

SEJAYA MICRO CREDIT LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2024

PNS/SD

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEJAYA MICRO CREDIT LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sejaya Micro Credit Limited ("the Company"), which comprise the statement of financial position as at 31 December 2024, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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



(Contd...2/)



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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


28 March 2025
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2024

	Note	2024 LKR	Restated 2023 LKR
Interest income	6.	1,246,229,419	943,929,405
Interest expense	7.	(445,643,265)	(341,913,460)
Net interest income		800,586,154	602,015,945
Other income	8.	291,899,631	174,569,561
Total operating income		1,092,485,785	776,585,506
Impairment for loans	9.	(3,307,866)	12,783,646
Net operating income		1,089,177,919	789,369,152
Staff costs		(367,030,311)	(265,567,697)
Administrative expenses		(376,642,868)	(272,746,054)
Profit from operation before finance cost		345,504,741	251,055,401
Finance charges	10.	(6,357,485)	(4,311,403)
Operating profit before VAT on financial services	11.	339,147,256	246,743,998
Taxes on financial services	12.	(132,103,745)	(70,614,472)
Operating profit after VAT on financial services		207,043,511	176,129,526
Income tax expenses	13.	(121,781,820)	(46,331,626)
Profit for the year		85,261,691	129,797,900
<u>Other comprehensive income</u>			
Other comprehensive income that will not be reclassified to the income statement			
Net actuarial Gain/(Losses) on defined benefit plans		(2,736,779)	(1,319,826)
Total comprehensive income for the year		82,524,912	128,478,074
Earnings Per Share - Basic		6.56	9.98

The accounting policies and notes on pages 07 to 43 form an integral part of the financial statements.



Sejaya Micro Credit Ltd

STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

Assets	Note	2024	Restated	Restated
		LKR	2023	2022
		LKR	LKR	LKR
Cash and cash equivalents	14.	78,443,726	88,333,209	88,151,225
SSR Reserve (Liquidity Reserve)	14.1	2,217,787	-	-
Financial Assets at Amortized cost - Investment in Fixed deposits	15.	2,393,247,251	1,868,437,620	1,953,684,560
Financial Assets at Amortized cost - Loans receivable	16.	3,625,517,916	2,487,057,030	1,875,655,472
Deposits advances and prepayments		59,910,900	29,608,805	29,523,075
Amounts due from related parties	17.	9,515,694	1,106,464	766,763
Deferred tax asset	26.	32,262,869	34,168,263	43,494,789
Intangible assets	18.	2,048,978	183,892	256,612
Property and equipment	19.	53,463,918	49,162,963	59,901,876
Right of use assets	20.1	49,481,777	40,633,328	45,379,980
Total assets		6,306,110,816	4,598,691,573	4,096,814,352
Equity and liabilities				
Liabilities				
Due to Banks	21.	2,470,878,896	1,505,759,248	1,521,935,570
Due to Customers	22.	14,785,244	-	-
Right of use obligation	20.2	48,542,214	39,300,264	42,144,428
Other payables	23.	54,795,917	27,827,158	24,801,010
Amount due to related parties	24.	2,454,723,888	1,956,571,211	1,598,317,234
Other liabilities	25.	25,270,295	17,451,065	23,611,831
Retirement benefit obligations	27.	17,906,927	10,285,499	5,561,925
Current tax liabilities	28	131,941,595	36,756,202	4,179,500
Total liabilities		5,218,844,976	3,593,950,646	3,220,551,499
Equity				
Stated capital	29	920,214,296	920,214,296	920,214,296
Retained earnings		167,051,544	84,526,631	(43,951,443)
Total equity		1,087,265,840	1,004,740,927	876,262,853
Total equity and liabilities		6,306,110,816	4,598,691,573	4,096,814,352

We certify that these Financial Statements comply with the requirements of the Companies Act No. 07 of 2007.

Chief Executive Officer

Chief Financial Officer

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

Takao Takahashi

Director

Director

The accounting policies and notes on pages 07 to 43 form an integral part of the financial statements.



STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2024

	Stated capital LKR	Retained earnings LKR	Total LKR
As at 31 December 2022 - As Reported	920,214,296	(60,566,621)	859,647,675
First-time adoption of SLFRSs (Note A)	-	16,615,178	16,615,178
As at 31 December 2022 - As Restated	920,214,296	(43,951,443)	876,262,853
Balance as at 01 January 2023	920,214,296	(43,951,443)	876,262,853
Profit for the year	-	129,797,900	129,797,900
Other comprehensive income for the year, net of income tax	-	(1,319,826)	-
Total comprehensive income for the year	-	128,478,074	129,797,900
Balance as at 31 December 2023	920,214,296	84,526,631	1,006,060,753
Profit for the year	-	85,261,691	85,261,691
Other comprehensive income for the year, net of income tax	-	(2,736,779)	-
Total comprehensive income for the year	-	82,524,912	85,261,691
Balance as at 31 December 2024	920,214,296	167,051,544	1,091,322,444

Note A**First-time adoption of SLFRSs**

Recognition of difference between Right of use asset and Lease liability applying SLFRS 16 as at 01st January 2023	-	1,824,609	-
Transitional Liability/(Asset) at beginning of the year - Retirement benefit obligation	-	6,368,476	-
Recognition of Expected Credit Losses on Financial Assets at Amortized cost	-	(35,721,102)	-
Reassessment adjustment on useful life of Motor vehicles	-	9,756,149	-
Interest income and interest in suspense adjustment in line with SLFRS 9	-	5,503,618	-
Deferred tax impact on transition to full SLFRS	-	28,883,428	-
	-	16,615,178	-

The accounting policies and notes on pages 07 to 43 form an integral part of the financial statements.



Sejaya Micro Credit Ltd

STATEMENT OF CASH FLOWS

Year ended 31 December 2024

	Note	2024 LKR	Restated 2023 LKR
Cash flows from operating activities			
Profit before tax		207,043,511	176,129,526
<i>Adjustment for:</i>			
Depreciation on Property, plant and equipment	19.	25,018,252	20,739,920
Amortization on Right of Use Assets	20.1	22,536,655	18,138,435
Amortization on Intangible assets	18.	329,335	72,719
Lease interest income	10.	(413,626)	(305,983)
Loan interest expense	21.	257,434,164	250,953,741
Impairment on Financial Assets at Amortized cost - Loans receivable	16.	(1,778,910)	19,791,466
Impairment on Financial Assets at Amortized cost - Investment in Fixed deposits	15.	24,044	(69,121)
Provision for gratuity	27.	5,350,164	3,742,437
(Gain)/Loss from disposal of fixed assets	19.	10,428	(47,909)
Operating profit before working capital changes		<u>515,554,017</u>	<u>489,145,231</u>
Movement in working capital:			
(Increase)/Decrease in Financial Assets at Amortized cost - Loans receivable	16.	(1,136,681,976)	(631,193,023)
(Increase)/Decrease in Deposits, advances and prepayments		(30,401,091)	7,435
(Increase)/Decrease in Amount due from related parties	17.	(8,409,230)	(339,701)
Increase/(Decrease) in Other payables	23.	26,968,759	3,026,033
Increase/(Decrease) in Due to customers	22.	14,785,244	-
Increase/(Decrease) in Other liabilities	25.	7,819,230	(6,160,766)
Increase/(Decrease) in Amount due to related parties	24.	498,152,677	358,253,977
Cash flows used in operations		<u>(112,212,371)</u>	<u>212,739,186</u>
Tax paid	28	(24,691,033)	(4,428,398)
Finance Cost Paid		(4,664,985)	(4,221,403)
Gratuity Paid	27.	(465,515)	(338,690)
Net cash flows used in operating activities		<u>(142,033,904)</u>	<u>203,750,695</u>
Cash flows from investing activities			
Purchase of property and equipment	19.	(29,377,472)	(10,015,097)
Purchase of intangible assets	18.	(2,194,421)	-
(Investment in)/ Proceeds from withdrawal of Fixed deposits	15.	(526,688,000)	74,220,000
Interest income received from fixed deposits	15.	1,854,325	11,096,061
Fund transferred to SSR Reserve (Liquidity Reserve)	14.1	(2,217,787)	-
Sales proceed from disposal of Assets	19.	47,837	62,000
Net cash flows from/(used in) investing activities		<u>(558,575,518)</u>	<u>75,362,965</u>
Cash flows from financing activities			
Term loans obtained	21.	4,225,315,000	3,856,644,998
Repayment of loan capital	21.	(3,258,497,745)	(3,874,942,660)
Repayment of principal portion of lease liabilities	20.2	(17,514,165)	(13,027,825)
Term loan interest paid	21.	(258,583,150)	(247,606,189)
Net cash flows from financing activities		<u>690,719,939</u>	<u>(278,931,676)</u>
Net (decrease)/increase in cash and cash equivalents		(9,889,483)	181,984
Cash and cash equivalents at the beginning of the year		88,333,209	88,151,225
Cash and cash equivalents at the end of the year		<u>78,443,726</u>	<u>88,333,209</u>
Analysis of cash and cash equivalents			
Cash in hand and bank		78,443,726	88,333,209
Total cash and cash equivalents		<u>78,443,726</u>	<u>88,333,209</u>

The accounting policies and notes on pages 07 to 43 form an integral part of the financial statements.



1. CORPORATE INFORMATION

1.1 General

Sejaya Micro Credit Limited (“Company”) is a limited liability Company incorporated and domiciled in Sri Lanka on 27th February 2015. The registered office of the Company is located at No.219, Station Road, Udahamulla, Nugegoda which is also the principal place of business. The Company commenced its commercial operation on 18th June 2015.

The Company obtained the Micro Finance License from Central Bank of Sri Lanka on 30th March 2020 under the Microfinance Act, No.06 of 2016 to carry on the Micro Finance business as a Licensed Microfinance Company (LMF) in Sri Lanka.

1.2 Principal Activities and Nature of Operations

The Company provides micro credit facility and credit plus professional services to low income and socioeconomically marginalized households of Sri Lanka to uplift their economic status and empower them socially.

1.3 Parent Entity

The Company’s parent entity is GOJO & Co. Inc., which is incorporated in Japan.

1.4 Date of Authorization for Issue

The financial statements of Sejaya Micro Credit Ltd for the year ended 31 December 2024 were authorised for issue, in accordance with a resolution of the Board of Directors on 28/03/2025.



2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements have been prepared on a historical cost basis. The Financial Statements are presented in Sri Lankan Rupees except when otherwise indicated.

2.2 Statement of Compliance

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the Companies Act No 07 of 2007.

For all periods up to and including the year ended 31 December 2023, the Company prepared its financial statements in accordance with SLFRS for SMEs. These financial statements for the year ended 31 December 2024 is the first time the Company has prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs). Refer to Note 3 for information on how the Company adopted SLFRSs and LKASs.

2.3 Going Concern

When preparing the financial statements, the directors have made an assessment of the ability of the company to continue as a going concern in the foreseeable future and is satisfied that it has the resources to continue in business and they do not foresee a need for cessation of trading, or liquidation, taking into account all available information. Therefore, the financial statements are prepared on a going concern basis.

2.4 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 as permitted by the Sri Lanka Accounting Standard – LKAS 1 on ‘Presentation of Financial Statements.

Notes to the financial statements are presented in a systematic manner which ensures the understandability and comparability of financial statements of the Company. 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

3. FIRST TIME ADOPTION OF SRI LANKA ACCOUNTING STANDARDS

These financial statements for the year ended 31 December 2024, are the first set of financial statements prepared by the company in accordance with Sri Lanka Accounting Standards. Standards are implemented for the earliest reporting period starting on 1st January 2023.

Accordingly the Company has prepared the financial statements complying with SLFRSs and LKASs applicable for the period ended 31 December 2024, together with comparative periods date as at and for the year ended 31 December 2023 as described in summary of significant accounting policies applies (Note 05). This note explains the principle adjustments made by the Company in restating its financial statements.



A. Right-of-use Assets/Lease liability

Under SLFRS for SMEs, a lease is classified as a finance lease or an operating lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term. Under full SLFRSs, as explained in Note 5.10.1, a lessee applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets and recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At the date of transition to full SLFRSs, the Company measured lease liabilities at the present value of the remaining lease payments, discounted using the Incremental Borrowing Rate at the date of transition to full SLFRSs. Right-of-use assets were measured at the amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments. As a result, the Company recognized a right-of-use asset of Rs.49,481,777 as at 31 December 2024 (As at 31 December 2023: Rs. 40,633,328) and lease liability of Rs. 48,542,214 as at 31 December 2024 (As at 31 December 2023: Rs. 39,300,264).

B. Expected Credit Losses on Financial Assets

Under SLFRS for SMEs, The Company has recognized an impairment provision for loan receivables using appropriate provision rates determined by conducting an aging analysis of each loan category. Under full SLFRSs, as explained in Note 5.6.1.d, all financial assets except for the assets which are measured at Fair Value through Profit or Loss, the company shall measure Expected Credit Loss in General approach. Accordingly, the Company has recognized Expected Credit Losses (ECL) for Financial Assets at Amortized cost - Loans receivable and Financial Assets at Amortized cost - Investment in Fixed deposits available as at the financial year end. The Company has followed full retrospective approach in the application of the guidance given in SLFRS 9. As at 31 December 2024, the Company recognised an impairment provision on its Loan receivable amounting to Rs.227,044,037 (As at 31 December 2023 : RS. 225,265,127) and for Investment in Fixed Deposits amounting to Rs. 179,840 (As at 31 December 2023 : RS. 155,796).

C. Retirement Benefit Obligations

Under SLFRS for SME, the Company recognised cost related to its Defined Benefit Plan (i.e. Gratuity) using an amount calculated based on a half a month's salary of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of the year net of any payments made, and the carried forward provision at the end of the year is dealt with the statement of comprehensive income. Under full SLFRSs, Company measures the present value of the defined retirement benefits of gratuity using the projected unit credit actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. As a result, the Company has recognized a retirement benefit obligation of Rs.17,906,927 as at 31 December 2024 (As at 31 December 2023: Rs.10,285,499).

D. Deferred Tax

The various transitional adjustments resulted in various temporary differences. According to the accounting policies in Note 5.11 the Company has to recognize the tax effect of such differences. Deferred tax adjustments are recognized in correlation to the underlying transaction either in retained earnings or a separate component of equity. As a result, the Company recognized Deferred Tax amounting from Rs. (2,335,604) on Property and equipment including intangible assets, Rs.5,372,078 from Retirement benefit obligations, Rs. 29,508,264 from ECL on Loans receivables & investment in fixed deposits and Rs. (281,869) from Right of Use asset as at 31st December 2024.



E. Property, Plant and Equipment

As part of the first-time adoption of full SLFRSs, the Company has reassessed the useful lives of its Property, Plant, and Equipment (PPE). This reassessment was conducted in accordance with LKAS 16 - Property, Plant and Equipment, which requires entities to review the useful lives of their assets at least at each financial year-end.

Upon review, it was identified that cost amounting to Rs. 20,737,530 of motor vehicles fully depreciated are still in use within the Company's operations. These Motor vehicles, while fully depreciated, continue to provide economic benefits to the Company. As a result, the Company has remeasured the useful lives of these assets to reflect their ongoing utility.

The useful lives of these motor vehicles amounting to have been extended from 5 years to 10 years based on their current condition and expected future economic benefits.

F. Interest income

As part of the first-time adoption of SLFRS 9 "- Financial Instruments," the Company has revised its approach to recognizing interest income and managing interest in suspense. SLFRS 9 introduces a forward-looking expected credit loss (ECL) model and requires the recognition of interest income on a stage basis, which has resulted in adjustments to both gross and net income.

Interest Income Recognition Under SLFRS 9, interest income is recognized based on the effective interest rate (EIR) method. The Company has classified its financial assets into three stages based on credit risk:

Stage 1: Financial assets that have not experienced a significant increase in credit risk since initial recognition. Interest income is recognized based on the gross carrying amount.

Stage 2: Financial assets that have experienced a significant increase in credit risk. Interest income is recognized based on the gross carrying amount, but an allowance for expected credit losses is recognized.

Stage 3: Financial assets that are credit-impaired. Interest income is recognized based on the net carrying amount (i.e., gross carrying amount less the allowance for expected credit losses).



3. FIRST TIME ADOPTION OF SLFRS

3.1 Reconciliation of statement of financial position

As at 31 December 2023					
	As per SLFRS for SME	Reference	Reclassification	Remeasurement	As per SLFRS
ASSETS					
Cash and cash equivalents	88,333,209		-	-	88,333,209
SSR Reserve (Liquidity Reserve)	-		-	-	-
Financial Assets at Amortized cost - Investment in Fixed deposits	1,868,593,416	Note (d)	-	(155,796)	1,868,437,620
Financial Assets at Amortized cost - Loans receivable	2,474,303,631	Note (e)	-	12,753,399	2,487,057,030
Deposits advances and prepayments	33,413,042	Note (f)	-	(3,804,234)	29,608,805
Amounts due from related parties	1,106,464		-	-	1,106,464
Deferred tax asset	17,067,424		-	17,100,838	34,168,263
Intangible assets	183,892		-	-	183,892
Property and equipment	41,526,815		-	7,636,148	49,162,963
Right of use assets	-	Note (f)	-	40,633,328	40,633,328
Total Assets	<u>4,524,527,892</u>		<u>-</u>	<u>74,163,682</u>	<u>4,598,691,573</u>
EQUITY AND LIABILITIES					
Liabilities					
Interest bearing borrowings	3,371,510,364	Note (a)	(3,371,510,364)	-	-
Due to Banks		Note (a)	1,505,759,248	-	1,505,759,248
Loan management fund	1,877,882	Note (b)	(1,877,882)	-	-
Right of use obligation	-	Note (f)	-	39,300,264	39,300,264
Other payables	27,827,157		-	-	27,827,157
Amount due to related parties	90,820,095	Note (a)	1,865,751,117	-	1,956,571,211
Other liabilities	-	Note (b)	17,451,065	-	17,451,065
Retirement benefit obligations	20,029,469	Note (i)	-	(9,743,971)	10,285,499
Current tax liabilities	24,427,814	Note (j)	-	12,328,388	36,756,202
Deferred Service Charge	15,573,183	Note (b)	(15,573,183)	-	-
Total liabilities	<u>3,552,065,965</u>		<u>-</u>	<u>41,884,681</u>	<u>3,593,950,645</u>
Equity					
Stated capital	920,214,296		-	-	920,214,296
Retained earnings	46,606,918	Note (k)	5,640,713	32,279,001	84,526,632
Statutory reserve	5,640,713	Note (c)	(5,640,713)	-	-
Total equity	<u>972,461,926</u>		<u>-</u>	<u>32,279,001</u>	<u>1,004,740,928</u>
Total Equity and Liabilities	<u>4,524,527,891</u>		<u>-</u>	<u>74,163,682</u>	<u>4,598,691,573</u>



3. FIRST TIME ADOPTION OF SLFRS (Contd...)

3.1 Reconciliation of statement of financial position Contd...)

As at 31 December 2022

	As per SLFRS for SME	Reference	Reclassificaion	Remeasurement	As per SLFRS
ASSETS					
Cash and cash equivalents	88,151,225	-	-	-	88,151,225
SSR Reserve (Liquidity Reserve)	-	-	-	-	-
Financial Assets at Amortized cost - Investment in Fixed deposits	1,953,909,477	Note (d)	-	(224,917)	1,953,684,560
Financial Assets at Amortized cost - Loans receivable	1,905,648,038	Note (h)	-	(29,992,566)	1,875,655,472
Deposits advances and prepayments	30,934,018	Note (f)	-	(1,410,943)	29,523,075
Amounts due from related parties	766,763	-	-	-	766,763
Deferred tax asset	14,611,361	-	-	28,883,428	43,494,789
Intangible assets	256,612	-	-	-	256,612
Property and equipment	50,145,727	Note (g)	-	9,756,149	59,901,876
Right of use assets	-	Note (f)	-	45,379,980	45,379,980
Total Assets	4,044,423,221			52,391,131	4,096,814,352
EQUITY AND LIABILITIES					
Liabilities					
Interest bearing borrowings	3,057,709,836	Note (a)	(3,057,709,836)	-	-
Due to Banks	-	Note (a)	1,521,935,570	-	1,521,935,570
Loan management fund	454,944	Note (b)	(454,944)	-	-
Right of use obligation	-	Note (f)	-	42,144,428	42,144,428
Other payables	24,801,010	-	-	-	24,801,010
Amount due to related parties	62,542,968	Note (a)	1,535,774,266	-	1,598,317,234
Other liabilities	-	Note (b)	23,611,831	-	23,611,831
Retirement benefit obligations	11,930,401	Note (i)	-	(6,368,476)	5,561,925
Current tax liabilities	4,179,500	-	-	-	4,179,500
Deferred Service Charge	23,156,887	Note (b)	(23,156,887)	-	-
Total liabilities	3,184,775,546			35,775,952	3,220,551,499
Equity					
Stated capital	920,214,296	-	-	-	920,214,296
Retained earnings	(60,566,621)	Note (l)	-	16,615,178	(43,951,443)
Statutory reserve	-	-	-	-	-
Total equity	859,647,675			16,615,178	876,262,853
Total Equity and Liabilities	4,044,423,221			52,391,131	4,096,814,352

Reclassification

Note (a) Reclassification from "Interest bearing borrowings" to "Due to Banks" (Which includes loans obtained from banks) and "Amounts due to related parties" (Which includes loans obtained from parent company)

Note (b) Reclassification from "Loan management fund" and "Deferred Service Charge" to "Other Liabilities"

Note (c) Reclassification from "Statutory reserve" to "Retained Earnings"



3. FIRST TIME ADOPTION OF SLFRS (Contd...)**3.1 Reconciliation of statement of financial position Contd...)****Remeasurement**

- Note (d) Recognition on ECL provision on "Financial Assets at Amortized cost - Investment in Fixed deposits" in line with SLFRS 09
 Note (e) Adjustment entries on ECL provision recognized on "Financial Assets at Amortized cost - Loans receivable" in line with SLFRS 09 and removal of Incurred loss model provision recognized as per SLFRS for SME.
 Note (f) Adjustment entries on Recognition on Right of use asset and Right of use obligation in line with SLFRS 16.
 Note (g) Reassessment adjustment to useful
 Note (h) Adjustment on difference between ECL provision recognition on "Financial Assets at Amortized cost - Loans receivable" in line with SLFRS 09 and removal of Incurred loss model provision recognized as per SLFRS for SME as at transition date to full SLFRSs.
 Note (i) Adjustment entries on Recognition of gratuity provision as per Actuarial valuation method and reversal on gratuity provision previously recognized as per projected unit credit method.
 Note (j) Change in current tax liability due to change in Profit before tax
 Note (k) Adjustment entries to Retained Earnings due to adoption of full SLFRS.
 Note (l) First time adoption adjustment entries to Retained Earnings as at transition date to full SLFRS.

3.2 Reconciliation of statement of comprehensive income

	As per SLFRS for SME	Reference	Period ended 31 December 2023		
			Reclassification	Remeasurement	As per SLFRS
Interest income	943,063,206	Note (m)	-	866,198	943,929,405
Interest expense	(341,913,460)		-	-	(341,913,460)
Net interest income	601,149,746		-	866,198	602,015,945
Other income	174,263,578		-	305,983	174,569,561
Total operating income	775,413,324		-	1,172,182	776,585,506
Impairment for loans	(29,096,121)	Note (n)	-	41,879,767	12,783,645
Net operating income	746,317,203		-	43,051,948	789,369,152
Staff costs	(270,263,017)	Note (i)	-	4,695,321	(265,567,697)
Administrative expenses	(270,192,108)	Note (o)	-	(2,553,946)	(272,746,054)
Profit from operation before finance cost	205,862,078		-	45,193,323	251,055,401
Finance charges	(212,707)	Note (p)	-	(4,098,696)	(4,311,403)
Operating profit before VAT on financial services	205,649,372		-	41,094,626	246,743,998
Taxes on financial services	(70,614,472)		-	-	(70,614,472)
Operating profit after VAT on financial services	135,034,899		-	41,094,626	176,129,525
Income tax expenses	(22,220,648)	Note (q)	-	(24,110,978)	(46,331,626)
Profit for the year	112,814,251		-	16,983,649	129,797,900
<u>Other comprehensive income</u>					
Other comprehensive income that will not be reclassified to the income					
Net actuarial Gain/(Losses) on define	(296,508)	Note (i)	-	(1,023,318)	(1,319,826)
Total comprehensive income for th	112,517,743		-	15,960,331	128,478,074

Remeasurement

- Note (m) Adjustment entries on interest income recognition in line with SLFRS 9.
 Adjustment on difference between ECL provision recognition on "Financial Assets at Amortized cost - Loans receivable" in line with SLFRS 09 and removal of Incurred loss model provision recognized as per SLFRS for SME incurred loss model.
 Note (n) Adjustment entries to admin expenses on ROU Amortization and Impairment provision on Financial assets at amortized cost -
 Note (o) Investment in fixed deposits.
 Note (p) Adjustment entries on Recognition on Right of use obligation in line with SLFRS 16.
 Note (q) Change in income tax expense due to change in Profit before tax & deferred tax asset



4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future. The following are the significant accounting policies applied by the company in preparing its financial statements;

4.1 Impairment Losses on Loans and Advances

The measurement of impairment losses under Sri Lanka Accounting Standard SLFRS 9 - Financial Instruments across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. Loans receivables that have been assessed individually and found to be not impaired and all individually insignificant loans and receivables are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and receivables.

The expected credit loss (ECL) calculation under SLFRS 9 requires management to make judgments and estimates with regard to the following,

- The Company's criteria for assessing if there has been a significant increase in credit risk and so impairment for financial assets should be measured on a lifetime ECL basis.
- Development of ECL models, including various formulas and the choice of inputs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

It has been the Company's policy to regularly review its models in the context of actual loss experience and adjust when necessary. The above assumptions and judgments are discussed in detail under Note 5.6.1.d to the Financial Statements.

The key assumptions used in the Company's calculation of ECL have been revised to reflect the changes in the macro-economic conditions during the year. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions were revised in response to the current economic conditions, the fundamental credit model mechanics and methodology underpinning the Company's calculation of ECL have remained consistent with prior periods.

The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 5.6.1, while the impact on changing the weightages of different macro-economic scenarios during the year are given in Note 34.2.1.

4.2 Impairment of Other Financial Assets

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



4.3 Financial Assets and Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception into different accounting categories. The classification of financial instruments is given in Note 5.6.

4.4 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. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

4.5 Taxation

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

The details of deferred tax computation is given in Note 26 to the Financial Statements.

4.6 Defined Benefit Plans

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and possible future pension increases if any. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rate and expected future salary increase rates of the Company.

4.7 SLFRS 16 - Leases

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Recognition of Income and Expenses

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



a) Interest income and Interest expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the Effective Interest Rate (EIR) Method. EIR is the rate exactly discounts estimated future cash payment or receipt through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets and 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 assets and liability is adjusted if the Company revises its estimates of payment and receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income' for the financial assets and 'Interest expense' for financial liabilities. 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Others

Other Income is recognized on an accrual basis.

c) Gains and Losses

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets, including investments, are accounted for in the income statement, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses. Gains and losses arising from activities incidental to the main revenue generating activities and those arising from a group of similar transactions, which are not material are aggregated, reported and presented on a net basis.

5.2 Expenditure Recognition

Expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenditure incurred in the running of the business has been charged to Statement of Comprehensive Income in arriving at the profit for the year.

5.3 Finance Charges

Finance charges comprise lease interest and loan processing fee. Lease interest shall be recognized as an expense in profit or loss over the lease term using the effective interest method. The interest expense will be calculated based on the carrying amount of the lease liability. Loan processing fee is the fee charged by the banks from the company when obtaining loan. The fee shall be recognized as an expense in profit or loss when it incurred.

5.4 Property, Plant and Equipment

The Company applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held for use in the provision of the services or for administration purpose and are expected to be used for more than one year.

Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Company and cost of the asset can be reliably measured. Initially property plant and equipment are measured at cost.



Subsequent measurement

Items of property plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Fully depreciated items of property, plant, and equipment are not subject to fair valuation on the transition day to full SLFRSS, as management has determined that their impact on the financial statements is not material.

Subsequent costs

The cost of replacing a component of an item of property, plant & 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 Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised in accordance with the derecognition policy given below.

The costs of the repair and maintenance of property, plant & equipment are recognised in the Statement of Profit or Loss as incurred.

Derecognition

The carrying amount of an item of property, plant & equipment is derecognised on disposal; or when no future economic benefits are expected from its use. Any gains and losses on derecognition are recognised (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) in the Statement of Profit or Loss. Gains are not classified as revenue.

Depreciation

The Provision for depreciation is calculated on the cost of fixed assets in order to write off such amounts over the estimated useful lives by equal instalments as follows:

Computers and peripherals	4 Years
Furniture and fittings	5 Years
Motor vehicles	5-10 Years
Office equipment	4 Years
Name boards	4 Years
Office partitions	4 Years
Air conditioners	10 Years
Safe drawers	20 Years
Generators	20 Years
Other equipment	2 Years

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised. The asset's residual values, useful lives are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate.

5.5 Intangible Assets

Acquired computer software and licenses are available as the Intangible assets of the company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as five years.



Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

5.6 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

5.6.1 Financial Assets

a) Financial Assets - Initial Recognition and Subsequent Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

b) Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories;

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments)
- Financial assets at fair value through profit or loss



Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, 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

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes Loans receivables, Investment in fixed deposits and other financial assets.

c) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired or;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) the Company has transferred substantially all the risks and rewards of the asset, or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

d) Impairment of Financial Assets

Further disclosure relating to impairment of financials assets are also provided in the following note:

- Allowance for Impairment (Note 16.1)

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the credit losses expected to arise over the life of the asset (the lifetime Expected Credit Loss or (LTECL)], unless there has been no significant increase in credit risk since origination, in which case, the impairment is based on the 12 months' Expected Credit Loss (12mECL).



The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The mechanics of ECL calculations are outlined below, with key elements under collective impairment assessment, such as Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), explained as follows

Probability of Default (PD) - The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may occur at a specific time during the assessed period if the facility has not been previously derecognised and remains in the portfolio.

Loss Given Default (LGD) - The Loss Given Default (LGD) is an estimate of the loss arising in the event of a default at a given time. It is based on the difference between the contractual cash flows due and those the lender expects to receive, including from the realisation of any collateral. LGD is calculated on a discounted cash flow basis using EIR as the discounting factor and is usually expressed as a percentage of the EAD.

Exposure at Default (EAD) - The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities. To calculate EAD for a Stage 1 loan, the Company assesses possible default events within 12 months. For all other loans, EAD is considered for default events over the lifetime of the financial instruments.

Forward-Looking Information - In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs. The inputs and models used for calculating ECLs may not always capture all characteristics of the market as at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. When estimating ECLs, the Company considers three economic scenarios: base case, best case, and worst case.

In its ECL models, the Company relies on a broad range of forward-looking information, such as:

Quantitative factors: GDP growth, unemployment rate, rate of inflation, interest rate, and exchange rate.

Qualitative factors: Government policies, Status of the Industry Business and Regulatory Impact.

To ensure completeness and accuracy, the Company obtains the above data primarily from the Central Bank of Sri Lanka (CBSL). Other third party sources such as World Bank and International Monetary Fund etc. is also used when CBSL data is not available. Although the Company relaxed some of the forward-looking assumptions in response to the positive macro-economic outlook, it continued to maintain adequate impairment buffers to mitigate potential future credit risks.

5.6.2 Financial liabilities

a) Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of due to banks and due to customers, net of directly attributable transaction costs.

The Company's financial liabilities include Due to banks and Due to customers.



b) Subsequent Measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities measured at amortized cost

After initial recognition, due to banks and due to customers are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Profit or Loss.

c) Derecognition

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

5.7 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and cash at bank net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

The Company has not made an ECL Provision to the cash and cash equivalents as the cash at bank is money held at short notice; therefore significant expected credit loss provision is not applicable.

5.8 Retirement Benefit Obligations

The company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. A defined benefit plans define an amount of pension benefit that an employee will receive on retirement, based on the years of service and compensation.

Defined Contribution Plans – Employees’ Provident Fund and Employees’ Trust Fund

All employees are eligible for Employees’ Provident Fund and Employees’ Trust Fund contributions in line with the prevalent statutes and regulations. The company contributes 12% and 3% of gross employee emoluments to EPF and ETF respectively.

Defined Benefit Plans - Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The present value of the defined benefit obligation is determined by using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with LKAS 19 on employee benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.



5.9 Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event. Where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5.10 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

5.10.1 Company as the lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

5.10.2 Right-of-Use Assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Depreciation is over the shorter of the useful life of the asset and the lease term, if the ownership is not transferred.

The Company fair value the refundable deposits related to Right of Use assets and is included in the Right of Use Asset.

5.10.3 Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses Incremental Borrowing Rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.



5.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for Income Tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

Deferred Taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all temporary differences, except:

- Where the deferred tax liability arises from an asset or liability in a transaction that affects neither the accounting profit nor the taxable profit.
- Deferred tax assets are recognized for all deductible differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:
- Where the deferred tax assets relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that affects neither the accounting profit nor the taxable profit.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

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

Deferred tax relating to items recognised outside the Statement of Comprehensive Income is recognised outside the Statement of Comprehensive Income. Deferred tax items are recognised in correlation to the underlying transaction either in the Statement of Comprehensive Income or Statement of Other Comprehensive Income.

5.12 Taxes on Financial Services

5.12.1 Value Added Tax (VAT)

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

5.12.2 Social Security Contribution Levy (SSCL)

Social Security Contribution Levy shall be paid by any person carrying on the business of supplying financial services, on the liable turnover specified in the Second Schedule of the Social Security Contribution Levy Act No. 25 of 2022 any amendments thereto, at the rate of 2.5%, with effect from 1st 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 by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act No. 14 of 2002.



5.13 Foreign Currency Translation

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

5.14 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's 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 and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

5.15 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

- Amendments to LKAS 1: Non-Current liabilities with Covenants
- Amendments to LKAS 7 and SLFRS 7: Supplier Finance Arrangements
- Amendments to SLFRS 16: Lease Liability in a Sale and Leaseback
- Amendment to LKAS 21: Lack of Exchangeability
- Amendments to SLFRS 10 and LKAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

6. INTEREST INCOME	2024	Restated 2023
	LKR	LKR
Interest on Joint liability group loans (JLG)	1,078,521,589	741,733,613
Interest on Individual Micro loans	39,828,678	54,595,351
Interest on Investments	127,879,151	147,600,441
	<u>1,246,229,419</u>	<u>943,929,405</u>

7. INTEREST EXPENSE	2024	Restated 2023
	LKR	LKR
Term loan interest	445,587,357	341,913,460
Client savings interest	55,907	-
	<u>445,643,265</u>	<u>341,913,460</u>

8. OTHER INCOME	2024	Restated 2023
	LKR	LKR
Other income	5,933,582	3,296,974
Pasio Program Income	49,586,456	-
Registration fee	65,840,020	47,136,660
Documentation charges	118,741,533	75,567,236
Recoveries of write-off loans	968,508	3,137,053
Service charges	50,207,788	45,077,746
Finance income on refundable deposits	413,626	305,983
Gain/(Loss) from Customer Insurance	208,118	-
Gain/(Loss) from disposal of fixed assets	-	47,909
	<u>291,899,631</u>	<u>174,569,561</u>

9. IMPAIRMENT FOR LOANS	2024	Restated 2023
	LKR	LKR
Impairment for loans receivable (Note 16.1)	1,778,910	(19,791,466)
Loans written-off during the year	1,528,956	7,007,820
	<u>3,307,866</u>	<u>(12,783,646)</u>

10. FINANCE CHARGES	2024	Restated 2023
	LKR	LKR
Lease interest	5,511,235	4,221,403
Loan processing fee	846,250	90,000
	<u>6,357,485</u>	<u>4,311,403</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

11. OPERATING PROFIT BEFORE VALUE ADDED TAX	2024 LKR	Restated 2023 LKR
Profit from operations before value added tax is stated after charging all expenses including the following :		
Staff costs :		
Salaries	252,973,741	178,301,997
EPF	30,366,045	21,419,750
ETF	7,592,018	5,354,938
Depreciation	25,018,252	20,740,119
Amortization	22,865,990	16,598,602
Auditors remuneration	2,719,632	1,200,000
Professional fees	5,092,435	669,610
12. TAXES ON FINANCIAL SERVICES	2024	Restated
	LKR	2023
		LKR
Value Added Tax on Financial Services		
The Company is liable for VAT on financial services at 18% on its Value Addition on financial services.		
VAT on financial services for the year	106,342,457	62,002,951
Under/(over) provision of prior year tax	9,651,075	-
Closing balance	<u>115,993,532</u>	<u>62,002,951</u>
Social Security Contribution Levy	14,769,786	8,611,521
Under/(over) provision of prior year tax	1,340,427	-
	<u>16,110,213</u>	<u>8,611,521</u>
	<u>132,103,745</u>	<u>70,614,472</u>
13. TAXATION	2024	Restated
	LKR	2023
		LKR
Current tax (Note 13.1)	124,515,702	42,750,041
Under/(Over) provision of prior year tax	(4,639,275)	(5,744,942)
Deferred tax (reversal) /charges (Note 26)	1,905,393	9,326,526
	<u>121,781,820</u>	<u>46,331,626</u>
The Company is liable for income tax at 30% on its taxable income		
13.1 Reconciliation between tax expenses and the accounting profit	2024	2023
	LKR	LKR
Profit before tax as per the tax computation	207,043,511	176,129,526
Aggregate disallowed items	377,757,133	133,481,907
Aggregate allowed items	(169,748,306)	(167,111,295)
Total statutory income	<u>415,052,339</u>	<u>142,500,138</u>
Taxable income	415,052,339	101,405,511
Less @ 30%	124,515,702	42,750,041
	<u>124,515,702</u>	<u>42,750,041</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

14. CASH AND CASH EQUIVALENTS	2024 LKR	2023 LKR	2022 LKR
Cash at bank	78,052,834	86,225,107	84,703,901
	<u>78,052,834</u>	<u>86,225,107</u>	<u>84,703,901</u>
Cash in hand	2,608,678	2,108,102	3,447,324
Cash and cash equivalents	<u>80,661,513</u>	<u>88,333,209</u>	<u>88,151,225</u>
Less: SSR reserve (Note 14.1)	(2,217,787)	-	-
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	<u>78,443,726</u>	<u>88,333,209</u>	<u>88,151,225</u>
14.1 SSR RESERVE (LIQUIDITY RESERVE)	2024 LKR	2023 LKR	2022 LKR
Balance at the beginning of the year	-	-	-
During the year reserved	2,217,787	-	-
Transferred from the reserve	-	-	-
Balance at the end of the year	<u>2,217,787</u>	<u>-</u>	<u>-</u>
14.2	On October 2024, the company launched a product called the 'client compulsory savings' account and 4% p.a. interest will be serviced to the savings balance. As per CBSL, 15.0% liquid cash of the total client savings value is to be maintained for client withdrawals as a separate reserve.		
15. FINANCIAL ASSETS AT AMORTIZED COST - INVESTMENTS IN FIXED DEPOSITS	2024 LKR	2023 LKR	2022 LKR
Hatton National Bank-Short term *	2,340,640,000	1,813,952,000	1,888,172,000
National Development Bank	5,000,000	5,000,000	5,000,000
	<u>2,345,640,000</u>	<u>1,818,952,000</u>	<u>1,893,172,000</u>
Interest Receivable	47,787,091	49,641,416	60,737,477
	<u>2,393,427,091</u>	<u>1,868,593,416</u>	<u>1,953,909,477</u>
Less: Provision for Impairment	(179,840)	(155,796)	(224,917)
	<u>2,393,247,251</u>	<u>1,868,437,620</u>	<u>1,953,684,560</u>
15.1 Allowance for impairment losses	2024 LKR	2023 LKR	2022 LKR
Balance at the beginning of the year	155,796	224,917	-
Recognized on first time adoption as at 31.12.2022	-	-	224,917
Provision (Reversal) for the year	24,044	(69,121)	-
Balance at the end of the year	<u>179,840</u>	<u>155,796</u>	<u>224,917</u>
16. FINANCIAL ASSETS AT AMORTIZED COST - LOANS RECEIVABLE	2024 LKR	2023 LKR	2022 LKR
Joint Liability Group Loans (JLG)	3,776,010,552	2,582,553,849	1,946,088,944
Individual Micro loans	128,014,366	159,837,651	190,005,993
Gross Loan receivables	<u>3,904,024,918</u>	<u>2,742,391,500</u>	<u>2,136,094,936</u>
Less :Advance Payments	(51,462,964)	(30,069,343)	(15,382,871)
Less : Allowance for impairment losses (Note 16.1)	(227,044,037)	(225,265,127)	(245,056,593)
Net loan receivables	<u>3,625,517,916</u>	<u>2,487,057,030</u>	<u>1,875,655,472</u>
16.1 Allowance for impairment losses	2024	2023	2022
Balance at the beginning of the year	225,265,127	245,056,593	137,501,592
Provision/ (Reversal) for the year	1,778,910	(19,791,466)	75,455,257
Write-off during the year	-	-	(3,396,440)
Balance at the end of the year	<u>227,044,037</u>	<u>225,265,127</u>	<u>209,560,409</u>
Transitional Liability/(Asset) at 1st January 2023	-	-	35,496,184
Adjusted balance	<u>-</u>	<u>-</u>	<u>245,056,593</u>



16. FINANCIAL ASSETS AT AMORTIZED COST - LOANS RECEIVABLE (Contd...)

16.2 Disclosure on Staging of Financial Asset at amortized cost - Loans receivables

Credit Exposure - Stage wise

2024	Stage 1	Stage 2	Stage 3	Total
As at 31st December 2024	3,501,805,254	22,008,590	101,704,072	3,625,517,916
As at 31st December 2023	2,339,916,926	29,692,003	117,448,102	2,487,057,030
As at 31st December 2022	1,708,590,140	46,757,609	120,307,724	1,875,655,472

Provision for Impairment - Stage wise

	Stage 1	Stage 2	Stage 3	Total
As at 31st December 2024	96,007,287	2,173,752	128,862,998	227,044,037
As at 31st December 2023	106,314,869	7,610,476	111,339,781	225,265,127
As at 31st December 2022	140,896,879	12,517,345	91,642,368	245,056,593

16.3 Gross Loans and Receivables

2024	Stage 1	Stage 2	Stage 3	Total
Joint Liability Group Loans (JLG)	3,558,672,531	20,991,308	193,395,407	3,773,059,246
Individual Micro loans	90,602,975	3,191,034	37,171,663	130,965,672
	<u>3,649,275,506</u>	<u>24,182,342</u>	<u>230,567,070</u>	<u>3,904,024,918</u>

Less: Impairment allowance

Joint Liability Group Loans (JLG)	92,283,110	1,658,273	103,840,713	197,782,096
Individual Micro loans	3,724,177	515,478	25,022,285	29,261,941
	<u>96,007,287</u>	<u>2,173,752</u>	<u>128,862,998</u>	<u>227,044,037</u>
Less :Advance Payments	(51,462,964)			(51,462,964)
Net Loans and Receivables	<u>3,501,805,254</u>	<u>22,008,590</u>	<u>101,704,072</u>	<u>3,625,517,916</u>

2023	Stage 1	Stage 2	Stage 3	Total
Joint Liability Group Loans (JLG)	2,360,143,949	26,953,438	195,456,462	2,582,553,849
Individual Micro loans	116,157,189	10,349,041	33,331,421	159,837,651
	<u>2,476,301,138</u>	<u>37,302,479</u>	<u>228,787,883</u>	<u>2,742,391,500</u>

Less: Impairment allowance

Joint Liability Group Loans (JLG)	95,397,311	4,840,306	89,577,696	189,815,313
Individual Micro loans	10,917,559	2,770,170	21,762,085	35,449,814
	<u>106,314,869</u>	<u>7,610,476</u>	<u>111,339,781</u>	<u>225,265,127</u>
Less :Advance Payments	(30,069,343)			(30,069,343)
Net Loans and Receivables	<u>2,339,916,926</u>	<u>29,692,003</u>	<u>117,448,102</u>	<u>2,487,057,030</u>

17. AMOUNTS DUE FROM RELATED PARTIES

	2024 LKR	2023 LKR	2022 LKR
Gojo Lanka Holdings (Pvt) Ltd.	1,422,225	1,106,464	766,763
GOJO & Co. Inc.	8,093,470	-	-
	<u>9,515,694</u>	<u>1,106,464</u>	<u>766,763</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INTANGIBLE ASSETS

	2024 LKR	2023 LKR	2022 LKR
Cost - Computer software			
Balance as at beginning of the year	363,600	363,600	9,138,175
Additions during the year	2,194,421	-	360,000
Disposal during the year	-	-	(9,134,575)
Balance as at 31st December	<u>2,558,021</u>	<u>363,600</u>	<u>363,600</u>
Amortization			
Balance as at beginning of the year	179,708	106,988	3,485,987
Amortization for the year	329,335	72,521	2,350,539
Disposal during the year	-	-	(5,729,538)
Balance as at 31st December	<u>509,043</u>	<u>179,708</u>	<u>106,988</u>
Net Book Value	<u>2,048,978</u>	<u>183,892</u>	<u>256,612</u>

19. PROPERTY AND EQUIPMENT

	2024 LKR	2023 LKR	2022 LKR
Freehold Assets (Note 19.3)	52,695,562	46,773,509	55,900,068
Assets under Lease (Note 19.7)	768,356	2,389,454	4,001,808
	<u>53,463,918</u>	<u>49,162,963</u>	<u>59,901,876</u>



Sejaya Micro Credit Ltd

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

19. PROPERTY AND EQUIPMENT (Contd...)

19.1	Cost	Computers and peripherals LKR	Furniture and fittings LKR	Motor vehicles LKR	Office equipment LKR	Name boards LKR	Office partitions LKR	Air conditioners LKR	Safe drawers LKR	Generators LKR	Other equipment LKR	Total LKR
	Balance as at 31.12.2022	33,094,856	14,130,021	20,737,530	2,940,279	7,973,980	26,362,465	3,109,610	854,879	1,802,930	-	111,006,549
	Additions during the year	3,773,805	3,118,901	-	82,836	435,000	2,302,843	190,000	111,712	-	-	10,015,097
	Disposals during the year	-	-	-	(58,000)	(94,000)	(142,650)	(55,000)	-	-	-	(349,650)
	Balance as at 31.12.2023	36,868,661	17,248,922	20,737,530	2,965,115	8,314,980	28,522,658	3,244,610	966,591	1,802,930	-	120,671,996
	Additions during the year	15,371,484	5,920,547	-	277,978	2,745,400	3,644,770	1,122,285	295,009	-	-	29,377,472
	Disposals during the year	(401,430)	-	-	-	(82,000)	-	-	-	-	-	(483,430)
	Balance as at 31.12.2024	51,838,715	23,169,469	20,737,530	3,243,093	10,978,380	32,167,428	4,366,895	1,261,600	1,802,930	-	149,566,039

19.2	Accumulated Depreciation	Computers and peripherals LKR	Furniture and fittings LKR	Motor vehicles LKR	Office equipment LKR	Name boards LKR	Office partitions LKR	Air conditioners LKR	Safe drawers LKR	Generators LKR	Other equipment LKR	Total LKR
	Balance as at 31.12.2022	17,680,805	7,716,270	10,975,557	2,696,158	4,351,355	10,464,119	581,767	172,676	467,773	-	55,106,481
	Charge for the year	6,379,256	2,153,861	2,073,753	212,832	1,514,563	6,293,889	366,805	42,214	90,394	-	19,127,566
	Depreciation on disposals	-	-	-	(55,060)	(94,000)	(142,650)	(43,849)	-	-	-	(335,559)
	Balance as at 31.12.2023	24,060,061	9,870,131	13,049,310	2,853,930	5,771,919	16,615,358	904,722	214,890	558,167	-	73,898,488
	Charge for the year	9,121,939	3,166,305	2,073,753	111,212	1,694,178	6,657,829	426,571	55,220	90,147	-	23,397,154
	Depreciation on disposals	(343,165)	-	-	-	(82,000)	-	-	-	-	-	(425,165)
	Balance as at 31.12.2024	32,838,835	13,036,436	15,123,063	2,965,142	7,384,097	23,273,187	1,331,293	270,110	648,313	-	96,870,477

19.3	Net book value	Computers and peripherals LKR	Furniture and fittings LKR	Motor vehicles LKR	Office equipment LKR	Name boards LKR	Office partitions LKR	Air conditioners LKR	Safe drawers LKR	Generators LKR	Other equipment LKR	Total LKR
	As at 31.12.2022	15,414,050	6,413,751	9,761,973	244,121	3,622,625	15,898,346	2,527,843	682,204	1,335,157	-	55,900,068
	As at 31.12.2023	12,808,600	7,378,791	7,688,220	111,185	2,543,061	11,907,300	2,339,888	751,702	1,244,763	-	46,773,509
	As at 31.12.2024	18,999,880	10,133,033	5,614,467	277,951	3,594,283	8,894,240	3,035,602	991,490	1,154,617	-	52,695,562

19.3 During the financial period, the Company acquired Property, Plant and equipment to the value of Rs.29,377,472/- (2023- Rs.10,015,097/-). Cash payments amounting to Rs.31,553,261 /- (2023 - Rs. 10,015,098/-) was accounted for the year for purchases of property, plant and equipment

19.5 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs.27,246,906/- (2023- Rs.27,246,906/-) which are still in use.



19. PROPERTY AND EQUIPMENT (Contd...)

19.6 The useful lives of the assets is estimated as follows;

	2024	2023	2022
Computers and peripherals	4 Years	4 Years	4 Years
Furniture and fittings	5 Years	5 Years	5 Years
Motor vehicles	10 Years	10 Years	10 Years
Office equipment	4 Years	4 Years	4 Years
Name boards	4 Years	4 Years	4 Years
Office partitions	4 Years	4 Years	4 Years
Air conditioners	10 Years	10 Years	10 Years
Safe drawers	20 Years	20 Years	20 Years
Generators	20 Years	20 Years	20 Years
Other equipment	2 Years	2 Years	2 Years

19.7 Assets under lease

Cost

	Motor Vehicles
	LKR
Balance as at 31.12.2022	
Additions during the year	8,105,489
Disposals during the year	-
Balance as at 31.12.2023	-
Additions during the year	8,105,489
Disposals during the year	-
Balance as at 31.12.2024	8,105,489

Accumulated Depreciation

	Motor Vehicles
	LKR
Balance as at 31.12.2022	
Charge for the year	4,103,681
Depreciation on disposals	1,612,354
Balance as at 31.12.2023	-
Charge for the year	5,716,035
Depreciation on disposals	1,621,098
Balance as at 31.12.2024	-
	7,337,133

Net book value

	Motor Vehicles
	LKR
As at 31.12.2022	
As at 31.12.2023	4,001,808
As at 31.12.2024	2,389,454
	768,356



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

20. LEASES

20.1 Right of Use Assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability (present value of future lease payments discounted using the IBR) adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The movement of Right of Use Lease assets of the Company is as follows;

	Building Rs.
At Gross Value	
As at 31.12.2022	-
Recognized on first time adoption as at 31.12.2022	68,254,821
Balance As at 31.12.2022	<u>68,254,821</u>
Additions	11,779,429
Balance As at 31.12.2023	<u>80,034,250</u>
Additions	31,385,104
Balance As at 31.12.2024	<u><u>111,419,354</u></u>
Accumulated amortisation	
Balance As at 31.12.2022	22,874,841
Charge for the year	16,526,081
Balance As at 31.12.2023	<u>39,400,922</u>
Charge for the year	22,536,655
Balance As at 31.12.2024	<u><u>61,937,576</u></u>
Net book values	
Balance As at 31.12.2022	45,379,980
Balance As at 31.12.2023	40,633,328
Balance As at 31.12.2024	49,481,777

20.2 Right of use obligation

Right of use obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The movement of Lease creditor for the period is as follows;

	Building Rs.
Balance As at 31.12.2022	-
Recognized on first time adoption as at 31.12.2022	42,144,428
Balance As at 31.12.2022	<u>42,144,428</u>
Additions	9,080,154
Interest Expense Recognised in Profit or Loss	4,098,696
Repayment of Liability	(16,023,015)
Balance As at 31.12.2023	<u>39,300,264</u>
Additions	26,220,921
Interest Expense Recognised in Profit or Loss	5,497,809
Repayment of Liability	(22,476,780)
Balance As at 31.12.2024	<u><u>48,542,214</u></u>
Balance As at 31.12.2022	42,144,428
Current	16,023,015
Non Current	26,121,413
Balance As at 31.12.2023	39,300,264
Current	22,476,780
Non Current	16,823,484
Balance As at 31.12.2024	48,542,214
Current	26,803,430
Non Current	21,738,784



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

21. DUE TO BANKS	2024 LKR	2023 LKR	2022 LKR
Term loan (Note 21.1)	2,470,878,896	1,505,210,627	1,520,160,737
Lease creditors (Note 21.2)	-	548,620	1,774,833
	<u>2,470,878,896</u>	<u>1,505,759,248</u>	<u>1,521,935,570</u>

21.1 Term loan			
Balance at the beginning of the year	1,498,258,078	1,516,555,740	1,140,766,664
Loan obtained during the year	4,225,315,000	3,856,644,998	1,792,000,000
	5,723,573,078	5,373,200,738	2,932,766,664
Repaid during the year	(3,258,497,745)	(3,831,833,660)	(2,391,691,924)
Exchange difference	-	(43,109,000)	975,481,000
	<u>2,465,075,333</u>	<u>1,498,258,078</u>	<u>1,516,555,740</u>
Term loan interest payable	5,803,563	6,952,549	3,604,997
Balance at the end of the year	<u>2,470,878,896</u>	<u>1,505,210,627</u>	<u>1,520,160,737</u>

Borrowed Funds from	As at 01.01.2024	Borrowings During the year	Repaid during the year	Exchange Difference	As at 31.12.2024
Hatton National Bank-Short term *	1,414,924,746	3,193,315,000	(2,813,321,413)	-	1,794,918,333
National Development Bank	83,333,332	-	(83,333,332)	-	-
Commercial Bank	-	1,032,000,000	(361,843,000)	-	670,157,000
GOJO & Co. Inc. - USD	-	-	-	-	-
Total	<u>1,498,258,078</u>	<u>4,225,315,000</u>	<u>(3,258,497,745)</u>	<u>-</u>	<u>2,465,075,333</u>

Interest on Borrowed funds	As at 01.01.2024	Interest for the year	Repaid during the year	Exchange Difference	As at 31.12.2024
Hatton National Bank-Short term *	5,632,147.30	219,245,094	(220,954,300)	-	3,922,941
National Development Bank	1,320,402	6,495,158	(7,815,560)	-	-
Commercial Bank	-	31,693,912	(29,813,290)	-	1,880,622
GOJO & Co. Inc. - USD	-	-	-	-	-
Total Interest Payable	<u>6,952,549</u>	<u>257,434,164</u>	<u>(258,583,150)</u>	<u>-</u>	<u>5,803,563</u>

Total 1,505,210,627 2,470,878,896

* The LKR loans were obtained against USD loan proceeds of USD 8Mn, which was kept as fixed deposits

21.2 Lease creditors	2024 LKR	2023 LKR	2022 LKR
Balance at beginning of the year	548,620	1,774,833	4,356,507
	548,620	1,774,833	4,356,507
Lease obtain during the year	-	-	-
Payments made during the period	(548,620)	(1,226,213)	(2,581,673)
Balance at end of the year/month	<u>-</u>	<u>548,620</u>	<u>1,774,833</u>

22. DUE TO CUSTOMERS	2024 LKR	2023 LKR	2022 LKR
Client savings	14,785,244	-	-
	<u>14,785,244</u>	<u>-</u>	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

23. OTHER PAYABLES	2024	2023	2022
	LKR	LKR	LKR
Accrued expenses	34,256,329	20,739,452	18,872,100
Miscellaneous other payable	1,487,527	901,755	4,034,720
VAT on financial services payable	16,728,640	5,431,566	1,726,249
Social Security Contribution Levy Payable	2,323,421	754,384	167,941
	<u>54,795,917</u>	<u>27,827,158</u>	<u>24,801,010</u>

24. AMOUNTS DUE TO RELATED PARTIES	2024	2023	2022
	LKR	LKR	LKR
Gojo & Company Inc.- Term loan (Note 24.1)	2,454,175,530	1,865,751,117	1,535,774,266
Gojo & Company Inc.- Management fee payable	-	93,509,198	63,803,943
Gojo & Company Inc. - Others	548,358	(2,689,104)	(1,260,976)
	<u>2,454,723,888</u>	<u>1,956,571,211</u>	<u>1,598,317,234</u>

24.1 Gojo & Company Inc.- Term loan

Borrowed Funds from	As at 01.01.2024	Borrowings During the year	Repaid during the year	Exchange Difference	As at 31.12.2024
GOJO & Co. Inc. - USD	1,813,952,000	712,392,000	-	(185,704,000)	2,340,640,000
Total	1,813,952,000	712,392,000	-	(185,704,000)	2,340,640,000

Interest on Borrowed funds	As at 01.01.2024	Interest for the year	Repaid during the year	Exchange Difference	As at 31.12.2024
GOJO & Co. Inc. - USD	51,799,117	187,766,288	(117,214,360)	(8,815,515)	113,535,530
Total Interest Payable	51,799,117	187,766,288	(117,214,360)	(8,815,515)	113,535,530

25. OTHER LIABILITIES	2024	2023	2022
	LKR	LKR	LKR
Deferred Service Charge	25,270,295	15,573,183	23,156,887
Loan management fund (Note 25.1)	-	1,877,882	454,944
	<u>25,270,295</u>	<u>17,451,065</u>	<u>23,611,831</u>

25.1 Loan management fund	2024	2023	2022
	LKR	LKR	LKR
Balance at the beginning of the year	1,877,882	454,944	821,291
Funds collected	278,522	2,229,516	2,459,253
Loans written-off	(2,156,404)	(669,578)	(2,325,600)
Payments during the year	-	(137,000)	(500,000)
Balance at the end of the year	<u>-</u>	<u>1,877,882</u>	<u>454,944</u>

A fee was collected upon disbursements to cover deaths & business failures. From 21 June 2023 onwards a loan protection cover was obtained from an Insurance company, covering new disbursements.



26. DEFERRED TAX ASSET	2024 LKR	2023 LKR	2022 LKR
Balance at the beginning of the year	34,168,263	43,494,789	26,965,708
Deferred tax reversal/ (charge) for the year (Note 26.1)	(1,905,393)	(9,326,526)	(12,354,348)
Balance at the end of the year	32,262,869	34,168,263	14,611,361
Transitional (Liability)/Asset at 1st January 2023	-	-	28,883,428
Adjusted balance	-	-	43,494,789

26.1 Deferred tax asset is arising from origination/(reversal of) the temporary differences of;

	Taxable Loss LKR	Property and equipment including intangible assets LKR	Retirement benefit obligation LKR	Provision for impairment LKR	Right-of-use asset and lease liability LKR	Total LKR
Balance as at 01 January 2023	-	(3,294,866)	1,668,578	46,091,743	(970,665)	43,494,789
Charge to profit or loss	-	553,055	1,417,072	(11,867,400)	570,746	(9,326,526)
Balance as at 31 December 2023	-	(2,741,810)	3,085,650	34,224,343	(399,919)	34,168,263
Charge to profit or loss	-	406,207	2,286,428	(4,716,079)	118,050	(1,905,393)
Balance as at 31 December 2024	-	(2,335,604)	5,372,078	29,508,264	(281,869)	32,262,869

27. RETIREMENT BENEFIT OBLIGATIONS	2024 LKR	2023 LKR	2022 LKR
Balance at the beginning of the year	10,285,499	5,561,925	10,635,224
Amount Charged for the year (Note 27.1)	5,350,164	3,742,437	4,390,059
Payments made during the year	(465,515)	(338,690)	1,670,845
Actuarial (Gain)/Loss	2,736,779	1,319,826	(4,765,727)
Balance at the end of the year	17,906,927	10,285,499	11,930,401
Transitional Liability/(Asset) at 1st January 2023	-	-	(6,368,476)
Adjusted balance	17,906,927	10,285,499	5,561,925

27.1 Expenses on Defined Benefit Plan	2024 LKR	2023 LKR	2022 LKR
Current Service Cost for the year	3,910,194	2,685,671	-
Interest cost for the year	1,439,970	1,056,766	-
	5,350,164	3,742,437	-

27.2 Following are the principal assumptions used;	2024	2023	2022
Discount Rate	11%	14%	19%
Salary Increment Rate	13%	10%	10%
Staff Turnover	0% - 26%	0% - 45%	0% - 26%
Retirement Age	60 Years	60 Years	60 Years

27.3 Sensitivity of actuarial assumptions 2024	Effect on defined benefit obligation	
	Increase Rs.	Decrease Rs.
Discount rate (Change by 1%)	17,096,785	18,798,520
Salary increment rate (Change by 1%)	18,871,456	17,015,806



27. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

27.3 Sensitivity of actuarial assumptions (Contd...)
2023

	Effect on defined benefit obligation	
	Increase Rs.	Decrease Rs.
Discount rate (Change by 1%)	9,881,423	10,723,767
Salary increment rate (Change by 1%)	10,780,463	9,822,577

2022

	Effect on PV of defined benefit obligation	
	Increase Rs.	Decrease Rs.
Discount rate (Change by 1%)	5,360,613	5,777,869
Salary increment rate (Change by 1%)	5,818,506	5,320,137

27.4 Distribution of Employee Benefit Obligation over Future Working Lifetime

	2024 LKR	2023 LKR	2022 LKR
Less than or equal 1 year	202,179	87,640	138,318
Over 1 year and less than or equal 5 years	15,844,938	9,423,127	5,271,174
Over 5 year and less than or equal 10 years	1,026,056	450,441	152,433
Over 10 years	833,753	324,291	-
	<u>17,906,926</u>	<u>10,285,499</u>	<u>5,561,925</u>

28 TAXATION

	2024 LKR	2023 LKR	2022 LKR
Balance at the beginning of the year	36,756,202	4,179,500	6,832,958
Provision for the year	124,515,702	42,750,041	5,744,942
Under/(Over) provision of prior year tax	(4,639,275)	(5,744,942)	611,989
	<u>156,632,628</u>	<u>41,184,600</u>	<u>13,189,888</u>
Payments during the year			
- Income tax	(24,427,814)	(4,179,499)	(9,010,388)
WHT	(263,219)	(248,899)	-
	<u>131,941,595</u>	<u>36,756,202</u>	<u>4,179,500</u>

29 STATED CAPITAL

	2024		Restated 2023		Restated 2022	
	Number	Rs.	Number	Rs.	Number	Rs.
Fully Paid Ordinary Shares	13,005,312	920,214,296	13,005,312	920,214,296	13,005,312	920,214,296
	<u>13,005,312</u>	<u>920,214,296</u>	<u>13,005,312</u>	<u>920,214,296</u>	<u>13,005,312</u>	<u>920,214,296</u>

30 RELATED PARTY TRANSACTIONS

30.1 Transactions with key management personnel

According to LKAS 24 'Related Party Disclosure', Key Management Personnel, are those having authority and responsibility and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the board of Directors (including Executive and Non-executive Directors) have been classified as Key Management Personnel of the Company. Following transactions took place with the Key Management Personnel during the year.

Compensation paid to key management personnel are as follows:

	2024 LKR	2023 LKR	2022 LKR
Directors remuneration	1,200,000	1,200,000	1,050,000



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

30. RELATED PARTY TRANSACTIONS (Contd...)

30.2 Transactions with other related parties

Related party	Relationship	Nature of transaction	Transaction value LKR	Balance as at 31 December 24 LKR
GOJO Lanka Holdings (Pvt) Ltd.	Affiliate	Settlements of expenses on behalf of Gojo Lanka Holdings (Pvt) Ltd.	339,701	1,422,225
GOJO & Co. Inc.	Ultimate parent	Term loan Settlements of expenses on behalf of GOJO & Co. Inc.	900,158,288	(2,454,175,530) (548,358)

31. CAPITAL COMMITMENTS AND CONTINGENCIES

There were no significant capital commitments and contingencies as at reporting date.

32. DETAILS OF ASSETS PLEDGED FOR THE LOAN FACILITIES

Type of facility	Amount LKR	Nature
Borrowings from HNB	1,498,258,078	the borrowings were obtained against deposits of USD 6.7 Mn.

33. EVENTS AFTER THE END OF REPORTING PERIOD

There are no material events occurred after the reporting date that requires adjustments or disclosures in the financial statements.

34. RISK MANAGEMENT DISCLOSURES

34.1 Introduction

Risk is inherent in a microfinance business but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for managing the risk exposures relating to his / her functional areas.

The Company identifies the following key financial risks in its business operations.

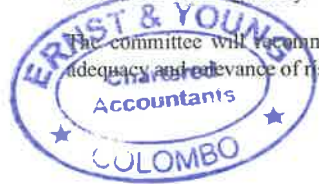
- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

Risk Management Framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Risk Management Committee (RMC), which is responsible for developing and monitoring Company's risk management policies.

The overall responsibility and oversight of the Risk Management framework of the company is vested with the Risk Management Committee. RMC is a decision making body consisting of the Company's senior management, including Chief Executive Officer (CEO). It is responsible for identifying, assessing, and mitigating risks related to the Company's operations, finance, and compliance in accordance with regulatory and corporate governance standards.

The committee will recommend risk management strategies and frameworks to the Board Risk and Audit Committee to ensure the adequacy and relevance of risk management policies in alignment with the Company's strategic objectives.



34. RISK MANAGEMENT DISCLOSURES (Contd...)

The RMC shall comprise the following members or as determined by the Board Risk and Audit Committee.

- i).Chief Executive Officer (Chairman of the Committee)
- ii).Chief Operating Officer
- iii).Chief Financial Officer
- iv).Head of Risk Management
- v).Head of Compliance
- vi).Head of Operations
- vii).Risk and Compliance Manager (Secretary of the Committee)

34.2 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorized into three types; default, concentration and settlement risk.

Default risk as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Company's loans and advances to customers.

Concentration risk is the credit exposure being concentrated as a result of excessive build-up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

Settlement risk is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

Company manages credit risk by focusing on following steps;

The company recommend corrective actions and risk mitigation measures based on ongoing risk assessments. The loan origination stage comprises preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. The Company has clearly defined guidelines for credit approvals where the limits have been set taking into consideration the factors such as maximum counterparty exposures, loan to value ratio and forced sale value. These steps enables the Company in assessing the default risk of the borrower.

A comprehensive set of credit risk indicators are monitored monthly to review credit concentrations, status of loan recoveries and compliance with regulatory and prudent exposure limits.

34.2.1 Assessment of Expected Credit Losses

- a) Analysis of the total impairment for expected credit losses

As at 31 December 2024 - LKR	Note	Stage 1	Stage 2	Stage 3	Total
Financial Assets at Amortized cost - Loans receivable	16.	96,007,287	2,173,752	128,862,998	227,044,037
Financial Assets at Amortized cost - Investment in Fixed deposits	15.	179,840	-	-	179,840
As at 31 December 2023 - LKR	Note	Stage 1	Stage 2	Stage 3	Total
Financial Assets at Amortized cost - Loans receivable	16.	106,314,869	7,610,476	111,339,781	225,265,127
Financial Assets at Amortized cost - Investment in Fixed deposits	15.	155,796	-	-	155,796



34. RISK MANAGEMENT DISCLOSURES (Contd...)**b) Sensitivity of factors used to determine impairment provision for loan receivables**

Management judgement is involved in the determination of impairment allowance for loan receivables. Key variables such as PD, LGD and EFA are affected by management judgment and changes in any such variables can result in different levels of impairment allowance. The following tables demonstrate the sensitivity of the impairment allowance of the Company to the changes in the above variables, as at 31st December 2024 and 31st December 2023.

Change Criteria	Change factor	Sensitivity effect on impairment allowance increase	
		2024	2023
Probability of Default (PD)	Increase by 10%	110987011.2	70747845.23
	Increase by 5%	55,493,506	35,373,923
	Decrease by 5%	(55,493,506)	(35,373,923)
	Decrease by 10%	(110,987,011)	(70,747,845)
Loss Given Default (LGD)	Increase by 10%	41,182,392	46,846,856
	Increase by 5%	20,591,196	23,423,428
	Decrease by 5%	(20,591,196)	(23,423,428)
	Decrease by 10%	(41,182,392)	(46,846,856)
Economic Factor Adjustment (EFA)	Increase worst case scenario probability by 10%	817,314	1,098,233
	Increase worst case scenario probability by 5%	408,657	549,127
	Decrease worst case scenario probability by 5%	(408,657)	(549,127)
	Decrease worst case scenario probability by 10%	(817,317)	(1,098,233)

34.2.2 Analysis of maximum exposure to credit risk and collateral

The following table shows the maximum exposure and net exposure (net of fair value of any collaterals held) to credit risk by class of financial asset, before netting off impairment for expected credit losses.

As at 31 March	2024		2023	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
Assets				
Cash and Cash Equivalent	78,443,726	78,443,726	88,333,209	88,333,209
Financial Assets at Amortized cost - Loans receivable	3,904,024,918	3,904,024,918	2,742,391,500	2,742,391,500
Financial Assets at Amortized cost - Investment in Fixed deposits	2,393,427,091	2,393,427,091	1,868,593,416	1,868,593,416

34.2.2.1 Collateral held and other credit enhancement

Company do not hold any collaterals against financial assets of the company.

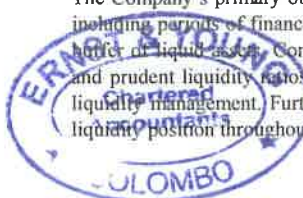
34.3 LIQUIDITY RISK

In the context of a financial institution, liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity and funding liquidity risk.

Market liquidity risk is the inability to easily exit a position. Company's market liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is, or at least perceived to be, deteriorating, but also because financial conditions as a whole are deteriorating.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Company regularly monitors liquidity position and maintain an adequate buffer of liquid assets. Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management. Further, the company has taken prudent measures to increase its liquidity buffers and maintained a strong excess liquidity position throughout the year under review. The Company is comfortable with its existing buffer of liquid assets.



Sejaya Micro Credit Ltd

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2024

34. RISK MANAGEMENT DISCLOSURES (Contd...)

34.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities. The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

	On Demand	Less than 03 Months	03-12 Months	01-05 Years	Over 05 Years	Total
Current Year						
Financial Assets						
Cash and Cash Equivalents	78,443,726	-	-	-	-	78,443,726
Financial Assets at Amortized cost - Loans receivable	-	1,609,483,821	2,079,775,523	214,765,575	-	3,904,024,918
Financial Assets at Amortized cost - Investment in Fixed deposits	-	-	2,247,137,091	146,290,000	-	2,393,427,091
Total Financial Assets	78,443,726	1,609,483,821	4,326,912,614	361,055,575	-	6,375,895,736
Financial Liabilities						
Due to Banks	-	-	2,470,878,896	-	-	2,470,878,896
Due to Customers	14,785,244	-	-	-	-	14,785,244
Other Payables	-	58,497,635	-	-	-	58,497,635
Right of use obligation	-	6,700,858	20,102,573	21,738,784	-	48,542,214
Total Financial Liabilities	35,908,780	65,205,323	2,470,878,896	21,738,784	-	2,485,664,140
Total Net Financial Assets/(Liabilities)	42,534,946	1,509,483,821	1,856,033,718	361,055,575	-	3,890,231,596
Comparative Year						
Financial Assets						
Cash and Cash Equivalents	88,333,209	-	-	-	-	88,333,209
Financial Assets at Amortized cost - Loans receivable	-	1,160,976,129	1,446,540,798	134,874,573	-	2,742,391,500
Financial Assets at Amortized cost - Investment in Fixed deposits	-	-	1,706,633,416	161,960,000	-	1,868,593,416
Total Financial Assets	88,333,209	1,160,976,129	3,153,174,214	296,834,573	-	4,699,318,125
Financial Liabilities						
Due to Banks	-	-	548,620	1,505,210,627	-	1,505,759,248
Other Payables	-	27,827,158	-	-	-	27,827,158
Right of use obligation	-	5,619,195	16,857,585	16,823,484	-	39,300,264
Total Financial Liabilities	-	33,446,353	548,620	1,505,210,627	-	1,505,759,248
Total Net Financial Assets/(Liabilities)	88,333,209	1,127,529,776	3,152,625,594	(1,208,376,054)	-	3,193,558,877



34. RISK MANAGEMENT DISCLOSURES (Contd...)**34.4 MARKET RISK**

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, exchange rates, equity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing). Among them, interest rate risk has been identified as the most critical risk given Company's nature of business.

34.4.1 INTEREST RATE RISK

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; disbursing of credit facilities, accepting deposits and issuing debt instruments. Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as:

- Repricing risk arising from a fixed rate borrowing portfolio, where repricing frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimizing interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and reprices its assets accordingly.

34.4.2 EXCHANGE RATE RISK

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Company always intend to maintain in sequence with the Central Bank rate predictions to make the business more competitive

Company is exposed to transaction risk caused by currency volatility.

Transaction risk –This risk arises whenever the Company has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The Company exposure to all the other currencies are not material. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities.

	Company	
	Change in exchange rate	Change in Profit before tax
Impact to the profit before tax for the year 2023/24	15%	370,381
	10%	246,920
	5%	123,460
	-5%	(123,460)
	-10%	(246,920)
	-15%	(370,381)
Impact to the profit before tax for the year 2022/23	15%	270,789
	10%	180,526
	5%	90,263
	-5%	(90,263)
	-10%	(180,526)
	-15%	(270,789)

The sensitivity of the exchange rate is presented in the range of negative 15% to positive 15%.



34. RISK MANAGEMENT DISCLOSURES (Contd...)

34.4.3 Interest Rate Risk Exposure On Financial Assets And Liabilities

The Company currently has fixed interest income and interest expense for below mentioned Financial assets and Financial liabilities. Therefore, the company will not be exposed to variability of interest rate as border maturities of assets and liabilities are in line.

Financial Assets

Cash and Cash Equivalents

Financial Assets at Amortized cost - Loans receivable

Financial Assets at Amortized cost - Investment in Fixed deposits

Financial Liabilities

Due to Banks

Due to Customers

Other Payables

Right of use obligation

34.5 OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with Company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks. Operational risks arise from all of Company's operations.

Company's objectives is to manage operational risk in order to avoid/mitigate financial losses and damage to Company's reputation with overall cost effectiveness.

Operational Risk Management framework of Company has been defined under the Board approved Operational Risk Management Policy. Compliance with company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The result of Internal Audit reviews are discussed with the Board of Directors with summaries submitted the Audit Committee and senior management of the company.

34.5.1 Capital Management

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

As a Licensed Microfinance Company (LMFC), the Company is required to adhere to the provisions of the Microfinance Act, No. 6 of 2016, and directions issued by the Central Bank of Sri Lanka (CBSL), including:

- Microfinance Act Direction No. 01 of 2016 on Minimum Core Capital Requirements.
- Microfinance Act Direction No. 02 of 2019 on Interest Rate Caps and Financial Stability.
- Microfinance Act Direction No. 06 of 2016 on Fitness and Propriety of Directors and Senior Management.
- Microfinance Act Direction No. 07 of 2016 on Accommodations (Loans and Advances).

As of 31st December 2024, the Core Capital Ratio and Total Capital Ratio stood at 19.2% and 19.2% respectively, against the regulatory minimum for Licensed Microfinance Companies.



35. MATURITY ANALYSIS

Remaining contractual period to maturity, as at the date of Statement of Financial Position is tabulated below:

Assets	2024 LKR			2023 LKR		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
Cash and cash equivalents	78,443,726	-	78,443,726	88,333,209	-	88,333,209
SSR Reserve (Liquidity Reserve)	2,217,787	-	2,217,787	-	-	-
Financial Assets at Amortized cost - Investment in Fixed deposits	2,247,137,091	146,110,160	2,393,247,251	1,706,633,416	161,804,204	1,868,437,620
Financial Assets at Amortized cost - Loans receivable	3,410,752,341	214,765,575	3,625,517,916	2,352,182,457	134,874,573	2,487,057,030
Deposits advances and prepayments	52,851,385	7,059,515	59,910,900	25,203,732	4,405,073	29,608,805
Amounts due from related parties	9,515,694	-	9,515,694	1,106,464	-	1,106,464
Deferred tax asset	-	31,556,792	31,556,792	-	33,833,336	33,833,336
Intangible assets	-	2,048,978	2,048,978	-	183,892	183,892
Property and equipment	-	53,463,918	53,463,918	-	49,162,963	49,162,963
Right of use assets	22,536,655	26,945,123	49,481,777	22,536,655	18,096,674	40,633,328
Total assets	5,823,454,679	481,950,059	6,305,404,739	4,195,995,932	402,360,714	4,598,356,646
Equity and liabilities						
Liabilities						
Due to Banks	2,470,878,896	-	2,470,878,896	548,620	1,505,210,627	1,505,759,248
Due to Customers	14,785,244	-	14,785,244	-	-	-
Right of use obligation	26,803,430	21,738,784	48,542,214	22,476,780	16,823,484	39,300,264
Other payables	58,497,635	-	58,497,635	27,827,158	-	27,827,158
Amount due to related parties	548,358	2,454,175,530	2,454,723,888	208,034,455	1,748,536,757	1,956,571,211
Other liabilities	25,270,295	-	25,270,295	17,451,065	-	17,451,065
Retirement benefit obligations	-	17,906,927	17,906,927	-	10,285,499	10,285,499
Current tax liabilities	149,300,744	-	149,300,744	36,756,202	-	36,756,202
Total liabilities	2,746,084,601	2,493,821,241	5,239,905,843	313,094,280	3,280,856,367	3,593,950,646
Maturity Gap	3,077,370,078	(2,011,871,182)	1,065,498,896	3,882,901,652	(2,878,495,653)	1,004,405,999
Cumulative Gap	3,077,370,078	1,065,498,896	1,065,498,896	3,882,901,652	1,004,405,999	1,004,405,999

