<b>1,532,947</b>	<b>22,405,148</b>

### Reconciliation of the carrying amount of property, plant and equipment as at December 31, 2021.

### Group

Rs.	Computer Equipment	Office Equipment	Furniture & Fittings	Motor Vehicles	2021 Total
<b>Cost</b>					
As at January 1,	29,685,970	15,859,297	22,539,146	10,246,793	78,331,206
Additions for the year	1,147,120	956,069	203,135	-	2,306,324
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>30,833,090</b>	<b>16,815,366</b>	<b>22,742,281</b>	<b>10,246,793</b>	<b>80,637,530</b>
<b>Accumulated Depreciation</b>					
As at January 1,	26,807,988	12,012,132	16,481,402	4,999,885	60,301,407
Charge for the year	1,108,982	2,231,026	3,223,593	1,861,980	8,425,581
Disposals	-	-	-	-	-
Write off	-	-	-	-	-
<b>As at December 31,</b>	<b>27,916,970</b>	<b>14,243,158</b>	<b>19,704,995</b>	<b>6,861,865</b>	<b>68,726,988</b>
<b>Net book value as at December 31, 2021</b>	<b>2,916,120</b>	<b>2,572,208</b>	<b>3,037,286</b>	<b>3,384,928</b>	<b>11,910,542</b>

### 24.1 Acquisition of Property, Plant and Equipment During the Year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 17,196,500 (2021 - Rs. 1,374,354) and the Group acquired property, plant and equipment to the aggregate value of Rs. 17,275,400 (2021 - Rs. 2,306,324).

### 24.2 of Borrowing Cost

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year. (2021 - Nil)

### 24.3 Fully Depreciated Property, Plant and Equipment in Use

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows:

Rs.	2022	2021
As at December 31,		
Computer equipment	27,320,322	24,868,593
Office equipment	9,422,653	7,318,661
Furniture & fittings	16,282,662	13,166,863
Motor vehicles	986,892	986,892
	<b>54,012,529</b>	<b>46,341,009</b>



## Notes to the Financial Statements (Contd.)

### 24.4 Property, Plant and Equipment Pledged as a Security

None of the property, plant and equipment has been pledged as securities as at the reporting date. (2021 - Nil)

### 24.5 Permanent Fall in Value of Property, Plant and Equipment

There has been no permanent fall in the value of property, plant and equipment which requires an impairment provision in the financial statements. (2021 - Nil)

### 24.6 The Restriction of Property, Plant and Equipment

There are no restrictions that existed on the title of the property, plant and equipment of the group as at the reporting date. (2021 - Nil)

### 24.7 Compensation from Third Parties for Items of Property, Plant and Equipment

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

### 24.8 Temporarily Idle Property, Plant and Equipment

There were no property, plant and equipment of the Company idle as at December 31, 2022 and December 31, 2021.

## NOTE 25. Right-of-Use Assets and Lease Liabilities

### 25.1 Right-of-use Assets Movement During the Year

Rs.	Company		Group	
	2022	2021	2022	2021
<b>Right-of-use asset</b>				
Balance as at January 1,	55,430,096	55,430,096	61,316,511	61,316,511
Remeasurement	5,470,441	-	5,470,441	-
Disposals during the year	-	-	-	-
<b>Balance as at December 31,</b>	<b>60,900,537</b>	<b>55,430,096</b>	<b>66,786,952</b>	<b>61,316,511</b>
<b>Accumulated depreciation</b>				
Balance as at January 1,	32,164,063	19,525,839	37,120,903	22,889,119
Charge during the year	12,666,065	12,638,224	13,595,644	14,231,784
<b>Balance as at December 31,</b>	<b>44,830,128</b>	<b>32,164,063</b>	<b>50,716,547</b>	<b>37,120,903</b>
<b>Carrying value</b>				
<b>Balance as at December 31,</b>	<b>16,070,409</b>	<b>23,266,033</b>	<b>16,070,405</b>	<b>24,195,608</b>

### 25.2 Lease Liabilities Movement During the Year

Rs.	Company		Group	
	2022	2021	2022	2021
<b>Lease liabilities</b>				
Balance as at January 1,	15,649,074	21,107,534	16,705,769	23,787,464
Remeasurement	5,470,441	-	5,470,441	-
Disposals during the year	-	-	-	-
Accretion of interest during the year	2,394,897	2,753,540	2,426,702	2,970,805
Payments during the year	(8,634,200)	(8,212,000)	(9,722,700)	(10,052,500)
<b>Balance as at December 31,</b>	<b>14,880,212</b>	<b>15,649,074</b>	<b>14,880,212</b>	<b>16,705,769</b>

## Notes to the Financial Statements (Contd.)

### 25.3 Amounts Recognised in Profit or Loss

#### 25.3.1 Leases under SLFRS 16

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Depreciation of right-of-use assets	12,666,065	12,638,224	13,595,644	14,231,784
Interest on lease liabilities	2,394,897	2,753,540	2,426,702	2,970,805
	<b>15,060,962</b>	<b>15,391,764</b>	<b>16,022,346</b>	<b>17,202,589</b>

### 25.4 Leases under LKAS 17

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Cash outflow for leases	(8,634,200)	(8,212,000)	(9,722,700)	(10,052,500)
<b>Total cash outflow for leases</b>	<b>(8,634,200)</b>	<b>(8,212,000)</b>	<b>(9,722,700)</b>	<b>(10,052,500)</b>

### 25.5 Maturity analysis – Contractual Undiscounted Cash Flows

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Less than one year	7,367,700	8,601,200	7,367,700	9,689,700
Between one and five years	9,997,944	10,221,700	9,997,944	10,221,700
More than five years	-	-	-	-
<b>Total undiscounted cash flows</b>	<b>17,365,644</b>	<b>18,822,900</b>	<b>17,365,644</b>	<b>19,911,400</b>

## NOTE 26. Intangible Assets

Rs.	Company		Group	
	2022	2021	2022	2021
<b>Cost</b>				
As at January 1,	2,304,888	2,304,888	4,662,054	4,662,054
Additions for the year	235,037,570	-	235,037,570	-
<b>As at December 31,</b>	<b>237,342,458</b>	<b>2,304,888</b>	<b>239,699,624</b>	<b>4,662,054</b>
<b>Accumulated Amortisation</b>				
As at January 1,	2,174,263	1,860,763	4,531,429	3,654,106
Charge for the year	159,792	313,500	159,792	877,323
Disposals	-	-	-	-
<b>As at December 31,</b>	<b>2,334,055</b>	<b>2,174,263</b>	<b>4,691,221</b>	<b>4,531,429</b>
<b>Carrying Value as at December 31,</b>	<b>235,008,403</b>	<b>130,625</b>	<b>235,008,403</b>	<b>130,625</b>
<b>Capital Work in Progress</b>				
As at January 1,	5,484,000	5,484,000	5,484,000	5,484,000
Incurred during the year	4,600,000	-	4,600,000	-
Capitalised during the year	-	-	-	-
<b>As at December 31,</b>	<b>10,084,000</b>	<b>5,484,000</b>	<b>10,084,000</b>	<b>5,484,000</b>
<b>Carrying Value as at December 31,</b>	<b>245,092,403</b>	<b>5,614,625</b>	<b>245,092,403</b>	<b>5,614,625</b>

## Notes to the Financial Statements (Contd.)

- 26.1** According to LKAS 38, the Company has not amortized the finance license as it is an intangible asset with a perpetual life. If an intangible asset has a useful life but can be renewed, it is considered perpetual and is not amortized.

### NOTE 27. Deferred Tax Assets

#### Company

Deferred tax assets have not been recognized in respect of lease assets because it is uncertain that future taxable profits will be available against which the Company can utilize the benefits.

Rs.	2022	2021
<b>Unrecognised Deferred Tax Asset</b>		
Balance as at January 1,	85,302,262	7,817,978
(Charge) / reversals for the year	(34,043,911)	77,484,284
<b>Balance as at December 31,</b>	<b>51,258,351</b>	<b>85,302,262</b>

The above unrecognized deferred tax assets is attributable to the following:

Rs.	Temporary difference	Tax effect	Temporary difference	Tax effect
	December 31, 2022	December 31, 2022	December 31, 2021	December 31, 2021
On property, plant & equipment	(2,068,862)	(620,658)	(12,920,495)	(3,100,919)
On lease assets	(4,012,540)	(1,203,762)	14,948,284	3,587,588
On retirement benefit obligation	8,961,310	2,688,393	7,544,568	1,810,696
Fair value gain on investment property	(44,649,600)	(13,394,880)	(46,553,000)	(11,172,720)
On accumulated tax losses	-	-	142,472,645	34,193,435
Disallowable amount for bad debt provision	213,821,059	64,146,318	257,551,049	61,812,252
On right-of-use assets	(16,070,409)	(4,821,123)	(23,266,033)	(5,583,848)
On lease liabilities	14,880,212	4,464,063	15,649,075	3,755,778
	<b>170,861,169</b>	<b>51,258,351</b>	<b>355,426,093</b>	<b>85,302,262</b>

The deferred tax has been calculated at the rate of 30% (2021 - 24%).

The Company used the entire amount brought Tax loss carryforwards against taxable income in 2021. So there is no tax loss or deferred tax Assets reported as at reporting date.

#### Group

In respect of the sole subsidiary, SMB Money Brokers (Pvt) Limited, a deferred tax asset has been recognized, since the Management expects adequate taxable profit in the foreseeable future. Therefore, the Group deferred tax asset includes the deferred tax asset relevant to SMB Money Brokers (Pvt) Limited.

Rs.	Note	2022	2021
Balance as at January 1,		2,538,161	3,506,311
Reversals for the year	27.1	(1,335,456)	(968,150)
<b>Balance as at December 31,</b>		<b>1,202,705</b>	<b>2,538,161</b>

## Notes to the Financial Statements (Contd.)

### 27.1 (Charge) / Reversals for the year recognized in

Rs.	2022	2021
Statement of profit or loss	(267,050)	836,796
Other comprehensive income	(1,068,406)	(1,804,946)
<b>Balance as at December 31,</b>	<b>(1,335,456)</b>	<b>(968,150)</b>

#### 27.1.1 Deferred tax charge for the year due to change in tax rate and other temporary difference

	2022
Due to change in effective tax rate	240,542
Due to change in temporary difference	962,163
<b>Balance as at December 31,</b>	<b>1,202,705</b>

The above recognized deferred tax asset is attributable to the following;

Rs.	Temporary difference		Tax Effect	
	December 31, 2022	December 31, 2022	December 31, 2021	December 31, 2021
On property, plant & equipment	(250,713)	(75,214)	(255,675)	(61,362)
On retirement benefit obligation	14,198,350	4,259,506	18,342,850	4,402,284
Revaluation gain on investment property	(9,938,623)	(2,981,587)	(7,638,625)	(1,833,270)
On right-of-use assets	-	-	(929,575)	(223,098)
On lease liabilities	-	-	1,056,696	253,607
	<b>4,009,014</b>	<b>1,202,705</b>	<b>10,575,671</b>	<b>2,538,161</b>

Deferred tax is calculated using the tax rates that are expected to be applied to temporary differences when they reverse and is calculated using tax rates that are enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would result from the way the Company expects to recover or settle the carrying amount of its assets and liabilities at the reporting date.

The Company is recognized deferred tax assets. for Unused tax losses, unused tax credits, and deductible temporary differences that are likely to be used against future taxable profits are recorded as deferred tax assets. The reversal of relevant taxable temporary differences is calculated using future taxable profits. If taxable temporary differences are insufficient to fully recognize a deferred tax asset, based on business plans, future taxable profits adjusted to reverse existing temporary differences are considered. Deferred tax assets are reviewed at each reporting date and reduced to the extent that the relevant tax benefit is no longer likely to be realized. When the likelihood of future taxable profits increases, such deductions are reversed.

### NOTE 28. Other Assets

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Deposits & prepayments	14,946,836	11,493,042	16,799,203	14,192,791
Receivables from Golden Key Hospitals Limited	36,841,467	36,841,467	36,841,467	36,841,467
Interest receivable on fixed deposits	37,457,911	11,787,839	37,457,911	11,787,839
Income tax receivable	8,906,962	2,409,337	10,042,908	2,409,337
NBT receivable	704,395	704,395	704,395	704,395
VAT on financial services receivable	-	2,891,536	-	2,891,536
Other assets	-	1,667,482	3,534,500	11,945,411
	<b>98,857,571</b>	<b>67,795,098</b>	<b>105,380,384</b>	<b>80,772,776</b>

## Notes to the Financial Statements (Contd.)

### NOTE 29. Due to Financial Institutions

Rs. As at December 31,	Company		Group	
	2022	2021	2022	2021
Bank borrowings	1,566,116,482	526,274,284	1,566,116,482	526,274,284
Bank overdraft	2,103,754	-	2,391,425	-
	<b>1,568,220,236</b>	<b>526,274,284</b>	<b>1,568,507,907</b>	<b>526,274,284</b>

### 29.1 Details of Funding Facilities - Bank Loans Details

The below table provides details of the bank loans of the Company.

Name of the bank	Granted Date	2022		2021	
		Amount Granted (Rs.)	Outstanding Amount (Rs.)	Amount Granted (Rs.)	Outstanding Amount (Rs.)
Sampath Bank - Loan 01	December 24, 2020	200,000,000	120,120,420	200,000,000	159,992,000
Sampath Bank - Loan 02	November 1, 2021	140,000,000	107,409,666	140,000,000	135,330,000
Sampath Bank - Loan 03	January 31, 2022	180,000,000	154,648,236	-	-
Sampath Bank - Loan 04	January 31, 2022	180,000,000	156,804,486	-	-
Sampath Bank - Loan 05	January 31, 2022	180,000,000	156,804,486	-	-
Sampath Bank - Loan 06	February 3, 2022	180,000,000	156,804,486	-	-
Sampath Bank - Loan 07	February 28, 2022	180,000,000	158,960,736	-	-
Seylan Bank - Loan 01	November 22, 2021	200,000,000	169,815,816	200,000,000	197,619,000
Seylan Bank - Loan 02	May 4, 2022	200,000,000	186,207,385	-	-
Seylan Bank - Loan 03	August 19, 2022	100,000,000	94,702,844	-	-
Seylan Bank - Loan 04	November 21, 2022	100,000,000	99,383,272	-	-
Indian Bank - Loan 04	April 03, 2019	-	-	40,000,000	2,222,222
Indian Bank - Loan 05	February 19, 2020	80,000,000	4,454,649	80,000,000	31,111,062
		<b>1,920,000,000</b>	<b>1,566,116,482</b>	<b>660,000,000</b>	<b>526,274,284</b>

### NOTE 30. Due to Other Customers

Rs. As at December 31,	Note	Company		Group	
		2022	2021	2022	2021
Promissory notes		117,623,757	113,113,186	117,623,757	113,113,186
Debentures	30.1	9,162,728	9,162,728	9,162,728	9,162,728
<b>Balance as at December 31,</b>		<b>126,786,485</b>	<b>122,275,914</b>	<b>126,786,485</b>	<b>122,275,914</b>

**30.1** There is no interest accrual as the debentures have already matured and the debentures were issued long ago by Seylan Merchant Bank.

### NOTE 31. Retirement Benefit Obligations

Rs. As at December 31,	Note	Company		Group	
		2022	2021	2022	2021
Provision for retirement benefit obligations	31.1	8,961,310	7,544,568	23,159,659	25,887,414
<b>Balance as at December 31,</b>		<b>8,961,310</b>	<b>7,544,568</b>	<b>23,159,659</b>	<b>25,887,414</b>

## Notes to the Financial Statements (Contd.)

### 31.1 Provision for Retirement Benefit Obligation

Rs.	Note	Company		Group	
		2022	2021	2022	2021
Balance as at January 1,		7,544,568	7,889,759	25,887,414	30,365,734
Provision for the year	31.2	3,097,687	2,069,612	4,343,295	6,057,091
Actuarial loss during the year		(1,680,945)	(1,404,303)	(5,242,300)	(8,924,911)
Payments during the year		-	(1,010,500)	(1,828,750)	(1,610,500)
<b>Balance as at December 31,</b>		<b>8,961,310</b>	<b>7,544,568</b>	<b>23,159,659</b>	<b>25,887,414</b>

The following assumptions were used in valuing the retirement benefits obligation using internally developed method as required by Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits".

### 31.2 Provision for the year

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Current service costs	1,627,488	1,367,572	1,920,778	2,934,177
Interest costs	1,470,199	702,040	2,422,517	3,122,914
	<b>3,097,687</b>	<b>2,069,612</b>	<b>4,343,295</b>	<b>6,057,091</b>

	2022	2021
Salary increment rate	18.00%	10%
Discount rate	20.00%	11.75%, 10%
Retirement age	60 Years	60/59 Years
Staff turnover factor	4.50%	35.00%
Weighted Average Duration of RBO	19.41	19.59

In order to match the characteristics of the premium liability and the resulting yield to maturity, discount rates are changed to transform coupon-bearing yields into zero coupon yields in accordance with the Institute of Chartered Accountants of Sri Lanka's rules. LKAS 19's valuation of employee benefit liabilities is done for this reason. Also, the compensation increment rate of 18% is deemed reasonable in line with the Company's anticipated future salary increases, considering the state of the market and the rate of inflation.

### 31.3 Sensitivity of Assumptions Used

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

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on total comprehensive income and employment benefit obligation for the year.

Rs.	Sensitivity Effect on	
	Total Comprehensive Income Increase / (Reduction)	Employment Benefit Obligation Increase / (Reduction) in the Liability
<b>Company</b>		
Increase in discount rate (1%)	675,556	(759,388)
Decrease in discount rate (1%)	(740,453)	844,082
Increase in salary increment rate (1%)	(672,845)	851,564
Decrease in salary increment rate (1%)	616,695	(777,834)
<b>Group</b>		
Increase in discount rate (1%)	819,179	(860,070)
Decrease in discount rate (1%)	(887,134)	948,055
Increase in salary increment rate (1%)	(772,148)	958,270
Decrease in salary increment rate (1%)	714,438	(882,859)



## Notes to the Financial Statements (Contd.)

### NOTE 32. Other Liabilities

Rs. Balance as at December 31,	Company		Group	
	2022	2021	2022	2021
Accrued expenses	10,331,179	13,751,692	14,467,050	13,751,692
Unearn income on legal settlement	79,564,456	43,555,762	79,564,456	43,555,762
Un-identified deposits	4,428,448	1,627,469	4,428,448	1,627,469
Sundry creditors	4,907,205	4,018,736	4,907,205	4,018,736
Concent mortion advances	2,861,753	2,839,753	2,861,753	2,839,753
Lease termination	3,600,000	3,252,003	3,600,000	3,252,003
Stamp duty payable	1,514,097	643,731	1,514,097	643,731
SSCL payable	3,147,049	-	3,147,049	-
VAT on financial services payable	849,029	-	849,029	-
Other liabilities	1,222,288	2,694,314	3,643,045	5,651,353
<b>Balance as at December 31,</b>	<b>112,425,504</b>	<b>72,383,460</b>	<b>118,982,132</b>	<b>75,340,499</b>

### NOTE 33. Stated Capital

Rs. Balance as at December 31,	Company		Group	
	2022	2021	2022	2021
Ordinary voting shares	2,555,958,860	708,445,963	2,555,958,860	708,445,963
Ordinary non voting shares	506,722,664	210,618,151	506,722,664	210,618,151
Rights issue during the year	-	2,143,617,410	-	2,143,617,410
<b>Balance as at December 31,</b>	<b>3,062,681,524</b>	<b>3,062,681,524</b>	<b>3,062,681,524</b>	<b>3,062,681,524</b>

### 33.1 Reconciliation of Number of Shares - Company

	No. of shares	
	2022	2021
<b>Ordinary Voting Shares</b>		
As at January 1,	6,470,375,048	1,191,766,772
Issue of shares	-	5,278,608,276
<b>As at December 31,</b>	<b>6,470,375,048</b>	<b>6,470,375,048</b>
<b>Ordinary Non Voting Shares</b>		
As at January 1,	3,081,603,712	614,066,101
Issue of shares	-	2,467,537,611
<b>As at December 31,</b>	<b>3,081,603,712</b>	<b>3,081,603,712</b>
<b>Total</b>	<b>9,551,978,760</b>	<b>9,551,978,760</b>

### 33.2 Rights, preferences and restrictions of classes of capital

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. The holders of ordinary shares have the right to receive dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

## Notes to the Financial Statements (Contd.)

### 33.3 Rights issue funds utilisation as at December 31, 2022

Objective number	Objective as per circular	Amount allocated as per circular Rs.	Proposed date of utilisation as per circular	Amount allocated from proceeds Rs.	% of total proceeds	Amounts utilised Rs.	% of utilisation against allocation	Clarification if not fully utilised including where the funds are invested
01	To utilise for lending purpose	2,454,031,512	January 2022	2,143,617,410	87.35%	1,293,869,359	60.36%	Remaining funds are invested in bank fixed deposits.

### 33.3 Regulatory Capital - Company

	2022		2021	
	Actual	Required	Actual	Required
Tier 1 capital ratio (%)	81.08	8.50	121.67	7.00
Total capital ratio (%)	79.72	12.50	119.59	11

Tier 1 capital ratio and total capital ratio of the Company computed as per the Finance Business Act Direction No.03 of 2018 capital adequacy requirements issued by the Central Bank of Sri Lanka with effect from July 1, 2018.

#### NOTE 34. Statutory Reserves Fund

Rs.	Company		Group	
	2022	2021	2022	2021
Balance as at December 31,				
Balance as at January 1,	37,753,217	35,081,659	37,753,217	35,081,659
Transfer made during the year	3,979,112	2,671,558	3,979,112	2,671,558
	<b>41,732,329</b>	<b>37,753,217</b>	<b>41,732,329</b>	<b>37,753,217</b>

The statutory reserve fund is maintained by Finance Companies (Capital Funds) Direction No. 1 of 2003 as per 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.

#### NOTE 35. Fair Value Reserve

Rs.	Company		Group	
	2022	2021	2022	2021
Balance as at December 31,				
Balance as at January 1,	29,592,284	8,250,628	29,592,284	8,250,628
Net fair value gain on remeasuring financial investments	22,872,981	21,341,656	22,872,981	21,341,656
	<b>52,465,265</b>	<b>29,592,284</b>	<b>52,465,265</b>	<b>29,592,284</b>

This reserve includes accumulated net fair value gains / (losses) recognised on financial investments at fair value.

## Notes to the Financial Statements (Contd.)

### NOTE 36. Retained Earnings

Rs.	Company		Group	
	2022	2021	2022	2021
Balance as at January 1,	121,789,277	74,872,133	134,404,142	92,470,922
Profit for the year	79,582,232	53,431,161	74,280,295	45,532,250
Other comprehensive income	1,680,945	1,404,303	2,952,348	4,319,290
Rights issue expenses	-	(5,246,762)	-	(5,246,762)
Transfers to statutory reserve	(3,979,112)	(2,671,558)	(3,979,112)	(2,671,558)
<b>Balance as at December 31,</b>	<b>199,073,342</b>	<b>121,789,277</b>	<b>207,657,673</b>	<b>134,404,142</b>

Retained earnings represent the reserve available for distribution.

### NOTE 37. Non- Controlling Interests

Rs.	2022	2021
Balance as at the beginning of the year	24,627,666	29,416,141
Loss for the year	(17,344,019)	(7,589,150)
Other comprehensive income for the year	1,221,545	2,800,675
<b>Balance as at December 31,</b>	<b>8,505,192</b>	<b>24,627,666</b>

### 37.1 Reconciliation of Non Controlling Interest (NCI) in Subsidiary

As at December 31, / For the year ended December 31,	2022	2021
	Rs.	Rs.
NCI percentage (%)	49.01%	49.01%
Total assets	38,132,183	72,349,114
Total liabilities	18,621,892	19,935,815
Net assets	17,089,521	49,992,529
Carrying amount of NCI	8,505,192	24,410,847
Revenue	19,089,271	47,083,975
Loss after tax	(35,395,957)	(15,488,060)
Other comprehensive income	2,492,949	5,715,662
<b>Total comprehensive expense allocated to NCI</b>	<b>(16,122,474)</b>	<b>(4,788,475)</b>

## Notes to the Financial Statements (Contd.)

### NOTE 38. Classification of Financial Instruments

#### 38.1 Assets - Company

As at December 31, Rs.'000	2022				Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Others	
<b>Financial Assets</b>					
Cash and cash equivalents	-	55,302	-	-	55,302
Placements with banks	-	2,364,018	-	-	2,364,018
Financial assets at amortised cost-Loans and receivables to customers	-	1,855,368	-	-	1,855,368
Fair value through profit or loss (FVTPL)	-	-	-	-	-
Fair value through other comprehensive income (FVTOCI)	-	-	104,250	-	104,250
Other financial assets	-	37,458	-	-	37,458
<b>Total financial assets</b>	-	<b>4,312,146</b>	<b>104,250</b>	-	<b>4,416,396</b>
<b>Non Financial Assets</b>					
Investment in associate	-	-	-	42,577	42,577
Investment in subsidiary	-	-	-	-	-
Investment properties	-	-	-	385,728	385,728
Property, plant & equipment	-	-	-	19,963	19,963
Right-of-use assets	-	-	-	16,070	16,070
Intangible assets	-	-	-	245,092	245,092
Other non financial assets	-	-	-	61,400	61,400
<b>Total non financial assets</b>	-	-	-	<b>770,830</b>	<b>770,830</b>
<b>Total assets</b>	-	<b>4,312,146</b>	<b>104,250</b>	<b>770,830</b>	<b>5,187,226</b>

As at December 31, Rs.'000	2021				Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Others	
<b>Financial Assets</b>					
Cash and cash equivalents	-	103,559	-	-	103,559
Placements with banks	-	2,393,446	-	-	2,393,446
Financial assets at amortised cost-Loans and receivables to customers	-	1,115,518	-	-	1,115,518
Fair value through profit or loss (FVTPL)	700	-	-	-	700
Fair value through other comprehensive income (FVTOCI)	-	-	81,377	-	81,377
Other financial assets	-	-	-	11,788	11,788
<b>Total financial assets</b>	<b>700</b>	<b>3,612,523</b>	<b>81,377</b>	<b>11,788</b>	<b>3,706,388</b>
<b>Non Financial Assets</b>					
Investment in associate	-	-	-	41,833	41,833
Investment in subsidiary	-	-	-	12,750	12,750
Investment properties	-	-	-	142,778	142,778
Property, plant & equipment	-	-	-	7,306	7,306
Right-of-use assets	-	-	-	23,266	23,266
Intangible assets	-	-	-	5,615	5,615
Other assets	-	-	-	56,007	56,007
<b>Total non financial assets</b>	-	-	-	<b>289,555</b>	<b>289,555</b>
<b>Total assets</b>	<b>700</b>	<b>3,612,523</b>	<b>81,377</b>	<b>301,343</b>	<b>3,995,943</b>

## Notes to the Financial Statements (Contd.)

### 38.2 Liabilities - Company

As at December 31, Rs.'000	2022			Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	
<b>Financial Liabilities</b>				
Due to financial institutions	-	1,568,220	-	1,568,220
Due to other customers	-	126,786	-	126,786
Lease liabilities	-	14,880	-	14,880
	-	<b>1,709,886</b>	-	<b>1,709,886</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	8,961	-	8,961
Other Liability	-	112,429	-	112,429
	-	<b>121,390</b>	-	<b>121,390</b>
<b>Total liabilities</b>	-	<b>1,831,276</b>	-	<b>1,831,276</b>

As at December 31, Rs.'000	2021			Total
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	
<b>Financial Liabilities</b>				
Due to financial institutions	-	526,274	-	526,274
Due to other customers	-	122,276	-	122,276
Lease liabilities	-	15,649	-	15,649
	-	<b>664,199</b>	-	<b>664,199</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	7,545	-	7,545
Other liabilities	-	72,383	-	72,383
	-	<b>79,928</b>	-	<b>79,928</b>
<b>Total liabilities</b>	-	<b>744,127</b>	-	<b>744,127</b>

## Notes to the Financial Statements (Contd.)

### 38.3 Assets - Group

As at December 31, Rs.'000	2022				
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Others	Total
<b>Financial Assets</b>					
Cash and cash equivalents	-	55,495	-	-	55,495
Placements with banks	-	2,364,050	-	-	2,364,050
Financial assets at amortised cost-loans and receivables to customers	-	1,855,368	-	-	1,855,368
Fair value through profit or loss (FVTPL)	-	-	-	-	-
Fair value through other comprehensive income (FVTOCI)	-	-	104,250	-	104,250
Other financial Assets	-	47,998	-	-	47,998
<b>Total financial assets</b>	-	<b>4,322,911</b>	<b>104,250</b>	-	<b>4,427,161</b>
<b>Non Financial Assets</b>					
Investment in associate	-	-	-	42,577	42,577
Investment properties	-	-	-	402,928	402,928
Property, plant & equipment	-	-	-	22,405	22,405
Right-of-use assets	-	-	-	16,070	16,070
Intangible assets	-	-	-	245,092	245,092
Deferred tax assets	-	-	-	1,203	1,203
Other non financial assets	-	-	-	67,922	67,922
<b>Total non financial assets</b>	-	-	-	<b>798,197</b>	<b>798,197</b>
<b>Total assets</b>	-	<b>4,322,911</b>	<b>104,250</b>	<b>798,197</b>	<b>5,225,358</b>

As at December 31, Rs.'000	2021				
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Others	Total
<b>Financial Assets</b>					
Cash and cash equivalents	-	105,180	-	-	105,180
Placements with banks	-	2,410,549	-	-	2,410,549
Financial assets at amortised cost-loans and receivables to customers	-	1,115,518	-	-	1,115,518
Fair value through profit or loss (FVTPL)	7,836	-	-	-	7,836
Fair value through other comprehensive income (FVTOCI)	-	-	81,377	-	81,377
Other financial Assets	-	10,540	-	-	10,540
<b>Total financial assets</b>	<b>7,836</b>	<b>3,641,787</b>	<b>81,377</b>	-	<b>3,731,000</b>
<b>Non Financial Assets</b>					
Investment in associate	-	-	-	41,833	41,833
Investment properties	-	-	-	157,678	157,678
Property, plant & equipment	-	-	-	11,911	11,911
Right-of-use assets	-	-	-	24,196	24,196
Intangible assets	-	-	-	5,615	5,615
Deferred tax assets	-	-	-	2,538	2,538
Other assets	-	-	-	80,772	80,772
<b>Total non financial assets</b>	-	-	-	<b>324,543</b>	<b>324,543</b>
<b>Total assets</b>	<b>7,836</b>	<b>3,641,787</b>	<b>81,377</b>	<b>324,543</b>	<b>4,055,543</b>



## Notes to the Financial Statements (Contd.)

### 38.4 Liabilities - Group

As at December 31, Rs.'000	2022			
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Liabilities</b>				
Due to financial institutions	-	1,568,508	-	1,568,508
Due to other customers	-	126,786	-	126,786
Lease liabilities	-	14,880	-	14,880
	-	<b>1,710,174</b>		<b>1,710,174</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	23,160	-	23,160
Other liabilities	-	118,982	-	118,982
	-	<b>142,142</b>	-	<b>142,142</b>
<b>Total liabilities</b>	-	<b>1,852,316</b>	-	<b>1,852,316</b>

As at December 31, Rs.'000	2021			
	Financial instruments recognised through profit or loss (FVTPL)	Financial instruments at amortised cost (AC)	Financial instruments at fair value through other comprehensive income (FVTOCI)	Total
<b>Financial Liabilities</b>				
Due to financial institutions	-	526,274	-	526,274
Due to other customers	-	122,276	-	122,276
Lease liabilities		16,706	-	16,706
	-	<b>665,256</b>		<b>665,256</b>
<b>Non Financial Liabilities</b>				
Retirement benefit obligations	-	25,887	-	25,887
Other liabilities	-	75,341	-	75,341
	-	<b>101,228</b>	-	<b>101,228</b>
<b>Total liabilities</b>	-	<b>766,484</b>	-	<b>766,484</b>

### 38.5 Determination of Fair Value

#### a) Methodologies and Assumptions Used to Determine Fair Value

The methodology for fair value of the financial assets and liabilities and the analysis according to fair value hierarchy is provided in this note. The basis on which fair values have been arrived for various financial assets and liabilities are explained below.

#### b) Assets for which Fair Value approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity the carrying amounts approximate to their fair value.

#### c) Fixed Rate Financial Investments - Government Securities

The fair value of fixed rate government securities financial assets carried at amortised cost are estimated by using weekly market rate published by the Central Bank

of Sri Lanka and other fixed rate investments were measured using comparing market interest rates when they were initially recognised with current market rates for similar financial instruments.

#### d) Fixed Rate Financial Investments - Bank Deposits

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

## Notes to the Financial Statements (Contd.)

### e) Fixed Rate Financial Investments - Unquoted and Quoted Debt Securities

For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is

used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

### f) Cash and Bank Balances

The carrying amount approximate to fair value due to the relatively short term maturity.

### g) Other Receivable and Financial Liabilities

The carrying value has been considered as the fair value due to uncertainty of the timing cash flows.

## 38.6 Determination of Fair Value and Fair Values Hierarchy of Financial Investments

Please refer accounting policy Note 5.1.2 on pages from 118 to 120 for more information regarding determination of fair value.

As at December 31, Rs.'000	2022				2021
	Level 1	Level 2	Level 3	Total	Total
<b>Company</b>					
Fair value through profit or loss (FVTPL)	-	-	385,728	385,728	143,478
Fair value through other comprehensive income (FVTOCI)	-	-	104,249	104,249	81,376
<b>Total financial investment</b>	<b>-</b>	<b>-</b>	<b>489,977</b>	<b>489,977</b>	<b>224,854</b>
<b>Group</b>					
Fair value through profit or loss (FVTPL)	-	-	402,928	402,928	165,514
Fair value through other comprehensive income (FVTOCI)	-	-	104,249	104,249	81,376
Other financial assets	-	-	10,540	10,540	10,540
<b>Total financial investment</b>	<b>-</b>	<b>-</b>	<b>517,717</b>	<b>517,717</b>	<b>257,430</b>

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish their fair values. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

## Notes to the Financial Statements (Contd.)

### 38.7 Financial Instruments not Measured at Fair Value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

#### Assets - Company

As at December 31, Rs.'000	2022				2021
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	55,302	103,559
Placements with banks	-	-	-	2,364,018	2,393,447
Financial assets at amortized cost - Loans and receivables to customers	-	-	-	1,855,368	1,115,518
<b>Total asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,274,688</b>	<b>3,612,524</b>

The Company has not disclosed the fair values for financial instruments such as cash and cash equivalents, placement with banks and loans and receivables to other customers, because their carrying amounts are a reasonable approximation of fair value.

#### Assets - Group

As at December 31, Rs.'000	2022				2021
	Level 1	Level 2	Level 3	Total	Total
Cash and cash equivalents	-	-	-	55,495	105,180
Placements with banks	-	-	-	2,364,050	2,410,549
Financial assets at amortized cost - Loans and receivables to customers	-	-	-	1,855,368	1,115,518
Other financial assets	-	-	-	47,998	10,540
<b>Total asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,322,911</b>	<b>3,641,787</b>

### 38.8 Financial Liabilities

As at December 31, Rs.'000	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Company</b>				
Due to financial institutions	1,568,220	1,568,220	526,274	526,274
Due to other customers	126,786	126,786	122,276	122,276
Lease liabilities	14,880	14,880	15,649	15,649
	<b>1,709,886</b>	<b>1,709,886</b>	<b>664,199</b>	<b>664,199</b>
<b>Group</b>				
Due to financial institutions	1,568,508	1,568,508	526,274	526,274
Due to other customers	126,786	126,786	122,276	122,276
Lease liabilities	14,880	14,880	16,706	16,706
	<b>1,710,174</b>	<b>1,710,174</b>	<b>665,256</b>	<b>665,256</b>

The fair values of financial liabilities similar to carrying amounts since those amounts are reasonable approximation of fair values. Thus, the fair-value hierarchy disclosure is not applicable. The fair value hierarchy gives the lowest priority to unobservable inputs (Level 3 inputs). The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The observable input adjusted using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement is categorised within Level 3 of the fair value hierarchy.

## Notes to the Financial Statements (Contd.)

### 38.9 Valuation techniques and Significant Unobservable Inputs

Property valuations are inherently subjective as they are made on the basis of assumptions made by the valuer which may not prove to be accurate. For these reasons, we have classified the land valuations as Level 3 as defined by SLFRS 13.

Please refer Note No.23.4 on page 149

The following table show the valuation techniques used in measuring Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

Assets	Valuation technique	Significant unobservable input	Inter relationship between key unobservable input and fair value measurement
Equity Securities (Other Investments)	Market comparison technique : The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non - marketability of the equity securities, and the revenue and EBITDA of the investee. The estimate is adjusted for the net debt of the investee.	Adjusted market multiple Net Assets per Share Rs.20.85	The estimated fair value would increase/ (decrease) if the adjusted market multiple were higher (lower)

## NOTE 39. Commitments and Contingencies

### 39.1 Capital Commitment

There are no capital commitments as at December 31, 2022

### 39.2 Contingencies

In the normal course of business ,the Company makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Except for above there are no material commitments and contingencies as at the reporting date.

## NOTE 40. Event After the Reporting Date

There have been no events subsequent to the reporting date which require adjustment or disclosure to the financial statement.

## Notes to the Financial Statements (Contd.)

### NOTE 41. Related Party Disclosures

#### 41.1 Transactions with Related Parties

Company Rs.'000	Name of Director	Details of Financial Dealing	2022		2021		As a percentage of capital funds as at December 31, 2022
			Received/ Receivable (Payable/ Paid)	Capital Outstanding as at December 31, 2022	Received/ Receivable (Payable/ Paid)	Capital Outstanding as at December 31, 2021	
Transactions with Associate							
Kenanga Investment Corporation Ltd			-	-	-	-	-
Transactions with Subsidiary							
SMB Money Brokers (Pvt) Ltd	Mr. T.M. Wijesinghe	Easy Payment Loan	-	-	(900)	-	0.00%
	Mr. H.R.S.Wijeratne		-	-	-	-	0.00%
	Mr. S.C Wijesinghe		-	-	-	-	0.00%
Transactions with other Related Companies							
Grayline Cargo Terminals (Pvt) Ltd	Mr. H.R.S. Wijeratne	Finance Lease	(1,202)	3,520	(2,076)	4,722	0.00%
		Term Loan	(2,627)	1,500	(3,928)	4,127	0.00%
Grayline Container Terminals (Pvt) Ltd	Mr. H.R.S. Wijeratne	Finance Lease	(768)	2,449	(1,496)	3,217	0.00%
		Term Loan	(59)	237	(137)	296	0.00%

A number of these entities transacted with the Company during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably expected to be available, on similar transactions to non-key management personnel of related entities on an arm's length basis.

#### 41.2 Transaction with Key Management Personnel

As per the Sri Lanka Accounting Standard – (LKAS 24) – “Related Party Disclosures”, the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company, and members of the Corporate Management of the Company have been classified as KMPs of the Company.

##### 41.2.1 Remuneration to Key Management Personnel

###### (a) Remuneration to Board of Directors

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Short-term employees benefits	4,905,000	4,995,000	6,850,025	6,710,000
<b>Total</b>	<b>4,905,000</b>	<b>4,995,000</b>	<b>6,850,025</b>	<b>6,710,000</b>

###### (b) Remuneration to Corporate Management

Rs. For the year ended December 31,	Company		Group	
	2022	2021	2022	2021
Short-term employees benefits	19,817,004	18,100,044	32,940,029	28,702,240
Post employment benefits	-	-	-	1,495,500
<b>Total</b>	<b>19,817,004</b>	<b>18,100,044</b>	<b>32,940,029</b>	<b>30,197,740</b>

## Notes to the Financial Statements (Contd.)

### NOTE 42. Litigation Against the Company

Litigation is a common occurrence in the financial services industry due to the nature of the business undertaken. Provision for legal matters typically requires a higher degree of judgment. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty involved. Group has established a formal controls and policies for managing legal claims. Once the professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to the accounts for any adverse effect, if any, which the claim may have on the Group's financial position. As at the reporting date, group had several unresolved legal claims pending judgment. However, the legal advisor of the Company is of the view that these cases will be resolved in favour of the Group and the process will probably take over three years. Accordingly no provision has been made in these financial statement.

### NOTE 43. Financial Risk Management

#### 43.1 Introduction and Overview

The Group has exposure to the following risks from financial instruments;

- i. Liquidity Risk
- ii. Credit Risk
- iii. Operational Risk
- iv. Market Risk

#### 43.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and overseeing of the Company's risk management framework. In discharging its governance responsibility, it operates through two key committees, the Risk Management Committee and the Audit Committee. The Risk Management Committee is in the process of setting a risk framework for the Company with the assistance from a consulting firm.

The Audit Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board.

#### 43.3 Liquidity Risk

Liquidity risk is the risk that arises when the Company encounters difficulty in meeting obligations associated with its financial liabilities that are to be settled by delivering cash or another financial asset.

##### 43.3.1 Management of Liquidity Risk

The Group's approach to manage liquidity is to ensure that funds available are adequate to meet credit demands of its customers and to enable debt instruments to be repaid on demand or upon maturity as appropriate. The Finance Division is responsible for the management of liquidity risk and funding in accordance with the approved guidelines and risk limits. The treasury and liquidity policies and compliance thereunder are reviewed and approved by the ALCO.

##### 43.3.2 Exposure to Liquidity Risk

The Company monitors the following liquidity ratios to assess funding requirements.

	December 31, 2022	December 31, 2021
<b>Liquid Asset Ratio (LAR)</b>		
As at December 31,	187.94%	839.00%
Average for the year	502.92%	325.88%
Maximum for the year	1359.30%	919.03%
Minimum for the year	178.51%	110.94%

Liquid assets include cash and short term funds. The calculation is based on directions and guidelines issued by the Central Bank of Sri Lanka (CBSL).

##### Minimum Liquidity Requirement

As per the Direction 4 of 2013 of Central Bank of Sri Lanka, every Finance company shall maintain minimum holding of liquid assets. The table below sets out the components of the Company's holding of liquid assets;

	December 31, 2022	December 31, 2021
Required minimum amount of liquid assets	12,889,024	30,721,997
Daily average liquid assets	2,422,403,895	2,578,954,572
<b>Excess liquidity</b>	<b>2,409,514,871</b>	<b>2,548,232,575</b>



## Notes to the Financial Statements (Contd.)

### 43.3.3 Maturity Analysis

#### 43.3.3.1 Maturity Analysis - Company

Rs.'000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Interest Earning Assets</b>						
Cash and cash equivalents	55,302	-	-	-	-	55,302
Placements with banks	501	1,998,517	200,000	165,000	-	2,364,018
Financial assets at amortised cost - Loans and receivables to customers	244,989	274,542	628,508	368,257	339,072	1,855,368
Financial investments	-	-	-	-	104,249	104,249
	<b>300,792</b>	<b>2,273,059</b>	<b>828,508</b>	<b>533,257</b>	<b>443,321</b>	<b>4,378,937</b>
<b>Non Interest Earning Assets</b>						
Investment in associate	-	-	-	-	42,577	42,577
Investment in subsidiary	-	-	-	-	-	-
Investment properties	-	-	-	-	385,728	385,728
Property, plant & equipment	159	192	198	19,414	-	19,963
Right-of-use assets	2,938	5,527	7,605	-	-	16,070
Intangible assets	-	131	5,484	-	239,477	245,092
Other assets	-	11,841	-	-	87,018	98,859
	<b>3,097</b>	<b>17,691</b>	<b>13,287</b>	<b>19,414</b>	<b>754,800</b>	<b>808,289</b>
<b>Total assets</b>	<b>303,889</b>	<b>2,290,750</b>	<b>841,795</b>	<b>552,671</b>	<b>1,198,121</b>	<b>5,187,226</b>
<b>Interest Bearing Liabilities</b>						
Due to financial institutions	84,625	212,058	565,448	452,682	253,407	1,568,220
Due to other customers	126,690	96	-	-	-	126,786
Lease liabilities	608	5,298	8,974	-	-	14,880
	<b>211,923</b>	<b>217,452</b>	<b>574,422</b>	<b>452,682</b>	<b>253,407</b>	<b>1,709,886</b>
<b>Non Interest Bearing Liabilities</b>						
Retirement benefit obligations	-	-	-	8,962	-	8,962
Other liabilities	23,944	-	-	-	88,482	112,426
	<b>23,944</b>	<b>-</b>	<b>-</b>	<b>8,962</b>	<b>88,482</b>	<b>121,388</b>
<b>Equity</b>						
Shareholders' funds	-	-	-	-	3,355,952	3,355,952
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,355,952</b>	<b>3,355,952</b>
<b>Total liabilities &amp; equity</b>	<b>235,867</b>	<b>217,452</b>	<b>574,422</b>	<b>461,644</b>	<b>3,697,841</b>	<b>5,187,226</b>

## Notes to the Financial Statements (Contd.)

### 43.3.3.2 Maturity Analysis - Group

Rs.'000	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Interest Earning Assets</b>						
Cash and cash equivalents	55,495	-	-	-	-	55,495
Placements with banks	533	1,998,517	200,000	165,000	-	2,364,050
Financial assets at amortised cost - Loans and receivables to customers	244,989	274,542	628,508	368,257	339,072	1,855,368
Financial investments	-	-	-	-	114,789	114,789
	<b>301,017</b>	<b>2,273,059</b>	<b>828,508</b>	<b>533,257</b>	<b>453,861</b>	<b>4,389,702</b>
<b>Non Interest Earning Assets</b>						
Investment in associate	-	-	-	-	42,577	42,577
Investment properties	-	-	-	-	402,928	402,928
Property, plant & equipment	159	192	198	21,856	-	22,405
Right-of-use assets	2,938	5,527	7,605	-	-	16,070
Intangible asset	-	-	5,484	131	239,477	245,092
Deferred tax assets	-	-	-	-	1,203	1,203
Other assets	-	18,363	-	-	87,018	105,381
	<b>3,097</b>	<b>24,082</b>	<b>13,287</b>	<b>21,987</b>	<b>773,203</b>	<b>835,656</b>
<b>Total assets</b>	<b>304,114</b>	<b>2,297,141</b>	<b>841,795</b>	<b>555,244</b>	<b>1,227,064</b>	<b>5,225,358</b>
<b>Interest Bearing Liabilities</b>						
Due to financial institutions	84,913	212,058	565,448	452,682	253,407	1,568,508
Due to other customers	126,690	96	-	-	-	126,786
Lease liabilities	608	5,298	8,974	-	-	14,880
	<b>212,211</b>	<b>217,452</b>	<b>574,422</b>	<b>452,682</b>	<b>253,407</b>	<b>1,710,174</b>
<b>Non Interest Bearing Liabilities</b>						
Retirement benefit obligations	-	-	-	23,160	-	23,160
Other liabilities	28,785	-	-	-	90,197	118,982
	<b>28,785</b>	<b>-</b>	<b>-</b>	<b>23,160</b>	<b>90,197</b>	<b>142,142</b>
<b>Equity</b>						
Shareholders' funds	-	-	-	-	3,373,042	3,373,042
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,373,042</b>	<b>3,373,042</b>
<b>Total liabilities &amp; equity</b>	<b>240,996</b>	<b>217,452</b>	<b>574,422</b>	<b>475,842</b>	<b>3,716,646</b>	<b>5,225,358</b>

### 43.4 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other companies, and investment in debt / equity securities. For risk management reporting

purposes the Company considers and consolidates all elements of credit risk exposure.

#### 43.4.1 Management of Credit Risk

Primarily the Credit Division manages the credit risk. There is a management credit Committee & a Board Credit Committee to review significant credit risks. The said committees

are facilitated by regular audits undertaken by the internal auditors. The Company manages credit by focusing on following stages.

#### a) Loan Origination

The loan origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet its obligations in a timely manner.

## Notes to the Financial Statements (Contd.)

Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process. A suitable internal risk rating model is in place & is an important part of the risk assessment of customers.

### b) Loan Approval

The Company has established clear guidelines for loan approvals / renewals by adopting a committee based approval structure, where all approval signatories carry equal responsibility for credit risk. Individual credit facilities beyond a minimum threshold require Board Credit Committee approval.

### c) Credit Administration and Disbursement

Credit Division ensures efficient and effective customer support including disbursement and settlements.

### d) Recoveries

Overdue loans are managed by the Recoveries Division with the support of the Legal Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalised.

### e) Collateral

The Company carries sensitivity tests to measure the values of portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determine appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risk induced by potential stress. the change in weighted average interest rate of the Company will have the following effects.

#### 43.4.1.e Collateral wise analysis of individual significant impaired loan and receivables to customers

	Security Value	2022	
		Total Receivable	covered % through collateral
Secured by motor vehicles	22,013,795	42,948,531	51.26%
Secured by movable & immovable assets	940,266,568	172,737,538	544.33%
Other securities	2,760,000	8,529,604	32.36%
Gold loan advances	-	8,998,209	0.00%
Unsecured	-	176,317,973	0.00%
	<b>965,040,363</b>	<b>409,531,855</b>	

#### Individually significant unimpaired loans and leases

Watch list	312,732,323
Others	1,769,969,052
	<b>2,082,701,375</b>

#### Collateral wise analysis of individual significant unimpaired loan and leases

Secured by motor vehicles	627,488,657
Secured by movable & immovable assets	895,734,877
Gold loan advances	407,222,355
Unsecured	152,255,486
	<b>2,082,701,375</b>

## Notes to the Financial Statements (Contd.)

### 43.4.2 Credit Quality Analysis

The tables below sets out information about the credit quality of financial assets held by Group net of allowance for expected credit losses against those assets.

#### Expected Credit Losses (ECL)

As per SLFRS 9 - "Financial Instruments" the Company manages credit quality using a three stage approach.

Stage One : 12 months expected credit losses (ECL)

Stage Two : Life time expected credit losses (ECL) – Not credit impaired

Stage Three : Lifetime expected credit losses (ECL) – Credit impaired

Explanation of the terms: 12 months ECL, lifetime ECL included in Note 5.

Table below shows the classification of assets and liabilities based on the above-mentioned three stage model:

Rs.	12 months ECL	Life Time ECL-Not credit impaired	Life time ECL-Credit impaired	Unclassified	Total
<b>As at December 31, 2022</b>					
Cash and cash equivalents	55,302,042	-	-	-	55,302,042
Placements with banks	2,364,017,662	-	-	-	2,364,017,662
Financial assets at amortised cost - Loans and receivables to customers	1,495,560,397	196,742,856	163,064,896	-	1,855,368,149
Financial investments	104,249,453	-	-	-	104,249,453
Investments in associate	-	-	-	42,577,031	42,577,031
Investments in subsidiary	-	-	-	-	-
Investment properties	-	-	-	385,728,000	385,728,000
Property, plant & equipment	-	-	-	19,963,487	19,963,487
Right-of-use assets	-	-	-	16,070,409	16,070,409
Intangible assets	-	-	-	245,092,403	245,092,403
Other assets	-	-	-	98,857,571	98,857,571
<b>Total assets</b>	<b>4,019,129,554</b>	<b>196,742,856</b>	<b>163,064,896</b>	<b>808,288,901</b>	<b>5,187,226,207</b>

<b>As at December 31, 2021</b>					
Cash and cash equivalents	103,558,886	-	-	-	103,558,886
Placements with banks	2,393,446,509	-	-	-	2,393,446,509
Financial assets at amortised cost - Loans and receivables to customers	772,801,817	86,175,036	256,541,426	-	1,115,518,279
Financial investments	82,076,924	-	-	-	82,076,924
Investments in associate	-	-	-	41,833,376	41,833,376
Investments in subsidiary	-	-	-	12,750,000	12,750,000
Investment properties	-	-	-	142,778,000	142,778,000
Property, plant & equipment	-	-	-	7,305,871	7,305,871
Right-of-use assets	-	-	-	23,266,033	23,266,033
Intangible assets	-	-	-	5,614,625	5,614,625
Other assets	-	-	-	67,795,098	67,795,098
<b>Total assets</b>	<b>3,351,884,136</b>	<b>86,175,036</b>	<b>256,541,426</b>	<b>301,343,003</b>	<b>3,995,943,601</b>

### 43.4.3 Credit quality analysis of Placements with Banks

The following table sets out the credit quality of Placements with Banks. The analysis is based on Fitch and ICRA Lanka ratings.

Rs	As at December 31, 2022	As at December 31, 2021
Rated AAA	-	-
Rated AA- to AA+	-	1,365,000,000
Rated A- to A+	2,165,000,000	800,000,000
Rated BBB + and below	200,000,000	200,000,000
	<b>2,365,000,000</b>	<b>2,365,000,000</b>

## Notes to the Financial Statements (Contd.)

### 43.4.4 LTV Ratio Details

Adequate precautions were taken to maintain exposures by maintaining LTV ratio at acceptable levels which was below 70% as of December 31, 2022.

### 43.4.5 Incorporation of forwardlooking information

The Company has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The Economic variables used by the Company based on the statistical significance include the followings:

1. Unemployment rate
2. Interest rate
3. GDP Growth rate
4. Inflation rate

5. Base case scenario along with two other scenarios has been used (Best Case and Worst Case)

Weight ages assigned for each scenario for the year 2022 is given below.

Scenario	Weightage
Best case Scenario	5%
Base case Scenario	35%
Worst case Scenario	60%

As at December 31, 2022, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to current economic condition of the country by using the economic forecast. In addition to the base case forecast which reflects the negative economic consequences, greater weighting has been applied to the worst scenario given the Company's assessment of downside

risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the Company's lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into the current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.

### 43.4.6 Movements in allowance for expected credit losses (Stage transition) - Company / Group

Rs.000	Stage 1: 12 months ECL	Stage 2: life time ECL not credit-impaired	Stage 3: lifetime ECL credit-impaired	Total ECL
As at December 31, 2022				
Balance as at the beginning of the year	58,717,513	58,608,709	348,294,011	465,620,233
<b>Changes due to loans and receivables recognised in opening balance that have:</b>				
Transferred from 12 months ECL	(4,179,937)	3,648,797	531,140	-
Transferred from lifetime ECL not credit-impaired	10,596,820	(26,618,982)	16,022,162	-
Transferred from lifetime ECL credit-impaired	8,109,495	11,064,123	(19,173,619)	-
Net remeasurement of loss allowance	25,167,538	41,731,393	104,345,918	171,244,848
<b>Balance as at the end of the year</b>	<b>98,411,429</b>	<b>88,434,040</b>	<b>450,019,612</b>	<b>636,865,081</b>

### 43.5 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising

from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

## Notes to the Financial Statements (Contd.)

Compliance with Company standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management & reports to the Audit Committee and to the board.

### 43.6 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

#### 43.6.1 Exposure to Interest Rate Risk

The Group carries sensitivity tests to measure the value of its portfolios in the event of extreme market movements on hypothetical scenarios. Management reviews the consequences of the stress tests and determines appropriate mitigating actions such as reducing exposures, reviewing and changing risk limits in order to mitigate the risks induced by potential stress. The change in weighted average interest rate of the Company will have the following effects.

<b>Loan Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change	(19,101,929)	(9,550,965)	9,550,965	19,101,929
Effect on loan interest income	-10.20%	-5.10%	5.10%	10.20%
<b>Lease Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change	(10,606,935)	(5,303,467)	5,303,467	10,606,935
Effect on lease interest income	-10.39%	-5.20%	5.20%	10.39%
<b>Total Portfolio</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest income change	(29,708,864)	(14,854,432)	14,854,432	29,708,864
Effect on interest income	-10.27%	-5.13%	5.13%	10.27%
<b>Interest Expenses</b>				
Interest rate shock	-2%	-1%	1%	2%
Interest expenses change	(23,438,446)	(11,719,223)	11,719,223	23,438,446
Effect on interest expenses	-17.39%	-8.69%	8.69%	17.39%

#### 43.6.2 Exposure to Market Risk

**43.6.2.1** The table below sets out the allocation of Company's assets and liabilities subject to market risk between trading and non-trading assets.

As at December 31, 2022 Rs.	Carrying amount	Market risk measure	
		Trading	Non-trading
Assets Subject to Market Risk			
Cash and cash equivalents	55,302,042	-	55,302,042
Placements with banks	2,364,017,662	-	2,364,017,662
Financial assets at amortised cost - Loans and receivables to customers	1,855,368,149	-	1,855,368,149
Financial investments	104,249,453	104,249,453	-
Total assets subject to market risk	4,378,937,306	104,249,453	4,274,687,853
Liabilities Subject to Market Risk			
Due to financial institutions	1,568,220,236	-	1,568,220,236
Due to other customers	126,786,485	-	126,786,485
Total liabilities subject to market risk	1,695,006,721	-	1,695,006,721



## Notes to the Financial Statements (Contd.)

As at December 31, 2021 Rs.	Carrying amount	Market risk measure	
		Trading	Non-trading
<b>Assets Subject to Market Risk</b>			
Cash and cash equivalents	103,558,886	-	103,558,886
Placements with banks	2,393,446,509	-	2,393,446,509
Financial assets at amortised cost - Loans and receivables to customers	1,115,518,279	-	1,115,518,279
Financial investments	82,076,924	82,076,924	-
<b>Total assets subject to market risk</b>	<b>3,694,600,598</b>	<b>82,076,924</b>	<b>3,612,523,674</b>

<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	526,274,284	-	526,274,284
Due to other customers	122,275,914	-	122,275,914
<b>Total liabilities subject to market risk</b>	<b>648,550,198</b>	<b>-</b>	<b>648,550,198</b>

**43.6.2.2 The table below sets out the allocation of Group's assets and liabilities subject to market risk between trading and non-trading assets.**

As at December 31, 2022	Carrying amount		Market risk measure	
Rs.			Trading	Non-trading
<b>Assets Subject to Market Risk</b>				
Cash and cash equivalents	55,494,870		-	55,494,870
Placements with banks	2,364,049,831		-	2,364,049,831
Financial assets at amortised cost - Loans and receivables to customers	1,855,368,149		-	1,855,368,149
Financial investments	114,789,453	114,789,453		-
<b>Total assets subject to market risk</b>	<b>4,389,702,303</b>	<b>114,789,453</b>	<b>4,274,912,850</b>	

<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	1,568,507,907	-	1,568,507,907
Due to other customers	126,786,485	-	126,786,485
<b>Total liabilities subject to market risk</b>	<b>1,695,294,392</b>	<b>-</b>	<b>1,695,294,392</b>

As at December 31, 2021	Carrying amount	Market risk measure	
Rs.		Trading	Non-trading
<b>Assets Subject to Market Risk</b>			
Cash and cash equivalents	105,179,888	-	105,179,888
Placements with banks	2,410,549,184	-	2,410,549,184
Financial assets at amortised cost - Loans and receivables to customers	1,115,518,279	-	1,115,518,279
Financial investments	99,752,274	99,752,274	-
<b>Total assets subject to market risk</b>	<b>3,730,999,625</b>	<b>99,752,274</b>	<b>3,631,247,351</b>

<b>Liabilities Subject to Market Risk</b>			
Due to financial institutions	526,274,284	-	526,274,284
Due to other customers	122,275,914	-	122,275,914
<b>Total liabilities subject to market risk</b>	<b>648,550,198</b>	<b>-</b>	<b>648,550,198</b>

## Notes to the Financial Statements (Contd.)

### 43.6.3 Exposure to Equity Price Risk

Equity price risks arises as a result of fluctuations in market prices of individual equities and management conduct mark-to-market calculation on monthly basis and on a need basis to identify the impact.

The following table exhibits the impact on financial performance and net assets due to a shock of 10% on equity price.

As at December 31, Rs.	2022		2021	
	Financial assets measured at FVTPL	Total	Financial assets measured at FVTPL	Total
Market value of quoted equity instruments as at December 31,	93,824,508	93,824,508	73,869,232	73,869,232

### Equity price sensitivity

The management of equity price risk is done by monitoring various standard and non-standard equity price scenarios and analysis is given below;

As at December 31, Shock Levels	2022			2021		
	Impact on profit Rs.	Impact on OCI Rs.	Impact on net assets Rs.	Impact on profit Rs.	Impact on OCI Rs.	Impact on net assets Rs.
10% shock (Increase)	-	9,382,451	9,382,451	63,041	7,323,882	7,386,923
10% shock (Decrease)	-	(9,382,451)	(9,382,451)	(63,041)	(7,323,882)	(7,386,923)

### 43.6.4 Exposure to Gold Price Risk

Gold price risks arises as a result of fluctuations in market gold prices and Management conducts mark-to-market calculation on monthly basis and on a need basis to identify the impact.

As at December 31,	Total net weight of gold loan articles	Market price per gram	Total market value	Gold loan receivable amount	Value excess
	(In grams)	Rs.	Rs.	Rs.	Rs.
2022	33,825	19,056	644,589,261	416,220,564	228,368,697
2021	18,358	12,672	232,623,739	164,534,829	68,088,910

### Gold price sensitivity

The following table exhibits the impact on market value of the gold stock held due to a shock of 10% on gold price:

As at December 31, Shock Levels	2022		2021	
	Impact on market value Rs.	Impact on value excess Rs.	Impact on market value Rs.	Impact on value excess Rs.
10% shock (Increase)	64,458,926	64,458,926	23,262,374	23,262,374
10% shock (Decrease)	(64,458,926)	(64,458,926)	(23,262,374)	(23,262,374)

## NOTE 44. Comparative Information

Comparative information is reclassified wherever necessary to conform with the current year's classification in order to provide better presentation.

## Notes to the Financial Statements (Contd.)

### NOTE 45. Current / Non Current Analysis

As at December 31, Rs.'000	2022			2021		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
<b>Company</b>						
<b>Assets</b>						
Cash and cash equivalents	55,302	-	55,302	103,559	-	103,559
Placements with banks	1,999,018	365,000	2,364,018	2,028,447	365,000	2,393,447
Financial assets at amortised cost - Loans and receivables to customers	519,531	1,335,837	1,855,368	350,973	764,545	1,115,518
Financial investments	-	104,249	104,249	-	82,077	82,077
Investments in associate	-	42,577	42,577	-	41,833	41,833
Investments in subsidiary	-	-	-	-	12,750	12,750
Investment properties	-	385,728	385,728	-	142,778	142,778
Property, plant & equipment	351	19,612	19,963	351	6,955	7,306
Right-of-use assets	8,465	7,605	16,070	12,639	10,627	23,266
Intangible assets	131	244,961	245,092	131	5,484	5,615
Other assets	11,841	87,018	98,859	8,456	59,338	67,794
<b>Total assets</b>	<b>2,594,639</b>	<b>2,592,587</b>	<b>5,187,226</b>	<b>2,504,556</b>	<b>1,491,387</b>	<b>3,995,943</b>
<b>Liabilities</b>						
Due to financial institutions	296,683	1,271,537	1,568,220	125,489	400,785	526,274
Due to other customers	126,786	-	126,786	122,276	-	122,276
Retirement benefit obligations	-	8,961	8,961	-	7,545	7,545
Lease liabilities	5,906	8,975	14,881	6,675	8,974	15,649
Other liabilities	23,944	88,482	112,426	23,127	49,256	72,383
<b>Total liabilities</b>	<b>453,319</b>	<b>1,377,955</b>	<b>1,831,274</b>	<b>277,567</b>	<b>466,560</b>	<b>744,127</b>
<b>Group</b>						
<b>Assets</b>						
Cash and cash equivalents	55,495	-	55,495	105,180	-	105,180
Placements with banks	1,999,051	365,000	2,364,051	2,030,245	380,303	2,410,548
Financial assets at amortised cost - Loans and receivables to customers	519,531	1,335,837	1,855,368	350,973	764,547	1,115,520
Financial investments	-	114,789	114,789	7,836	91,916	99,752
Investments in associate	-	42,577	42,577	-	41,833	41,833
Investment properties	-	402,928	402,928	-	157,678	157,678
Property, plant & equipment	351	22,054	22,405	351	11,560	11,911
Right-of-use assets	8,465	7,606	16,071	12,639	11,557	24,196
Intangible assets	-	245,092	245,092	-	5,615	5,615
Deferred tax assets	-	1,203	1,203	-	2,538	2,538
Other assets	18,363	87,016	105,379	21,434	59,337	80,771
<b>Total assets</b>	<b>2,601,256</b>	<b>2,624,102</b>	<b>5,225,358</b>	<b>2,528,658</b>	<b>1,526,884</b>	<b>4,055,542</b>
<b>Liabilities</b>						
Due to financial institutions	296,971	1,271,537	1,568,508	125,489	400,785	526,274
Due to other customers	126,786	-	126,786	122,276	-	122,276
Retirement benefit obligations	-	23,160	23,160	-	25,887	25,887
Lease liabilities	5,906	8,975	14,881	6,675	10,031	16,706
Other liabilities	28,785	90,196	118,981	23,665	51,676	75,341
<b>Total liabilities</b>	<b>458,448</b>	<b>1,393,868</b>	<b>1,852,316</b>	<b>278,105</b>	<b>488,379</b>	<b>766,484</b>

## Notes to the Financial Statements (Contd.)

## NOTE 46. Segment Reporting - Group

Rs.'000

Business Segments - Group For the year ended December 31,	Loans		Leasing		Treasury		Money Brokering		Unallocated		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<b>Revenue from external customers;</b>												
Interest	132,937	72,192	102,069	75,410	-	-	-	-	54,355	16,369	289,361	163,971
Fee & commission	3,654	1,312	6,251	2,313	-	-	-	-	-	-	9,905	3,625
Other operating income	-	-	515	858	196,559	66,455	19,089	48,787	14,726	18,016	230,890	134,116
Changes in fair value of Investment Property	-	-	-	-	-	-	-	-	46,950	44,813	46,950	44,813
<b>Total revenue from external customers</b>	<b>136,591</b>	<b>73,504</b>	<b>108,835</b>	<b>78,581</b>	<b>196,559</b>	<b>66,455</b>	<b>19,089</b>	<b>48,787</b>	<b>116,031</b>	<b>79,198</b>	<b>577,106</b>	<b>346,525</b>
<b>Segment result</b>	<b>53,050</b>	<b>23,023</b>	<b>42,270</b>	<b>24,613</b>	<b>76,341</b>	<b>20,815</b>	<b>7,414</b>	<b>15,281</b>	<b>45,065</b>	<b>26,828</b>	<b>224,140</b>	<b>110,560</b>
Depreciation charged for the year	(4,110)	(1,755)	(3,275)	(1,876)	(5,914)	(1,586)	(574)	(1,165)	(3,491)	(2,044)	(17,365)	(8,426)
Interest expense	(31,906)	(10,843)	(25,422)	(11,592)	(45,913)	(9,803)	(4,459)	(7,197)	(27,103)	(12,635)	(134,804)	(52,069)
<b>Operating profit</b>	<b>17,034</b>	<b>10,425</b>	<b>13,573</b>	<b>11,145</b>	<b>24,514</b>	<b>9,426</b>	<b>2,381</b>	<b>6,919</b>	<b>14,471</b>	<b>12,149</b>	<b>71,974</b>	<b>50,065</b>
Taxes on financial services	-	-	-	-	-	-	-	-	(18,985)	(10,754)	(18,985)	(10,754)
Share of profit of associate company	-	-	-	-	-	-	-	-	744	152	744	152
Income tax expense	759	(317)	605	(338)	1,092	(286)	106	(210)	645	(369)	3,206	(1,520)
Other comprehensive income	6,402	5,926	5,101	6,336	9,212	5,358	895	3,934	5,438	6,906	27,047	28,462
<b>Total comprehensive income for the year</b>	<b>24,195</b>	<b>16,036</b>	<b>19,279</b>	<b>17,143</b>	<b>34,818</b>	<b>14,498</b>	<b>3,382</b>	<b>10,643</b>	<b>2,313</b>	<b>8,084</b>	<b>83,986</b>	<b>66,405</b>
<b>As at December 31,</b>												
Segment assets	1,228,985	681,208	626,383	434,310	2,419,545	2,527,517	37,907	53,625	912,538	358,882	5,225,358	4,055,542
Segment liabilities	438,411	158,361	349,326	169,301	630,887	143,175	61,270	105,111	372,422	190,536	1,852,316	766,484
<b>For the year ended December 31,</b>												
Cash flow from operating activities	(158,883)	(2,605)	(126,598)	(2,785)	(228,638)	(2,355)	(22,205)	(1,729)	(134,968)	(2,807)	(671,292)	(12,281)
Cash flow from investing activities	(102,585)	(459,947)	(81,740)	(491,721)	(147,624)	(415,838)	(14,337)	(305,286)	(87,145)	(495,575)	(433,431)	(2,168,367)
Cash flow from financing activities	242,058	457,313	192,872	488,905	348,330	413,457	33,829	303,538	205,625	492,735	1,022,714	2,155,948

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## Notes to the Financial Statements (Contd.)

### 46.1 The Group's segmental reporting is based on the following operating segments

A segment is a distinguishable component of the Group that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segment.)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Management of the Group consider the operating results and condition of its business segments in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues described as follows:

#### Loans

This segment includes loan products offered to the customers

#### Leasing

This segment includes leasing products offered to the customers

#### Treasury

This segment includes treasury and other investment activities.

#### Money Brokering

This segment includes Money Brokering activities

#### Unallocated

This segment includes all other business activities that Group engaged other than above segments.

# **SUPPLEMENTARY INFORMATION**



## Five Year Summary - Group

Rs.'000					
For the year ended December 31,					
	2022	2021	2020	2019	2018
<b>Operating Results</b>					
Revenue	577,106	346,525	272,979	359,042	345,153
Interest expenses	(134,804)	(52,069)	(60,370)	(77,416)	(63,377)
Operating expenses & provision	(370,330)	(244,391)	(269,787)	(259,709)	(166,809)
<b>Operating profit / (loss) before taxes on financial services</b>	<b>71,972</b>	<b>50,065</b>	<b>(57,178)</b>	<b>21,916</b>	<b>114,967</b>
Taxes	(15,779)	(12,274)	(6,461)	(11,321)	(21,507)
Share of profit of associate company	744	152	2,307	2,079	20
<b>Profit / (loss) for the year</b>	<b>56,936</b>	<b>37,943</b>	<b>(61,333)</b>	<b>12,674</b>	<b>93,480</b>
<b>Profit / (loss) attributable to</b>					
Owners of the Company	74,280	45,532	(65,803)	10,710	89,688
Non - controlling interest	(17,344)	(7,589)	4,470	1,964	3,792
<b>Profit / (loss) for the year</b>	<b>56,936</b>	<b>37,943</b>	<b>(61,333)</b>	<b>12,674</b>	<b>93,480</b>
<b>As at December 31,</b>					
<b>Assets</b>					
Cash and cash equivalents	55,495	105,180	236,021	31,350	44,945
Investments	2,478,839	2,510,301	311,186	248,065	228,980
Financial assets at amortised cost - Loans and receivables to customers	1,855,368	1,115,518	1,070,057	1,203,114	1,331,391
Investments in associate	42,577	41,833	41,682	39,375	37,296
Investment properties	402,928	157,678	112,657	106,982	42,629
Property, plant and equipment	22,405	11,911	18,030	20,309	24,387
Right-of-use assets	16,070	24,196	38,427	31,032	-
Intangible assets	245,092	5,615	6,492	6,175	4,822
Other assets	106,584	83,311	64,347	71,238	66,686
<b>Total assets</b>	<b>5,225,358</b>	<b>4,055,543</b>	<b>1,898,899</b>	<b>1,757,640</b>	<b>1,781,135</b>
<b>Liabilities &amp; Equity</b>					
<b>Liabilities</b>					
Due to financial institutions	1,568,508	526,274	599,523	415,217	529,659
Due to other customers	126,786	122,276	117,784	113,561	109,011
Lease liabilities	14,880	16,706	23,787	22,453	-
Other liabilities	142,142	101,228	73,522	45,948	68,623
<b>Total Liabilities</b>	<b>1,852,316</b>	<b>766,484</b>	<b>814,616</b>	<b>597,179</b>	<b>707,292</b>
<b>Equity</b>					
Stated capital	3,062,682	3,062,682	919,064	919,064	919,064
Statutory reserves	41,732	37,753	35,082	35,082	34,648
Fair value reserve	52,465	29,592	8,251	19,920	9,625
Retained earnings	207,658	134,404	92,470	160,092	86,267
<b>Total equity attributable to equity holders of the Company</b>	<b>3,364,537</b>	<b>3,264,431</b>	<b>1,054,867</b>	<b>1,134,158</b>	<b>1,049,604</b>
Non-controlling interest	8,505	24,628	29,416	26,303	24,239
<b>Total equity</b>	<b>3,373,042</b>	<b>3,289,059</b>	<b>1,084,283</b>	<b>1,160,461</b>	<b>1,073,843</b>
<b>Total equity &amp; liabilities</b>	<b>5,225,358</b>	<b>4,055,543</b>	<b>1,898,899</b>	<b>1,757,640</b>	<b>1,781,135</b>
<b>For the year ended December 31,</b>					
<b>Cash Flow</b>					
Cash flow from operating activities	(671,292)	(12,281)	99,348	139,574	(159,662)
Cash flow from investing activities	(433,431)	(2,168,367)	(59,760)	(17,783)	(8,096)
Cash flow from financing activities	1,022,714	2,155,948	133,583	(112,587)	109,991
Net (decrease) / increase in cash and cash equivalents	(82,008)	(24,700)	173,171	9,203	(57,767)
<b>Ratios</b>					
Basic earning / (loss) per share (Rs.)	0.01	0.01	(0.04)	0.01	0.05
Assets growth (%)	29	114	8	(1)	5.97
Net assets growth (%)	3	209	(7)	8	(10)
Net assets per share (Rs.)	0.35	0.34	0.58	0.63	0.58

## Decade at a Glance - Company

Rs.'000	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
<b>For the year ended December 31,</b>										
<b>Operating Results</b>										
Revenue	554,136	295,485	180,162	283,931	265,975	315,263	256,012	198,117	193,949	203,046
Interest expenses	(134,737)	(51,819)	(59,755)	(77,119)	(63,339)	(69,181)	(40,311)	(28,525)	(31,647)	(44,868)
Operating expenses & provision	(312,299)	(177,276)	(190,069)	(190,787)	(97,132)	(185,165)	(118,584)	(96,021)	(68,634)	(66,565)
<b>Operating profit / (loss) before taxes on financial services</b>	<b>107,101</b>	<b>66,390</b>	<b>(69,662)</b>	<b>16,025</b>	<b>105,504</b>	<b>60,917</b>	<b>97,116</b>	<b>73,571</b>	<b>93,668</b>	<b>91,613</b>
Taxes	(15,512)	(13,111)	(3,099)	(9,439)	(19,762)	(23,668)	(20,420)	(15,363)	(14,663)	(13,861)
Impairment provision for subsidiary company	(12,750)	-	-	-	-	-	-	-	-	-
Share of profit of associate company	744	152	2,307	2,079	-	-	-	-	-	-
<b>Profit / (Loss) for the year</b>	<b>79,582</b>	<b>53,431</b>	<b>(70,455)</b>	<b>8,665</b>	<b>85,742</b>	<b>37,249</b>	<b>76,696</b>	<b>58,209</b>	<b>79,004</b>	<b>77,752</b>
<b>Total comprehensive (expense) / income</b>	<b>104,136</b>	<b>76,177</b>	<b>(82,088)</b>	<b>19,491</b>	<b>95,746</b>	<b>37,196</b>	<b>77,952</b>	<b>56,815</b>	<b>77,549</b>	<b>76,767</b>

As at December 31,

### Assets

Cash and cash equivalents and placement with banks	2,419,320	2,497,005	438,471	172,010	177,985	162,378	146,551	183,526	145,052	116,934
Loans and receivables	1,855,368	1,115,518	1,070,958	1,204,255	1,332,771	1,268,457	1,319,828	1,053,788	923,890	932,413
Financial investments	104,249	82,077	60,657	72,249	61,798	52,719	7,578	7,291	7,712	8,991
Investments in associates	42,577	41,833	41,682	39,375	37,296	37,275	101,452	106,072	108,494	116,418
Investments in subsidiaries	-	12,750	12,750	12,750	12,750	12,750	12,750	12,750	11,791	9,268
Investment properties	385,728	142,778	96,225	96,225	33,310	33,310	33,310	33,730	33,730	33,730
Property plant & equipment	19,963	7,306	12,180	12,838	14,726	19,417	20,224	7,222	9,876	13,508
Right-of-use assets	16,070	23,266	35,904	30,037	-	-	-	-	-	-
Intangible assets	245,092	5,615	5,928	5,042	3,111	1,495	3,258	3,406	3,553	3,701
Other assets	98,859	67,795	48,688	52,937	54,262	59,040	6,015	6,009	18,156	14,451
<b>5,187,226</b>	<b>3,995,944</b>	<b>1,823,443</b>	<b>1,697,718</b>	<b>1,728,009</b>	<b>1,646,842</b>	<b>1,650,965</b>	<b>1,413,793</b>	<b>1,262,254</b>	<b>1,249,414</b>	

### Liabilities & Shareholders' Fund

Borrowings	1,695,007	648,550	717,306	528,779	638,669	413,820	453,434	281,983	198,285	262,229
Retirement benefit obligations	8,961	7,545	7,890	7,581	11,753	12,183	11,948	10,336	7,088	5,570
Lease liabilities	14,880	15,649	21,108	21,402	-	-	-	-	-	-
Other liabilities	112,426	72,384	39,871	20,599	40,636	47,253	49,194	26,920	19,142	21,162
Shareholders' funds	3,355,952	3,251,816	1,037,268	1,119,357	1,036,951	1,173,586	1,136,390	1,094,554	1,037,739	960,453
<b>5,187,226</b>	<b>3,995,944</b>	<b>1,823,443</b>	<b>1,697,718</b>	<b>1,728,009</b>	<b>1,646,842</b>	<b>1,650,965</b>	<b>1,413,793</b>	<b>1,262,254</b>	<b>1,249,414</b>	

### Ratios

Income growth / (degrowth) (%)	88	64	(37)	7	(16)	23	29	2	(4)	7
Property, plant & equipment to shareholders' fund (Times)	0.59	0.22	1.17	1.15	1.42	1.65	1.78	0.66	0.95	1.41
Total asset to shareholders' fund (Times)	1.55	1.23	1.76	1.52	1.67	1.40	1.45	1.29	1.22	1.30
Net assets per share (Rs.)	0.35	0.34	0.57	0.62	0.57	0.65	0.63	0.61	0.57	0.53
Basic earning / (loss) per share (Rs.)	0.01	0.01	-0.04	0.00	0.05	0.02	0.04	0.03	0.04	0.04

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# Notice of Meeting - Voting

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD BY WAY OF ELECTRONIC MEANS ON JUNE 30, 2023 AT 2.00 P.M. CENTERED AT THE BOARDROOM, OF SMB FINANCE PLC AT NO. 282/1, CBS BUILDING, GALLE ROAD, COLOMBO 03.

- 1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiary and the Statement of Accounts for the year ended December 31, 2022, and the Report of the Auditors thereon.
- 2. To re-elect Mr. L. Abeysinghe and Mr. M.S.A.Wadood who retires by rotation in terms of Article 87 of the Articles of Association of the Company as Directors of the Company;
- 3. To re-appoint Auditors M/s. KPMG, Chartered Accountants, and to authorize the Directors to determine their remuneration.
- 4. To authorize the Directors to determine and make donations for the year ending December 31, 2023, and up to the date of the next Annual General Meeting.

By Order of the Board  
SMB FINANCE PLC



**P W Corporate Secretarial (Pvt) Ltd**  
*Secretaries Colombo*  
**May 30, 2023**

Notes:

- 1. A shareholder entitled to participate and vote at the above virtual meeting is entitled to appoint a proxy to virtually participate and vote in his/her place by completing the Form of Proxy enclosed herewith.
- 2. A proxy need not be a shareholder of the Company.
- 3. Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairman or any other Member of the Board to participate and vote on their behalf.
- 4. For more information on how to participate by virtual means in the above virtual meeting, please refer Registration Process enclosed herewith.

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## Notice of Meeting - Non voting

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD BY WAY OF ELECTRONIC MEANS ON JUNE 30, 2023 AT 2.00 P.M. CENTERED AT THE BOARDROOM, OF SMB FINANCE PLC AT NO. 282/1, CBS BUILDING, GALLE ROAD, COLOMBO 03.

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiary and the Statement of Accounts for the year ended December 31, 2022, and the Report of the Auditors thereon.
2. To re-elect Mr. L. Abeysinghe and Mr. M.S.A.Wadood who retires by rotation in terms of Article 87 of the Articles of Association of the Company as Directors of the Company;
3. To re-appoint Auditors M/s. KPMG, Chartered Accountants, and to authorise the Directors to determine their remuneration.
4. To authorize the Directors to determine and make donations for the year ending December 31, 2023, and up to the date of the next Annual General Meeting.

By Order of the Board  
SMB FINANCE PLC



**P W Corporate Secretarial (Pvt) Ltd**  
*Secretaries Colombo*  
*May 30, 2023*

Notes:

1. A shareholder entitled to participate at the above virtual meeting is entitled to appoint a proxy to virtually participate in his/her place by completing the Form of Proxy enclosed herewith.
2. A proxy need not be a shareholder of the Company.
3. Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairman or any other Member of the Board to participate.
4. For more information on how to participate by virtual means in the above virtual meeting, please refer Registration Process enclosed herewith.

Form of Proxy - Voting

\*I/We.....holder  
of NIC No.....of.....being a \*Shareholder /Shareholders of  
SMB Finance PLC, do hereby appoint.....holder of NIC  
No..... of.....or failing him.

Mr. H.R.S. Wijeratne.....of Colombo or failing him  
Mr. M.S.A. Wadood.....of Colombo or failing him  
Mr. T.M. Wijesinghe.....of Colombo or failing him  
Mr. A.T.S. Sosa .....of Colombo or failing him  
Mr. L. Abeysinghe.....of Colombo or failing him  
Mr. H H A Chandrasiri .....of Colombo

as \*my/our proxy to represent me/us to speak and vote for me/us on my/our behalf at the Annual General Meeting of the  
Company to be held virtually on June 30, 2023, at 2.00 p.m and any adjournment thereof and at every poll which may be taken  
in consequence thereof.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiaries and the Statement of Accounts for the year ended December 31, 2022, and the Report of the Auditors thereon	<input type="radio"/>	<input type="radio"/>
2. To re-elect Mr. L. Abeysinghe and Mr. M.S.A.Wadood who retires by rotation in terms of Article 87 of the Articles of Association of the Company as Directors of the Company	<input type="radio"/>	<input type="radio"/>
3. To re-appoint Auditors M/s. KPMG, Chartered Accountants, and to authorize the Directors to determine their remuneration	<input type="radio"/>	<input type="radio"/>
4. To authorize the Directors to determine and make donations for the year ending December 31, 2023, and up to the date of the next Annual General Meeting	<input type="radio"/>	<input type="radio"/>

Signed this.....day of.....Two Thousand and Twenty Three.

.....  
Signature

- 1) \*Please delete the inappropriate words.  
2) Instructions as to completion are noted on the reverse thereof.

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**INSTRUCTIONS AS TO COMPLETION**

1. The full name, National Identity Card number, and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The Proxy shall –
  - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) In the case of a company or corporate/statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the Company or corporate/statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
3. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his/ her discretion will vote as he/she thinks fit.
4. To be valid, the completed Form of Proxy must be deposited with the Company Secretaries, P W Corporate Secretarial (Pvt) Ltd at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or must be emailed to [agm@smbblk.com](mailto:agm@smbblk.com) by 2.00 p.m on June 28, 2023.

# Form of Proxy - Non voting

\*I/We.....holder  
of NIC No.....of.....being a \*Shareholder /Shareholders of  
SMB Finance PLC, do hereby appoint.....holder of NIC  
No..... of.....or failing him.

- Mr. H.R.S. Wijeratne.....of Colombo or failing him
- Mr. M.S.A. Wadood.....of Colombo or failing him
- Mr. T.M. Wijesinghe.....of Colombo or failing him
- Mr. A.T.S. Sosa .....of Colombo or failing him
- Mr. L. Abeysinghe.....of Colombo or failing him
- Mr. H H A Chandrasiri .....of Colombo

as \*my/our proxy to represent me/us to speak for me/us on my/our behalf at the Annual General Meeting of the Company to  
be held virtually on June 30, 2023 at 2.00 p.m and any adjournment thereof and at every poll which may be taken in

Signed this.....day of.....Two Thousand and Twenty Three.

.....  
Signature

- 1) \*Please delete the inappropriate words.
- 2) Instructions as to completion are noted on the reverse thereof.

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**INSTRUCTIONS AS TO COMPLETION**

1. The full name, National Identity Card number, and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The Proxy shall –
  - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) In the case of a company or corporate/statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the Company or corporate/statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
3. To be valid, the completed Form of Proxy must be deposited with the Company Secretaries, P W Corporate Secretarial (Pvt) Ltd at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or must be emailed to [agm@smbblk.com](mailto:agm@smbblk.com) by 2.00 p.m on June 28, 2023.

# Circular to Shareholders

## ANNUAL GENERAL MEETING OF THE COMPANY

### Dear Shareholder/s,

The Annual General Meeting (AGM) of SMB Finance PLC will be held by way of electronically as a Virtual Meeting on Friday, June 30, 2023, at 2.00 p.m., in line with the Articles of Association of the Company and the guidelines issued by the Colombo Stock Exchange (CSE) the hosting of virtual AGMs.

### METHOD OF HOLDING THE AGM

Only the key officials who are essential for the administration of the formalities of the meeting will be physically present in the Board Room. All others, including shareholders, will participate via an online meeting hosted on the ZOOM platform.

### REGISTRATION PROCEDURE

Those Shareholders and Proxy holders who wish to participate via audio visual conferencing technology means should notify the Company of such intention by completing the REGISTRATION FORM.

The duly completed REGISTRATION FORM should be deposited with the Secretaries at No. 3/17, Kynsey Road, Colombo 08 or forwarded by email to [agm@smbk.com](mailto:agm@smbk.com) in order to enable the Company to receive the same by 2.00 p.m on June 28, 2023.

### APPOINTMENT OF PROXY HOLDERS

Shareholders are encouraged to vote by Proxy through the appointment of a member of the Board of Directors to vote on their behalf and to include their voting preferences on the resolutions to be taken up at the meeting in the Form of Proxy.

The Form of Proxy will also be made available on the corporate website of the Company and the website of the Colombo Stock Exchange and those Shareholders who wish to submit their Form of Proxy should duly complete the same as per the instructions given

therein. The duly completed Form of Proxy should be deposited with the Secretaries at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka, or forwarded by email to [agm@smbk.com](mailto:agm@smbk.com) in order to enable the Company to receive the same by 2.00 p.m. on June 28, 2023.

### PARTICIPATION VIA AN ONLINE MEETING PLATFORM

The login information will be authorized only for use by individual Shareholders, Proxy holders and authorized representatives in case of Institutional Shareholders and the Company will not be responsible or liable for any misuse. Where the Proxy holders are concerned, please note that the login information will only be shared with those in whose favour a valid proxy has been submitted by the Shareholder.

Shareholders can send in their queries, if any, to [agm@smbk.com](mailto:agm@smbk.com) forty eight hours (48) prior to the commencement of the meeting.

### VOTING

Voting on the items on the agenda will be registered by using an online e-ballot platform. All such procedures will be explained to the Shareholders prior to the commencement of the meeting.

### COPIES OF THE ANNUAL REPORT 2022

The Annual Report and the Financial Statements of the Company are available on the following websites and the relevant links are given below enabling all the Shareholders to access such Annual Report and Financial Statements.

1. Corporate Website of SMB Finance PLC – <http://smbk.com/financial-informations.php>
2. Colombo Stock Exchange – <https://www.cse.lk/pages/company-profile/>

[company-profile.component.html?symbol=SEMB.N0000](http://company-profile.component.html?symbol=SEMB.N0000)

Should a Shareholder wish to obtain a printed copy of the Annual Report, they may send a written request to the Registered Office of the Company by filling out the request form attached herein. A copy of the Annual Report will be forwarded by the Company within eight (8) market days from the date of receipt of the request.

For any queries, please contact the Head of Finance by telephone no 0114222850 email address [menakas@smbk.com](mailto:menakas@smbk.com) during office hours. Below mentioned documents are attached herewith

1. Notice of Meeting
2. Form of Proxy
3. Guideline and Registration Process to join the AGM virtually
4. Registration Form for the AGM
5. Request Form for the printed copy of the Annual Report

By order of the Board  
SMB Finance PLC

### P W CORPORATE SECRETARIAL (PVT) LTD

(sgd) Secretaries Colombo

May 30, 2023

## Guideline and Registration Process for the Annual General Meeting (AGM) via Online Meeting Platform

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- Shareholders are required to join the virtual AGM by clicking on the meeting link and user credentials sent by SMB Finance PLC via email.
- The request to register names for online participation via the Online Meeting Platform should be delivered to the Secretaries P W Corporate Secretarial (Pvt) Ltd, No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or e-mailed to agm@smbk.com along with the required registration information as per the REGISTRATION FORM by 2.00 pm on June 28, 2023.
- The information received from a Shareholder pertaining to his/her Proxy holder should tally with the information indicated in the duly completed Form of Proxy submitted by the Shareholder in order for the meeting link and user credentials to be shared by the Company with the Proxy holder.
- SMB Finance PLC will verify all the registration requests and identification details received with the Shareholders' register and accept the registrations for AGM if it is satisfied with the request and supporting documents. Once the registration is accepted, Shareholders will receive an email confirmation acknowledging the registration.
- The Shareholders whose online participation request has been accepted will receive a separate email containing the meeting link and user credentials from SMB Finance PLC, twenty four (24) hours prior to the commencement of the AGM.
- If a Shareholder/Proxy holder intends to join the Virtual AGM via a smartphone, it is necessary for him/her to download the "Zoom Mobile App" onto his /her smartphone. Similarly, if a shareholder/Proxy holder wishes to attend the Virtual AGM via a desktop computer, the link can be opened by downloading the "Zoom Desktop App" to the respective desktop computer (Compatible web browser: Google Chrome).
- The Shareholders/Proxy holders are requested to use the web link which will be forwarded by the Company and click on "Virtual AGM Registration" in order to log in to the meeting.
- Upon clicking on the link forwarded by the Company, Shareholders/Proxy holders will be redirected to an interface where they will be requested to enter their first name, last name, email address, re-enter email address, and National Identity Card Number. (The participants are required to enter the correct details as mentioned in the registration form forwarded to us where any mismatch will be considered as an unsuccessful log in)
- At this point, all participants are requested to click on "REGISTER" which will be prompted on their screens enabling them to receive the login link.
- Participants are required to click on "Join the Virtual AGM of SMB Finance PLC".
- It is highly recommended that all registered participants join the meeting at least ten (10) minutes before the start of the AGM. The Online Meeting Platform will be active thirty (30) minutes before the start of the AGM.
- Once the credentials are inserted, he/she will be directed to the Virtual AGM Zoom Platform.
- Shareholders/Proxy holders may use the Hand Raise ( ) icon that appears on the screen respectively, to submit their questions or concerns in typed format in the chat box or verbally. The system will allow a pop-up message to unmute the microphones and to allow video options.
- The Company will forward a separate email to the Shareholders and to proxy holders or representatives who are entitled to vote providing a separate link to vote on all resolutions included in the Notice of Meeting dated May 30, 2023.
- We request such persons to please open the said link and be prepared to cast their vote when each resolution is taken up for voting by the Chairman. Participants are advised to "refresh" the voting page and cast the vote at their discretion in the given space and click "SUBMIT" enabling the Company to receive the responses.
- When declaring the position of a resolution, Chairman will take into account the voting of the Shareholders/ Proxy holders participating virtually
- 60 seconds will be allocated for Shareholders/ Proxy holders to cast their vote in respect of each resolution.
- The results will be processed and announced by the Chairman 15 seconds after the end of the time slot allocated for voting.
- In a situation where Shareholders' voting is required for a poll, the same mechanism will be applicable. This will be moderated by the Chairman of the meeting.
- It is advised to check the online AGM access at least 3 hours prior and also ensure that your devices have an audible sound system so that you could be a part of the AGM comfortably.

## Registration Form

THE ANNUAL GENERAL MEETING (AGM) OF SMB FINANCE PLC IS TO BE HELD AS A VIRTUAL MEETING ON JUNE 30, 2023 AT 2.00 P.M.

### Details of Shareholder

Full Name of the Principal Shareholder: .....

.....

NIC No. / Passport No. / Company Registration No.: .....

CDS Account No.: .....

Residential Address: .....

.....

Telephone No/s: .....Email: .....

Full Name of 01st Joint Holder: .....

.....

NIC No/ Passport No.: .....

Full Name of 02nd Joint holder: .....

.....

NIC No/ Passport No.: .....

In the event the Proxy holder is appointed by the Shareholder following details of his/her will also be required.

### Details of Proxy holder: (only if a proxy is appointed)

Full name of Proxy holder: .....

.....

NIC No. / Passport No. of Proxy holder: .....

Telephone No/s: .....Email: .....

### PARTICIPATION AT THE AGM - Please tick the cage below

Online

I/My Proxy holder am/are willing to participate at the AGM ☐

Signature/s

.....

Principal Shareholder

.....

01st Joint holder

.....

02nd Joint holder

Date: .....

Note: In the case of a Company/Corporation, the Shareholder Registration Form must be signed in the manner prescribed by its Articles of Association/Statute, and in the case of the Registration Form is signed by an Attorney, the Power of Attorney, must be deposited at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or email to agm@smbblk.com



## Form of Request

### FOR A PRINTED COPY OF THE ANNUAL REPORT OF SMB FINANCE PLC FOR THE PERIOD ENDED DECEMBER 31, 2022

TO : SMB Finance PLC

No.282/1, CBS Building, Galle Road,  
Colombo 03

I/We hereby request for a printed copy of the Annual Report of SMB Finance PLC for the period ended December 31, 2022

#### DETAILS OF THE SHAREHOLDER(S)

Full name :	
National Identity Card / Passport / Company Registration No. :	
Contact Telephone Number :	
Address :	

.....  
**Signature of Shareholder(s)**

.....  
**Date**

\* Contact details of .....

Telephone .....

Facsimile .....

Email .....

## Corporate Information

### Name of Company

SMB Finance PLC

### Legal Form

Public Limited Liability Company (Incorporated and domiciled in Sri Lanka) under the Companies Act No. 17 of 1982 and subsequently re-registered under the Companies Act No. 07 of 2007 quoted in the Colombo Stock Exchange

### Date of Incorporation

September 3, 1992

### Company Registration Number

PQ 91

### Stock Exchange Listing

The Ordinary shares of the Company were quoted on the Main Board of the Colombo Stock Exchange (CSE) on December 20, 1993

### Central Bank Registration Number

040 (Under the Finance Leasing Act No. 56 of 2000 and Finance Business Act No. 42 of 2011)

### Financial Year-end

December 31

### Board of Directors

Mr. H. R. S. Wijeratne (Chairman)

Mr. T. M. Wijesinghe

Mr. A. T. S. Sosa

Mr. M. S. A. Wadood

Mr. L. Abeysinghe

Mr. H.H. A. Chandrasiri

### Secretaries

PW Corporate Secretarial (Pvt) Ltd.  
No. 3/17, Kynsey Road,  
Colombo 08.

### External Auditors

M/s. KPMG

Chartered Accountants

No. 32A,

Sir Mohammed Macan Marker Mawatha,  
Colombo 03.

### Internal Auditors

M/s. Deloitte

Chartered Accountants

No. 11, Castle Lane,

Colombo 04.

### Tax Consultants

Amarasekara & Co

Chartered Accountants

No 12, Rotunda Gardens,

Colombo 03.

### Lawyers

M/s. De Livera Associates

Attorneys-at-Law,

Solicitors & Notaries Public

No. 33 1/2, Shrubbery Gardens,

Colombo 04.

M/s. Shiranthi Gunawardena Associates

Attorneys-at-Law & Notaries Public,

No. 22/1, Elliot Place,

Colombo 08.

M/s. Paul Rathnayake Associates

No 59, Gregory's Road,

Colombo 07.

### Bankers

Sampath Bank PLC

Commercial Bank of Ceylon PLC

Bank of Ceylon

DFCC Bank PLC

NDB Bank PLC

Indian Bank

Peoples' Bank

Hatton National Bank PLC

Pan Asia Bank

Seylan Bank PLC

### Tax Payer Identity Number (TIN)

134003669

### Head Office

No. 282/1, CBS Building,  
Galle Road,  
Colombo 3.

Telephone : 094-114222888

Fax : 094-112574330

E-mail : smbhed@sltnet.lk

Web : www.smbblk.com

### Subsidiary Company

SMB Money Brokers (Pvt) Ltd.

8/A Sea View Avenue,  
Colombo 3.

### Associate Company

Kenanga Investment Corporation Ltd.

4th Floor, Landmark Building,  
No 385, Galle Road,  
Colombo 3.

### Branches

Deniyaya Branch,  
No. 11 A, Main Street,  
Deniyaya.

Negombo Branch,  
No. 15/15B, Station Road,  
Negombo.

City Branch,  
No 301/A, Galle Road,  
Colombo 03.

