SERENDIB FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

SERENDIB FINANCE LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF SERENDIB FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Serendib Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of financial position of the Company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. These financial statements do not comprise other information.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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.

KPMG

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

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

- 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.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

29 June 2020

For the year ended 31 March,	Notes	2020 Rs.	2019 Rs.
Gross Income	**10**	**1,210,749,329**	**884,328,989**
Interest income		1,131,105,742	816,789,064
Interest expenses		(570,215,062)	(470,462,645)
Net interest income	**11**	560,890,680	346,326,419
Fee and commission income		60,049,624	62,075,679
Fee and commission expenses		(1,345,217)	(12,451,457)
Net fee and commission income	**12**	58,704,407	49,624,222
Other operating income	**13**	19,593,963	5,464,246
Total operating income		639,189,050	401,414,887
Impairment charges for loans and other losses	**14**	(276,360,800)	(205,712,726)
Net operating income		362,828,250	195,702,161
Operating expenses			
Personnel expenses	**15**	(92,157,135)	(73,205,334)
Depreciation and amortization		(20,718,484)	(10,341,714)
Other operating expenses	**16**	(72,136,610)	(77,447,528)
Operating profit before taxes on financial services		177,816,021	34,707,585
Taxes on financial services		(49,771,274)	(14,627,501)
Profit before taxation		**128,044,747**	**20,080,084**
Income tax expense	**17**	(59,068,763)	(378,244)
Profit for the year		**68,975,984**	**19,701,840**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation surplus of property, plant and equipment, net of tax			
Revaluation surplus of property, plant and equipment	**24**	22,863,247	-
Deferred tax charge on revaluation surplus of property, plant and equipment	**17**	(6,401,709)	-
		16,461,538	-
Actuarial gains / (losses) on defined benefit plans, net of tax			
Actuarial gains / (losses) on defined benefit plans	**30**	(1,270,854)	410,169
Deferred tax (charge) / reversal on actuarial gains / (losses)	**17**	355,839	(114,847)
		(915,015)	295,322
Unquoted equity securities, net of tax			
Net change in fair value of FVOCI financial assets		111,582	-
Deferred tax reversal on fair value reserve	**17**	(31,243)	-
		80,339	-
Items that are or may be reclassified to profit or loss			
Net change in fair value of FVOCI financial assets, net of tax			
Net change in fair value of FVOCI financial assets		331,457	(396,149)
Deferred tax reversal on fair value reserve	**17**	(92,808)	110,923
		238,649	(285,226)
Other comprehensive income for the year, net of tax		**15,865,511**	**10,096**
Total comprehensive income for the year		**84,841,495**	**19,711,936**
Basic earnings per share	**18**	**0.48**	**0.24**

Figures in brackets indicate deductions.

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

SERENDIB FINANCE LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31 March,	Notes	2020 Rs.	2019 Rs.
ASSETS			
Cash and cash equivalents	20	56,383,446	60,922,009
Financial investments at fair value through other comprehensive income	21	244,855,591	244,380,615
Financial investments at amortized cost	22	29,985,786	87,703,424
Loans and advances	23	6,810,624,122	5,626,463,911
Property, plant and equipment	24	234,611,303	196,582,613
Intangible assets	25	11,617,126	10,443,805
Right of use assets	26	16,460,800	-
Deferred tax assets	32	146,687,202	157,006,118
Other assets	27	24,297,974	22,103,455
Total assets		7,575,523,350	6,405,605,950
LIABILITIES			
Deposit liability	28	222,658,572	-
Due to banks	29	5,085,412,198	4,426,027,341
Employee benefits	30	8,777,241	5,440,426
Lease liabilities	31	17,680,960	-
Current tax liabilities	33	34,154,410	-
Other liabilities	34	52,631,156	79,770,854
Total liabilities		5,421,314,537	4,511,238,621
EQUITY			
Stated capital	35	2,254,999,964	2,079,999,975
Accumulated losses	36	(229,779,653)	(294,391,823)
Other reserves	37	128,988,502	108,759,177
Total equity		2,154,208,813	1,894,367,329
Total liabilities and equity		7,575,523,350	6,405,605,950

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

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

....
G.P.P. Perera
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,

....
D.M.U.N. Dissanayake
Managing Director
Chief Executive Officer

....
S.R. Pushpakumara
Director

29 June 2020
Kandy

SERENDIB FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Stated capital	Other reserves					Retained earnings / (Accumulated losses)	Total equity
		Capital reserve	Revaluation reserve	Statutory reserve fund	Fair value reserve	General reserve		
	Rs.	Rs.	Rs	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2018	1,079,999,992	50,000	65,081,622	22,028,859	(456,251)	20,097,889	(23,046,820)	1,163,755,291
Adjustment on initial application of SLFRS 9, net of tax	-	-	-	-	1,257,192	-	(290,357,073)	(289,099,881)
Restated balance as at 01 April 2018	1,079,999,992	50,000	65,081,622	22,028,859	800,941	20,097,889	(313,403,893)	874,655,410
Comprehensive income								
Profit for the year	-	-	-	-	-	-	19,701,840	19,701,840
Other comprehensive income for the year net of tax	-	-	-	-	(285,226)	-	295,322	10,096
Total comprehensive income	**-**	**-**	**-**	**-**	**(285,226)**	**-**	**19,997,162**	**19,711,936**
Transactions recognized directly in Equity								
Transfers during the year	-	-	-	985,092	-	-	(985,092)	-
	-	**-**	**-**	**985,092**	**-**	**-**	**(985,092)**	**-**
Transactions with owners of the Company								
Issue of ordinary shares	999,999,983	-	-	-	-	-	-	999,999,983
Balance as at 31 March 2019	**2,079,999,975**	**50,000**	**65,081,622**	**23,013,951**	**515,715**	**20,097,889**	**(294,391,823)**	**1,894,367,329**
Balance as at 01 April 2019	2,079,999,975	50,000	65,081,622	23,013,951	515,715	20,097,889	(294,391,823)	1,894,367,329
Comprehensive income								
Profit for the year	-	-	-	-	-	-	68,975,984	68,975,984
Other comprehensive income for the year net of tax	-	-	16,461,538	-	318,988	-	(915,015)	15,865,511
Total comprehensive income	**-**	**-**	**16,461,538**	**-**	**318,988**	**-**	**68,060,969**	**84,841,495**
Transactions recognized directly in Equity								
Transfers during the year	-	-	-	3,448,799	-	-	(3,448,799)	-
	-	**-**	**-**	**3,448,799**	**-**	**-**	**(3,448,799)**	**-**
Transactions with owners of the Company								
Issue of ordinary shares	174,999,989	-	-	-	-	-	-	174,999,989
Balance as at 31 March 2020	**2,254,999,964**	**50,000**	**81,543,160**	**26,462,750**	**834,703**	**20,097,889**	**(229,779,653)**	**2,154,208,813**

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

SERENDIB FINANCE LIMITED
STATEMENT OF CASH FLOWS

For the year ended 31 March,	Notes	2020 Rs.	2019 Rs.
Cash flows from operating activities			
Profit / (Loss) before taxation		128,044,747	20,080,084
Adjustments for,			
Interest expenses		570,215,062	469,060,578
Impairment charges for loans and other losses	**14**	276,360,800	205,712,726
Interest income from bank deposits and government securities	**11**	(33,466,632)	(34,504,600)
Dividend income	**13**	(280,000)	(240,000)
Depreciation	**24**	10,965,335	8,621,922
Amortization	**25**	1,778,727	1,719,792
Provision for defined benefit plans	**30**	2,212,211	1,521,078
Loss on sale of property, plant and equipment		7,088	82,482
Operating profit before working capital changes		955,837,338	672,054,062
Increase in loans and receivables		(1,460,521,011)	(2,073,606,237)
Increase in other assets		(18,655,319)	(4,068,401)
Increase / (decrease) in other liabilities		(9,458,738)	178,502
Cash (used in) / generated from operations		(532,797,730)	(1,405,442,074)
Taxes paid	**33**	(20,765,358)	(16,892,412)
Gratuity paid	**30**	(146,250)	(1,318,125)
Net cash flows generated used in operating activities		**(553,709,338)**	**(1,423,652,611)**
Cash flows from investing activities			
Net Investment in Financial investments - FVOCI		(31,937)	(48,868,295)
Net Investment in Financial investments - at amortized cost		57,717,638	(5,949,229)
Interest received from bank deposits and government securities		33,466,632	34,504,600
Acquisition of property, plant and equipment	**24**	(26,226,089)	(6,756,238)
Acquisition of intangible assets	**25**	(2,952,048)	(4,536,370)
Dividend income	**13**	280,000	240,000
Proceeds from sale of property, plant and equipment		88,223	993
Net cash flows from /(used in) investing activities		**62,342,419**	**(31,364,539)**
Cash flows from financing activities			
Deposits obtained during the year	**28**	220,964,190	-
Loans obtained during the year	**29**	4,345,000,001	2,298,000,000
Loan repayments during the year	**29**	(4,168,845,568)	(2,112,692,897)
Deposit repayments during the year		(1,188,398)	
Interest paid on overdraft		(11,404,166)	-
Net proceeds from the issue of ordinary shares	**35**	174,999,989	999,999,983
Net cash flows from financing activities		**559,526,048**	**1,185,307,086**
Net increase in cash and cash equivalents		**68,159,129**	**(269,710,064)**
Cash and cash equivalents at the beginning of the year		(73,418,169)	196,291,895
Cash and cash equivalents at the end of the year *		**(5,259,040)**	**(73,418,169)**
*** Analysis of cash and cash equivalents at the end of the year**			
Cash and bank balances	**20**	56,383,446	60,922,009
Bank overdraft	**29**	(61,642,486)	(134,340,178)
		(5,259,040)	**(73,418,169)**

Figures in brackets indicate deductions.

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

1. REPORTING ENTITY

1.1 General

Serendib Finance Limited (formerly known as Indra Finance Limited) ('the Company'), regulated under the Finance Business Act No. 42 of 2011, was incorporated in 1987 as a Limited Liability Company domiciled in Sri Lanka under provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No 7 of 2007.

The registered office and the principal place of business of the Company is located at 187, Katugastota Road, Kandy.

1.2 Principal Activities and Nature of Operations

The principal activities of the Company are granting of Lease Facilities, Hire Purchase, Mortgage Loans and other credit facilities. In addition, company commenced accepting public deposits during the financial year and apart from that there were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

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

1.4 Number of employees

The number of employees as at 31 March 2020 is 131 (2019: 120).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

This is the first set of Financial Statements in which SLFRS 16 -Leases has been applied. The related changes to significant accounting policies are described in Note 3 to the Financial Statements.

2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31st March 2020 were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 29 June 2020.

2.3 Basis of Measurement

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

- Financial Assets classified as Fair Value through Other Comprehensive Income are measured at fair value.
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation.

- Land and buildings measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation.
- Right-of-use assets measured at cost and lease liability measured at the present value of the lease payments are not paid.

2.4 Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

2.5 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statements of Financial Position are listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 39.

2.6 Materiality and Aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss and other comprehensive income unless required or permitted by an Accounting Standard.

2.7 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.8 Use of Judgments and Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Impact of COVID-19 pandemic

The ongoing COVID-19 pandemic has increased the uncertainties of estimates used in the preparation of these financial statements. These estimation uncertainties are associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP and inflation). This includes the disruption to capital markets, deteriorating credit, liquidity

concerns, increasing unemployment, declines in consumer discretionary spending, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Company has developed accounting estimates in these Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below and/or in the relevant note to Financial Statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- **Note 4.2.1 -** classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.

- **Note 4.2.2 -** establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.

- **Note 12 –** revenue recognition: whether revenue is recognized over time or at a point in time;

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 March 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- **Note 4.2.2** – Impairment of financial assets;
- **Note 4.8** – Impairment of non-financial assets;
- **Note 4.6.4** – revaluation of property, plant and equipments;
- **Note 4.10.1.1** – measurement of defined benefit obligations: key actuarial assumptions;
- **Note 4.11 and 4.12** – provisions and contingencies;
- **Note 6.1 –** recognition of current tax expense;
- **Note 6.2 –** recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized and
- **Note 8** – Determination of the fair value of financial instruments with significant unobservable inputs

Going Concern

In preparing these financial statements, the management has assessed the existing and anticipated effect of COVID – 19 on the Company and the appropriateness of the use of the going concern basis of preparation of financial statements.

Management evaluated the future outlook of the Company, business model and related risks including where relevant the impact of the COVID-19 pandemic and internal controls. Further, having assessed the cashflow projections for the next 12 months and sensitivity of the projected available cash by considering downside scenarios the management is satisfied that it has the resources to continue in business for the foreseeable future.

The Company has been evaluating the resilience of its businesses, considering a wide range of factors such as expected revenue streams, profitability, cost management initiatives implemented by the Company, changes in working capital, management of capital expenditure, debt repayments, cash reserves and available sources of financing including unutilised facilities and in order to be able to continue business under current global economic conditions.

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

3. CHANGES IN ACCOUNTING POLICIES

The Company initially applied SLFRS 16 Leases from 1 April 2019. The Company applied SLFRS 16 using the modified retrospective approach (Option B), under which no the cumulative effect of initial application is recognised in retained earnings as at 1 April 2019. Accordingly, the comparative information presented for 2018/19 is not restated – i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under International Financial Reporting Interpretations Committee 4 (IFRIC 4) determining whether an arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4.7.6

On transition to SLFRS 16, the Company elected to apply the practical expedient to the assessment of which transaction are leases. It applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

B. As a lessee

The Company previously classified these leases as operating leases under LKAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under SLFRS 16, the Company recognises right-of-use assets and lease liabilities for leases - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate as at 1 April 2019.

Right-of-use assets are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments. In the changes in equity here is no impact due to SLFRS 16 adoption. Therefore, right to use of assets need to be measured.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right of use assets are impaired.

The Company used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

C. As a lessor

The Company is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

D. Impact on adopting SLFRS 16 - "Leases"

On transition to SLFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, .

The impact on transition on 1 April 2019 is summarised below.

	Rs.
Right of Use Assets	24,435.222
Lease Liabilities	24,435,222

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 13.01%

4. SIGNIFICANT ACCOUNTING POLICIES - STATEMENT OF FINANCIAL POSITION

The significant accounting policies applied by the Company in the preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Company, unless otherwise indicated.

4.1 Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currencies of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

4.2 Financial Instruments

Recognition and initial measurement
Loans and advances are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement of financial assets
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI (Fair value through OCI) - debt investment; FVOCI - equity investment; or FVTPL (Fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.
All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

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

Financial assets classified as measured at FVOCI and amortised cost and financial liabilities classified as measured at amortised cost are presented in Notes 19.

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a

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

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

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

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

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

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

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

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

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On

	derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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

4.2.1 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

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

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

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

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

4.2.2 Identification and Measurement of Impairment of Financial Assets

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost; and
- debt investments measured at FVOCI.

No impairment loss is recognised on equity investments.

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

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

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

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

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market tor a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-Off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in ‘impairment losses on financial instruments’ in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

4.3 Cash and cash equivalents

'Cash and cash equivalents' include notes and coins in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.4 Loans and advances

'Loans and advances' captions in the statement of financial position include:
- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- finance lease receivables.

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

4.5 Financial investments

The 'financial investments' caption in the statement of financial position includes:
- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

4.6 Property, Plant and Equipment

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

4.6.1 Recognition

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

4.6.2 Measurement

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

4.6.3 Cost Model

The Company applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

4.6.4 Revaluation Model

The Company applies the Revaluation Model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged profit or loss. In this circumstance, the increase is recognised as income only to extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in profit or loss or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balances existing in the Revaluation Reserve in respect of that asset, is not transferred any part of revaluation reserve to Retained Earnings on retirement or disposal of the asset.

4.6.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to profit or loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

4.6.6 Derecognition

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

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

4.6.7 Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset’s future economic benefits are expected to be consumed by the Company of the different types of assets. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The periods of depreciations based on the estimated useful lives are as follows:

Class of asset	**Period**
Buildings	30 - 35 years
Furniture and Fittings	8 years
Office Equipment	8 years
Motor Vehicles	5 years
Computers& Accessories	5 years
Telephone System	4 years
Electrical Equipment	8 years
Sign Boards	8 years
Fixtures and Fittings	8 years

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

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

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

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

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

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

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

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

Class of asset	**Period**
Computer software	10 years

4.7.6 Lease

The Company has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 April 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16. This policy is applied to contracts entered into, on or after 1 April 2019.

i. As a lessee

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

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

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

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

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

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

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

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

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

The Company presents right-of-use assets that do not meet the definition of investment property in 'Right of use assets' and lease liability in the statement of financial position.

Short-term leases and leases of low-value assets

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

ii. As a lessor

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

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

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

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

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

The Company applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from SLFRS 16.

Policy applicable before 1 April 2019

For contracts entered into before 1 April 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i. As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

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

4.8 Impairment of Non–Financial Assets

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.
A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that

would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

4.9 Share Capital

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

4.9.2 Repurchase and reissue of ordinary shares (treasury shares)
When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

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

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

4.10 Employee Benefits

4.10.1 Defined Benefit Plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan' as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). Refer 4.10.2 for the definition of defined contribution plan.

4.10.1.1 Defined Benefit Plan - Gratuity
All the employees of the Company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

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

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

The assumptions based on which the results of actuarial valuation was determined, are included in Note 30 to the financial statements.

4.10.1.2 Recognition of Actuarial Gains or Losses
Actuarial gains or losses are recognised in the OCI in the period in which they arise.

4.10.1.3 Funding Arrangements
The Gratuity liability is not externally funded.

4.10.2 Defined Contribution Plans

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

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

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

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

4.11 Provisions

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

4.12 Commitments and Contingencies

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

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

4.13 Earnings per Share (EPS)

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

4.14 Segment Reporting

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

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2019 or 2020.

5. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF INCOME AND EXPENSES

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

5.1 Interest Income and Interest Expenses

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

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

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

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

Amortised cost and gross carrying amount
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

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

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

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

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

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

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI include financial liabilities measured at amortised cost.

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

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

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

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

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

From 1 April 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

5.4 Expenditure Recognition
Expenses are recognized in the Statement of Profit or Loss and Other Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

6 SIGNIFICANT ACCOUNTING POLICIES - INCOME TAX EXPENSE

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognised in Equity or in OCI.

6.1 Current Taxation
Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Reporting date.

Accordingly, Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto.

6.2 Deferred Taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes of the Company.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each Reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rate enacted or substantively enacted at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the Reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

6.3 Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

The VAT on Financial service is recognized as expense in the period it becomes due.

6.4 Nations Building Tax on Financial Services

As per provisions of the Nations Building Tax Act (NBT) Act No 9 of 2009 and amendments thereto, NBT is payable at 2% on Company’s value additions attributable to financial services with effect from 01st January 2014. The value addition attributable to financial service is same as the value used to calculate VAT on financial services.

As instructed by the Ministry of Finance and approved by the Cabinet of Ministers, NBT has been abolished with effect from 01 December 2019, pending parliamentary approval for amendment to the Nation Building Tax Act, No. 9 of 2009.

6.5 Economic Service Charges (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and amendments thereto, ESC is payable at 0.5% on Company’s total turnover and is deductible from income tax payable.

Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

As approved by the Cabinet of Ministers and instructed by the Ministry of Finance, ESC has been abolished with effect from January 01, 2020, pending parliamentary approval for amendment to the Economic Service Charge Act, No. 13 of 2006

6.7 Debt Repayment Levy (DRL)

DRL has been imposed through Finance Act No. 35 of 2018 approved by the Parliament on 1 November 2018 and has been retrospectively imposed from 1 October 2018 till 31 December 2021 on banks and financial institutions only. The purpose of the Levy is to facilitate the Debt settlement of the Government where the Government expects to collect approximately LKR. 20 Bn. per annum. DRL is payable at 7% on the same value base considered for VAT and NBT.

As approved by the Cabinet of Ministers and instructed by the Ministry of Finance, DRL has been abolished with effect from 01 January 2020, pending parliamentary approval for amendment to the Finance Act, No. 35 of 2018.

6.8 Crop Insurance Levy (CIL)
As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

The CIL is recognized as expense in the period it becomes due.

7. STATEMENT OF CASH FLOWS

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

8. FAIR VALUE MEASUREMENT

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

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

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

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

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

Fair Value Hierarchy
The Company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.
Level 1

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

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

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

(a) quoted market prices in active markets for similar instruments,
(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

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

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

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

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

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

9. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued number of new Sri Lanka Accounting Standards (SLFRSs/ LKASs) and amendments that are effective for annual periods beginning after the current financial year.

Accordingly, these standards have not been applied in preparing these financial statements and the Company plans to apply these standards if applicable as and when they become effective.

However, the Company has not early adopted them in preparing these financial statements. The following amended/new standards are not expected to have a significant impact on the Company's financial statements.

Amendments to references to conceptual framework in Sri Lanka Financial Reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting
- Reinstating prudence as a component of neutrality
- Defining a reporting entity, which may be a legal entity, or a portion of an entity
- Revising the definitions of an asset and a liability
-
- Removing the probability threshold for recognition and adding guidance on derecognition
- Adding guidance on different measurement basis, and
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current Accounting Standards, However, if the Company relies on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from 01st April 2020. The company will need to consider whether those accounting policies are still appropriate under the revised Framework.

- **Amendments to Sri Lanka Accounting Standard – LKAS 1 "Presentation to Financial Statements"** and Sri Lanka Accounting Standard - LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

  In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Company shall apply those amendments prospectively for annual financial periods beginning on or after 01st April 2020.
- **Amendments to Sri Lanka Accounting Standard - SLFRS 3 Business Combinations-** In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for business, remove the assessment of whether market participants are capable of replacing any missing elements, and add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

  The company shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after 01st April 2020, if the asset acquisitions occur on or after the beginning of that period.

- **Amendments to SLFRS 9, LKAS 39, and SLFRS 7 – Interest rate benchmark reforms.**
  Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency.

  There remain many uncertainties associated with the IBOR transition, including the prospective assessment of hedge accounting effectiveness because it is not known when hedged items and hedging instruments will be amended to reference alternative RFRs, or how this will change the cash flows on these instruments.

For the year ended 31 March,

		Notes	2020 Rs.	2019 Rs.
10	**GROSS INCOME**			
	Interest income	**(Note 11.1)**	1,131,105,742	816,789,064
	Fee and commission income	**(Note 12.1)**	60,049,624	62,075,679
	Other operating income	**(Note 13)**	19,593,963	5,464,246
	Total income		**1,210,749,329**	**884,328,989**
11	**NET INTEREST INCOME**			
11.1	**Interest income**			
	Lease rentals receivable and stock out on hire		353,838,146	436,281,597
	Loans and advances		743,800,964	346,002,867
	Interest income from bank deposits and government securities		33,466,632	34,504,600
	Total interest income		**1,131,105,742**	**816,789,064**
11.2	**Interest expenses**			
	Interest on overdraft		11,404,166	1,402,067
	Interest on long term borrowings		555,928,116	469,060,578
	Interest on deposits		2,882,780	-
	Total interest expenses		**570,215,062**	**470,462,645**
	Net interest income		**560,890,680**	**346,326,419**

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

	2020 Rs.	2019 Rs.
Financial assets measured at amortised cost	1,106,910,944	794,747,365
Financial assets measured at FVOCI	24,194,798	22,041,699
Total	**1,131,105,742**	**816,789,064**
Financial liabilities measured at amortised cost	**570,215,062**	**470,462,645**

12 NET FEE AND COMMISSION INCOME

12.1 Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services. The table also includes a reconciliation of the disaggregated fee and commission income.

	2020 Rs.	2019 Rs.
Fee and commission income		
Service charge	22,356,325	10,063,643
Insurance commission	3,939,720	5,095,323
Other fees recovered	33,753,579	46,916,713
Total fee and commission income	**60,049,624**	**62,075,679**
Fee and commission expenses		
Sales commission	357,039	1,708,060
Introducer commission	988,178	10,524,112
Recovery agent commission	-	219,285
Total fee and commission expenses	**1,345,217**	**12,451,457**
Net fee and commission income	**58,704,407**	**49,624,222**

The fees and commission presented in this note include income of Rs. 60 million (2019: Rs. 62 million) and expense of Rs. 1.3 million (2019: Rs. 12 million) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

12.2 Contract balances

There were no contract balances outstanding as at the reporting date.

12 NET FEE AND COMMISSION INCOME (CONT.)

12.3 Performance obligations and revenue recognition policy

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and corporate finance service	The Company provides lending services to retail and corporate customers, including provision of other loan facilities. Transaction-based fees for interchange and loans are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

For the year ended 31 March,	Notes	2020 Rs.	2019 Rs.
13 OTHER OPERATING INCOME			
Dividend income		280,000	240,000
Recoveries of bad debts		18,294,708	4,017,354
Rent Income		912,240	918,360
Other income		107,015	288,532
Total		**19,593,963**	**5,464,246**
14 IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES			
Lease rentals receivable		71,694,942	35,986,709
Loans and Hire Purchases receivable		204,665,858	169,726,017
Total	**(Note 23.1)**	**276,360,800**	**205,712,726**
15 PERSONNEL EXPENSES			
Salaries and other related expenses		62,666,118	54,186,618
Employer's contribution to Employees' Provident Fund		5,746,090	5,250,549
Employer's contribution to Employees' Trust Fund		1,436,535	1,318,971
Gratuity charge for the year	**(Note 30.2.1)**	2,212,211	1,521,078
Other staff related expenses		20,096,181	10,928,118
Total		**92,157,135**	**73,205,334**
16 OTHER OPERATING EXPENSES			
Directors' emoluments		3,996,000	3,960,000
Auditors' remuneration - Audit & audit related services		1,676,466	1,632,350
Professional and legal expenses		328,799	529,118
General insurance expenses		394,014	417,307
Office administration and establishment expenses		58,460,287	49,967,487
Sales, marketing and business promotional expenses		7,281,044	20,941,266
Total		**72,136,610**	**77,447,528**
17 INCOME TAX CHARGE / (REVERSAL)			
17.1 Amounts recognized in profit or loss			
Current tax expense			
Provision for the year		52,937,381	-
Under provision in relation to prior years		1,982,387	3,231,579
		54,919,768	**3,231,579**
Deferred tax reversal			
(Reversal) / origination of deferred tax liability	**(Note 32)**	4,148,995	(8,701,038)
Reversal/(origination) of deferred tax asset	**(Note 32)**	-	5,847,703
		4,148,995	**(2,853,335)**
Total		**59,068,763**	**378,244**

For the year ended 31 March,		2020 Rs.	2019 Rs.
17 INCOME TAX CHARGE / (REVERSAL) (CONT.)			
17.2 Amount recognized in OCI	**Note**		
Income that will not be reclassified to profit or loss			
Revaluation surplus of capital asset	**32**	(6,401,709)	-
Remeasurement of defined benefit liability	**32**	355,839	(114,847)
Net change in fair value of Unquoted Equity Securities		(31,243)	-
		(6,077,113)	**(114,847)**
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)	**32**	(92,808)	110,923
		(6,169,921)	**(3,924)**

17.3 Reconciliation of effective tax rate

For the year ended 31 March,		2020 Rs.		2019 Rs.
Profit for the year		68,975,984		19,701,840
Income tax charge		59,068,763		378,244
Profit before taxation		128,044,747		20,080,084
Tax using the domestic corporation tax rate of 28%	28%	35,852,529	28%	5,622,424
Tax effect of aggregate disallowed items	92%	117,414,872	327%	65,696,112
Tax effect of aggregate allowable expenses	-144%	(183,903,815)	-1173%	(235,502,480)
Tax effect of capital portion of rentals	84%	107,739,356	697%	140,018,395
Tax effect on tax losses during the year	-19%	(24,165,561)	120%	24,165,549
Adjustment for prior years	2%	1,982,387	16%	3,231,579
Deferred tax reversal	3%	4,148,995	-14%	(2,853,335)
	46%	**59,068,763**	2%	**378,244**

17.4 Amounts recognized directly in equity

There were no items recognized directly in equity during the year ended 31 March 2020.

For the year ended 31 March,	2020 Rs.	2019 Rs.
17.5 Tax losses carried forward		
Tax loss brought forward	86,305,533	-
Tax loss for the year of assessment	-	86,305,533
Set off against the current taxable income	(86,305,533)	-
Tax loss carried forward	-	86,305,533

17.6 The Ministry of Finance and further ammendments by Department of Inland Revenue has proposed changes on the Income Tax rates. However, the Company has computed the current and deferred tax based on the enacted rates as per Inland Revenue Act No. 24 of 2017, since proposed rates have not been substantively enacted according to the Sri Lanka Accounting Standards.

18 BASIC EARNINGS/ (LOSS) PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

For the year ended 31 March,	2020	2019
Profit/ (Loss) attributable to ordinary shareholders for basic earnings/(loss) per share (Rs.)	68,975,984	19,701,840
Weighted average number of ordinary shares in issue for basic earnings/(loss) per share (Note 18.1)	142,289,386	81,435,461
Basic earnings/ (loss) per ordinary share (Rs.)	**0.48**	**0.24**

18.1 Weighted average number of ordinary shares in issue		
Issued ordinary shares as at 1 April	138,978,909	53,352,686
Effect of shares issued on 26 December 2019 *(12,491,077 ordinary shares)*	3,310,477	-
Effect of shares issued on 29 June 2018 (11,689,070 ordinary shares)	-	8,838,858
Effect of shares issued on 27 December 2018 (73,937,153 ordinary shares)	-	19,243,917
	142,289,386	**81,435,461**

19 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 March 2020	At amortized cost	Fair value through OCI	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	56,383,446	-	-	56,383,446
Loans and advances	6,810,624,122	-	-	6,810,624,122
Financial investments	29,985,786	244,750,591	-	274,736,377
Other assets (Note 27)	1,984,100	-	-	1,984,100
Total financial assets	**6,898,977,454**	**244,750,591**	**-**	**7,143,728,045**
Liabilities				
Deposit liability	-	-	222,658,572	222,658,572
Due to banks	-	-	5,085,412,198	5,085,412,198
Total financial liabilities	**-**	**-**	**5,308,070,770**	**5,308,070,770**

As at 31 March 2019	At amortized cost	Fair value through OCI	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	60,922,009	-	-	60,922,009
Loans and advances	5,626,463,911	-	-	5,626,463,911
Financial investments	87,703,424	244,380,615	-	332,084,039
Other assets (Note 27)	2,030,100	-	-	2,030,100
Total financial assets	**5,777,119,444**	**244,380,615**	**-**	**6,021,500,059**
Liabilities				
Due to banks	-	-	4,426,027,341	4,426,027,341
Other liabilities (Note 34)	-	-	29,391,991	29,391,991
Total financial liabilities	**-**	**-**	**4,455,419,332**	**4,455,419,332**

As at 31 March,		2020 Rs.	2019 Rs.
20 CASH AND CASH EQUIVALENTS			
Cash in hand held in local currency		1,350,311	9,609,581
Balances with licensed commercial banks		55,033,135	51,312,428
Total		**56,383,446**	**60,922,009**
21 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
21 Financial Investments - FVOCI			
Investments in unquoted equities	**21.1**	1,981,382	1,869,800
Investments in government securities		242,874,209	242,510,815
Total		**244,855,591**	**244,380,615**

21.1 Unquoted equities	31 March 2020			31 March 2019		
	Number of shares	Cost	Carrying value/ fair value	Number of shares	Cost	Carrying value/ fair value
		Rs.	Rs.		Rs.	Rs.
Credit Information Bureau	100	123,700	1,981,382	100	123,700	1,869,800
Total		**123,700**	**1,981,382**		**123,700**	**1,869,800**

These are investments held for regulatory purposes. When measuring fair values of Financial Investments the Company used the latest publicly available information.

As at 31 March.	2020 Rs.	2019 Rs.
22 FINANCIAL INVESTMENTS AT AMORTIZED COST		
Securities purchased under resale agreements	**29,985,786**	**87,703,424**
	29,985,786	**87,703,424**

As at 31 March,

		Notes	2020 Rs.	2019 Rs.
23	**LOANS AND ADVANCES**			
	Loans and advances		10,085,260,828	8,368,171,797
	Less: Unearned income		2,212,795,957	1,741,193,345
	Gross Loans and advances		7,872,464,871	6,626,978,452
	Less: Allowance for impairment losses	**Note 23.1**	1,061,840,749	1,000,514,541
	Net Loans and advances		**6,810,624,122**	**5,626,463,911**
23.1	**Allowance for impairment losses**			
	Collective impairment			
	As at 01 April		**1,000,514,541**	**841,936,332**
	Adjustment on initial application of SLFRS 9		-	446,212,215
	As at 01 April under SLFRS 9		**1,000,514,541**	**1,288,148,547**
	Charge for the year	**Note 14**	276,360,800	205,712,726
	Write off for the year		(215,034,592)	(493,346,732)
	As at 31 March		**1,061,840,749**	**1,000,514,541**
23.1.1	**Analysis of allowance for impairment losses by Product**			
	Leases	**Note 23.2.1**	225,469,204	154,990,522
	Hire Purchase	**Note 23.2.2**	379,991	3,768,715
	Mortgage Loans	**Note 23.2.3**	236,134,064	402,917,380
	Other Loans	**Note 23.2.4**	599,857,490	438,837,924
			1,061,840,749	**1,000,514,541**

The Company assesses impairment based on collective models developed for specific products. Impairment has not been assessed based on any individually significant loans and advances.

		Notes	2020 Rs.	2019 Rs.
23.2	**Analysis by Product**			
	Leases	**23.2.1**	1,650,766,118	2,284,813,874
	Hire Purchase	**23.2.2**	416,583	1,829,435
	Mortgage Loans	**23.2.3**	3,296,927,079	1,556,483,230
	Other Loans	**23.2.4**	1,862,514,342	1,783,337,372
			6,810,624,122	**5,626,463,911**
23.2.1	**Leases**			
	Gross Lease receivable			
	Within one year	**23.2.1 (a)**	850,634,033	785,652,631
	One to five years	**23.2.1 (b)**	1,024,414,438	1,585,670,734
	Over five years	**23.2.1 (c)**	1,186,851	68,481,031
			1,876,235,322	2,439,804,396
	Less: Allowance for impairment losses		225,469,204	154,990,522
	Net Lease receivable		**1,650,766,118**	**2,284,813,874**
23.2.1 (a)	**Gross Lease receivable within one year**			
	Total Lease receivable within one year		1,075,350,708	1,128,513,644
	Less: Unearned income		224,716,675	342,861,013
			850,634,033	**785,652,631**
23.2.1 (b)	**Gross Lease receivable within one to five years**			
	Total Lease receivable within one to five years		1,232,916,260	2,001,544,199
	Less: Unearned income		208,501,822	415,873,465
			1,024,414,438	**1,585,670,734**
23.2.1 (c)	**Gross Lease receivable over five years**			
	Total Lease receivable over five years		1,258,515	69,082,140
	Less: Unearned income		71,664	601,109
			1,186,851	**68,481,031**
23.2.2	**Hire Purchase**			
	Gross Hire Purchase receivable			
	Within one year	**23.2.2 (a)**	485,376	4,237,625
	One to five years	**23.2.2 (b)**	311,198	1,266,159
	Over five years	**23.2.2 (c)**	-	94,366
			796,574	5,598,150
	Less: Allowance for impairment losses		379,991	3,768,715
	Net Hire Purchase receivable		**416,583**	**1,829,435**

As at 31 March,		Notes	2020 Rs.	2019 Rs.
23	**LOANS AND ADVANCES (CONT.)**			
23.2	**Analysis by Product (Cont.)**			
23.2.2	**Hire Purchase (Cont.)**			
23.2.2 (a)	**Gross Hire Purchase receivable within one year**			
	Total Hire Purchase rentals receivable		485,376	4,518,319
	Less: Unearned income		-	280,694
			485,376	**4,237,625**
23.2.2 (b)	**Gross Hire Purchase receivable within one to five years**			
	Total Hire Purchase rentals receivable		311,198	1,332,760
	Less: Unearned income		-	66,601
			311,198	**1,266,159**
23.2.2 (c)	**Gross Hire Purchase receivable over five years**			
	Total Hire Purchase rentals receivable		-	94,366
	Less: Unearned income		-	-
			-	**94,366**
23.2.3	**Mortgage Loans**			
	Gross Mortgage Loans receivable			
	Within one year	**23.2.3 (a)**	825,970,911	735,772,098
	One to five years	**23.2.3 (b)**	2,307,945,032	1,083,119,025
	Over five years	**23.2.3 (c)**	399,145,200	140,509,487
			3,533,061,143	1,959,400,610
	Less: Allowance for impairment losses		236,134,064	402,917,380
	Net Mortgage Loans receivable		**3,296,927,079**	**1,556,483,230**
23.2.3 (a)	**Gross Mortgage Loans receivable within one year**			
	Total Mortgage Loans receivable		1,323,225,473	1,003,570,754
	Less: Unearned income		497,254,562	267,798,656
			825,970,911	**735,772,098**
23.2.3 (b)	**Gross Mortgage Loans receivable within one to five years**			
	Total Mortgage Loans receivable		3,303,706,853	1,536,890,081
	Less: Unearned income		995,761,821	453,771,056
			2,307,945,032	**1,083,119,025**
23.2.3 (c)	**Gross Mortgage Loans receivable over five years**			
	Total Mortgage Loans receivable		458,085,166	162,364,648
	Less: Unearned income		58,939,966	21,855,161
			399,145,200	**140,509,487**
23.2.4	**Other Loans**			
	Gross Other Loans receivable			
	Within one year	**23.2.4 (a)**	1,664,710,796	1,747,696,883
	One to five years	**23.2.4 (b)**	797,524,659	474,478,413
	Over five years	**23.2.4 (c)**	136,377	-
			2,462,371,832	2,222,175,296
	Less: Allowance for impairment losses		599,857,490	438,837,924
	Net Other Loans receivable		**1,862,514,342**	**1,783,337,372**
23.2.4 (a)	**Gross Other Loans receivable within one year**			
	Total Other Loans receivable		1,855,116,985	1,935,950,071
	Less: Unearned income		190,406,189	188,253,188
			1,664,710,796	**1,747,696,883**
23.2.4 (b)	**Gross Other Loans receivable within one to five years**			
	Total Other Loans receivable		834,662,332	524,310,815
	Less: Unearned income		37,137,673	49,832,402
			797,524,659	**474,478,413**
23.2.4 (c)	**Gross Other Loans receivable over five years**			
	Total Other Loans receivable		141,961	-
	Less: Unearned income		5,584	-
			136,377	**-**

For the year ended 31 March 2020

24 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Furniture and fittings	Office equipment	Computers and accessories	Sign boards	Telephone system	Electrical equipment	Motor vehicles	Fixtures and fittings	Total 2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At cost/ valuation											
Balance as at 01 April	76,062,500	103,800,000	7,636,053	10,516,715	22,396,371	1,796,316	800,104	3,009,080	12,535,501	2,598,268	241,150,908
Additions	-	-	876,341	1,274,291	12,702,430	227,000	223,545	506,535	8,995,000	966,131	25,771,273
Revaluation surplus	7,667,500	15,195,747	-	-	-	-	-	-	-	-	22,863,247
Disposals	-	-	(188,598)	(51,350)	(241,737)	(7,038)	(186,262)	-	-	-	(674,985)
Transfers	-	(6,775,747)	-	-	-	-	-	-	-	-	(6,775,747)
Balance as at 31 March	**83,730,000**	**112,220,000**	**8,323,796**	**11,739,656**	**34,857,064**	**2,016,278**	**837,387**	**3,515,615**	**21,530,501**	**3,564,399**	**282,334,696**
Depreciation											
Balance as at 01 April	-	4,513,044	5,121,560	5,946,485	13,700,765	468,019	652,520	1,709,930	11,675,991	779,981	44,568,295
Charge for the year	-	2,262,703	764,060	1,206,334	4,355,027	236,689	91,413	386,447	1,305,279	357,383	10,965,335
Disposals	-	-	(153,586)	(51,350)	(193,448)	(3,989)	(177,302)	-	-	-	(579,675)
Transfers	-	(6,775,747)	-	-	-	-	-	-	-	-	(6,775,747)
Balance as at 31 March	**-**	**-**	**5,732,034**	**7,101,469**	**17,862,344**	**700,719**	**566,631**	**2,096,377**	**12,981,270**	**1,137,364**	**48,178,208**
Building work-in-progress											454,815
Carrying value											
As at 31 March 2020	**83,730,000**	**112,220,000**	**2,591,762**	**4,638,187**	**16,994,720**	**1,315,559**	**270,756**	**1,419,238**	**8,549,231**	**2,427,035**	**234,611,303**

For the year ended 31 March 2020

24 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Furniture and fittings	Office equipment	Computers and accessories	Sign boards	Telephone system	Electrical equipment	Motor vehicles	Fixtures and fittings	Total 2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At cost/ valuation											
Balance as at 01 April	76,062,500	103,800,000	7,510,460	9,798,630	17,823,584	1,375,605	727,725	2,969,480	12,535,501	2,233,924	234,837,409
Additions	-	-	125,593	718,085	4,871,087	565,150	72,379	39,600	-	364,344	6,756,238
Disposals	-	-	-	-	(298,300)	(144,439)	-	-	-	-	(442,739)
Balance as at 31 March	**76,062,500**	**103,800,000**	**7,636,053**	**10,516,715**	**22,396,371**	**1,796,316**	**800,104**	**3,009,080**	**12,535,501**	**2,598,268**	**241,150,908**
Depreciation											
Balance as at 01 April	-	2,256,522	4,292,886	4,800,362	11,700,265	325,959	562,173	1,366,806	10,529,991	470,670	36,305,634
Charge for the year	-	2,256,522	828,674	1,146,123	2,298,800	203,021	90,347	343,124	1,146,000	309,311	8,621,922
Disposals	-	-	-	-	(298,300)	(60,961)	-	-	-	-	(359,261)
Balance as at 31 March	**-**	**4,513,044**	**5,121,560**	**5,946,485**	**13,700,765**	**468,019**	**652,520**	**1,709,930**	**11,675,991**	**779,981**	**44,568,295**
Carrying value											
As at 31 March 2019	**76,062,500**	**99,286,956**	**2,514,493**	**4,570,230**	**8,695,606**	**1,328,297**	**147,584**	**1,299,150**	**859,510**	**1,818,287**	**196,582,613**

24.1 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 25,771,272/- (2019 - Rs. 6,756,238/-) .

Also, there is a cash payments amounting to Rs. 26,226,089/- (2019 - Rs. 6,756,238/-) was paid during the year for purchases of property, plant and equipment.

24.2 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

24.3 Capitalisation of borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year ended 31 March 2020. (2019: Nil).

24.4 Amount of contractual commitments for the acquisition of property, plant and equipment

The Company has entered in to a contractual commitment amountings to Rs. 770,440/- to obtain a structural report for the buildings as at the reporting date (2019: Nil).

24.5 Property, plant and equipment included fully depreciated assets amounting to Rs. 25,624,127 - as at 31 March 2020 (2019 - Rs. 18,717,547).

For the year ended 31 March 2020

24 PROPERTY, PLANT AND EQUIPMENT (Cont.)

24.6 Measurement of fair values

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's land and buildings every 3 years.

The fair value measurement of all of the land and buildings has been categorized as a Level 3 fair value based on the inputs to the valuation techniques used.

24.7 Informations on valuation of freehold Land and Buildings of the Company.

Date of valuation: 30 March 2020

Name of the professional valuer/Location and Address	Location of the property	Extent (Perches)	Method of valuation and significant unobservable inputs	Range of estimation for unobservable inputs	Carrying value before valuation of Land Rs.	Carrying value before valuation of Buildings Rs.	Revaluation amount of Land Rs.	Revaluation amount of Buildings Rs.	Revaluation gain Recognized on Land Rs.	Revaluation gain Recognized on Buildings Rs.
K.M.U Dissanayake A.I.V. Incorporated Valuer, Rambukpitiya, Sri Lanka.	No.187, Katugastota Road, Kandy.	11.93	• Valuation on Comparative Method. • Useful life period of the Building. • Price per perch for land • Price per square foot for building	• Useful life period of the Building is 32 years • Price per perch Rs.5,500,000/- • Price per sq.foot Rs.9,000/-	59,662,500	73,656,176	65,630,000	85,320,000	5,967,500	11,663,824
	No.182, Katugastota Road, Kandy.	3.29		•Useful life period of the Building is 27 years • Price per perch Rs.5,500,000/- • Price per sq.foot Rs.7,250/-	16,400,000	23,368,077	18,100,000	26,900,000	1,700,000	3,531,924
					76,062,500	**97,024,253**	**83,730,000**	**112,220,000**	**7,667,500**	**15,195,748**

24.7.1 The carrying amount of Company's revalued assets that would have been included in these Financial Statements had these assets been carried at cost less accumulated depreciation is as follows:

As at 31 March,	**2020 Cost**	**2020 Accumulated depreciation**	**2020 Carrying value**	**2019 Cost**	**2019 Accumulated depreciation**	**2019 Carrying value**
Land	40,313,868	-	40,313,868	40,313,868	-	40,313,868
Buildings	49,485,023	8,519,587	40,965,436	49,485,023	7,529,886	41,955,137
Total	**89,798,891**	**8,519,587**	**81,279,304**	**89,798,891**	**7,529,886**	**82,269,005**

24.8 Fair value measurement hierarchy - Measurement of the fair value of the Land and Building is using the unobservable inputs, which need to be treated as Level 3 in accordance with SLFRS 13 Fair Value Measurement.

24.9 Impairment of property, plant and equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 March 2020 specially considering the potential impact from the COVID 19 pandemic. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment. The management has taken necessary actions to safeguard the assests to ensure its future economic value would not diminish.

24.10 Property, plant and equipment pledged as security

Details of property, plant and equipment which have been pledged as securities as at the reporting date are disclosed in Note 29.3

For the year ended 31 March 2020

24 PROPERTY, PLANT AND EQUIPMENT (Cont.)

24.11 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant and equipment as at the reporting date.

24.12 Compensation from third parties for items of property, plant and equipment

There were no compensation received / receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

25 INTANGIBLE ASSETS

As at 31 March,	2020 Rs.	2019 Rs.
Computer software		
Cost		
As at 01 April	17,585,418	13,049,048
Additions during the year	2,952,048	4,536,370
As at 31 March	**20,537,466**	**17,585,418**
Amortization		
As at 01 April	7,141,613	5,421,821
Amortization for the year	1,778,727	1,719,792
As at 31 March	**8,920,340**	**7,141,613**
Carrying value as at 31 March	**11,617,126**	**10,443,805**

25.1 Impairment of intangible assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 March 2020. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of intangible assets.

25.2 Title restriction on intangible assets

There are no restrictions that existed on the title of the intangible assets of the Company as at the reporting date.

25.3 Capitalisation of borrowing costs

There were no capitalised borrowing costs related to the acquisition of intangible assets during the year ended 31 March 2020 (2019: Nil).

25.4 Amount of contractual commitments for the acquisition of intangible assets

The Company had no contractual commitments for the acquisition of intangible assets as at the reporting date. (2019: Nil)

26 RIGHT OF USE ASSETS

As at 31 March,	2020 Rs.	2019 Rs.
Adjustment on initial application of SLFRS 16	24,435,222	-
Amortization charge for the year	7,974,422	-
Balance as at 31 March	**16,460,800**	-

SLFRS 16 - "Leases", requires lessee to recognise all leases on their Statement of Financial Position as lease liabilities with the corresponding right-of-use assets w.e.f. 1 April 2019. Previously, these leases were classified as operating leases under LKAS 17 - "Leases".

27 OTHER ASSETS

As at 31 March,	Notes	2020 Rs.	2019 Rs.
Financial			
Refundable deposits		1,984,100	2,030,100
Debtors		1,783,178	1,783,178
		3,767,278	3,813,278
Less: Allowance for impairment losses - debtors	**(Note 27.1)**	(1,783,178)	(1,783,178)
		1,984,100	**2,030,100**
Non-financial			
Prepayments		4,839,146	5,186,799
Other receivables		17,334,335	5,848,600
Value added tax recoverable		-	-
Insuarance crop levy receivable		101,193	-
WHT receivable		39,200	
Economic service charge recoverable		-	9,037,956
		22,313,874	**20,073,355**
Total		**24,297,974**	**22,103,455**

27.1 Allowance for impairment losses - debtors

	2020 Rs.	2019 Rs.
As at 01 April	1,783,178	1,783,178
As at 31 March	**1,783,178**	**1,783,178**

28 DEPOSIT LIABILITY

	2020 Rs.	2019 Rs.
Savings deposits	225,560	-
Time deposits	222,433,012	-
	222,658,572	-

As at 31 March,

			2020 Rs.	2019 Rs.
29	**DUE TO BANKS**			
	Bank overdrafts		61,642,486	134,340,178
	Securitized borrowings	**(Note 29.1)**	2,597,697,183	1,999,586,724
	Unsecuritized borrowings	**(Note 29.2)**	2,426,072,529	2,292,100,439
	Total		**5,085,412,198**	**4,426,027,341**

29.1 Securitized borrowings

For the year ended 31 March 2020

	As at 01.04.2019 Rs.	Loans obtained during the year Rs.	Interest expense for the year Rs.	Repayments during the year Rs.	As at 31.03.2020 Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	1,999,586,724	2,945,000,000	294,449,034	(2,641,338,575)	2,597,697,183
Total	**1,999,586,724**	**2,945,000,000**	**294,449,034**	**(2,641,338,575)**	**2,597,697,183**

For the year ended 31 March 2019

	As at 01.04.2018 Rs.	Loans obtained during the year Rs.	Interest expense for the year Rs.	Repayments during the year Rs.	As at 31.03.2019 Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	757,850,215	1,998,000,000	134,577,434	(890,840,925)	1,999,586,724
Total	**757,850,215**	**1,998,000,000**	**134,577,434**	**(890,840,925)**	**1,999,586,724**

29.2 Unsecuritized borrowings

For the year ended 31 March 2020

Direct bank borrowings	As at 01.04.2019 Rs.	Loans obtained during the year Rs.	Interest expense for the year Rs.	Repayments during the year Rs.	As at 31.03.2020 Rs.
Sampath Bank PLC	1,774,009,906	300,000,000	179,144,600	(1,245,769,377)	1,007,385,129
Bank Of Ceylon	518,090,533	500,000,000	75,036,181	(276,234,794)	816,891,920
DFCC Bank PLC	-	600,000,000	7,298,302	(5,502,822)	601,795,480
Total	**2,292,100,439**	**1,400,000,000**	**261,479,083**	**(1,527,506,993)**	**2,426,072,529**

For the year ended 31 March 2019

Direct bank borrowings	As at 01.04.2018 Rs.	Loans obtained during the year Rs.	Interest expense for the year Rs.	Repayments during the year Rs.	As at 31.03.2019 Rs.
Sampath Bank PLC	2,160,985,612	300,000,000	248,797,163	(935,772,869)	1,774,009,906
Bank Of Ceylon	718,483,655	-	85,685,981	(286,079,103)	518,090,533
Total	**2,879,469,267**	**300,000,000**	**334,483,144**	**(1,221,851,972)**	**2,292,100,439**

29.3 Assets pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	**Facility**	**2020 Rs.**	**2019 Rs.**
Property at No. 182 & 187, Katugastota Road, Kandy and Leasing Receivable	Commercial Bank of Ceylon PLC-Term loan and bank overdraft	3,132,091,215	2,631,962,741
Property at No. 182 & 187, Katugastota Road, Kandy and Leasing Receivable	Commercial Bank of Ceylon PLC-Term loan and bank overdraft	75,000,000	75,000,000
		3,207,091,215	**2,706,962,741**

For the year ended 31 March,		Notes	2020 Rs.	2019 Rs.
30	**EMPLOYEE BENEFITS**			
30.1	**Defined contribution plans**			
	Employees' Provident Fund			
	Employer's contribution		5,746,090	5,250,549
	Employees' contribution		3,830,727	3,500,366
	Employees' Trust Fund		1,436,535	1,318,971
30.2	**Defined benefit plans**			
	Movement in the present value of the defined benefit obligations			
	As at 01 April		5,440,426	5,647,642
	Included in profit or loss			
	Current service cost	**(Note 30.2.1)**	1,586,562	928,075
	Interest cost		625,649	593,003
			2,212,211	1,521,078
	Included in OCI			
	Actuarial (gain)/ losses during the year	**(Note 30.2.2)**	1,270,854	(410,169)
	Payments made during the year		(146,250)	(1,318,125)
	As at 31 March		**8,777,241**	**5,440,426**
30.2.1	**Expense recognized in profit or loss**			
	Current service cost for the year		1,586,562	928,075
	Interest cost for the year		625,649	593,003
	Total		**2,212,211**	**1,521,078**
30.2.2	**Amount recognized for defined benefit obligation in other comprehensive income**			
	Cumulative loss as at 1 April		771,070	1,181,239
	Acturial (gain)/ loss recognized during the year		1,270,854	(410,169)
	Cumulative loss as at 31 March		**2,041,924**	**771,070**
30.2.3	**Actuarial assumptions**		**2020**	**2019**
	Discount rate		10.0% p.a.	11.5% p.a.
	Salary increment rate		10% p.a.	6% p.a.
	Staff turnover		15%	27%

Mortality - A 1967/70 Mortality Table
Disability - Standard
Retirement age - Normal retirement Age , The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthday.

An actuarial valuation of the gratuity was carried out as at 31 March 2020 by Mr. M. Poopalanathan, AIA, of Actuarial and Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by LKAS 19.

30.2.4 Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	As at 31 March 2020		As at 31 March 2019	
	Increase (Rs.)	Decrease (Rs.)	Increase (Rs.)	Decrease (Rs.)
Discount rate (1% movement)	(442,521)	489,880	(145,845)	154,769
Salary increment rate (1% movement)	517,979	(475,965)	182,328	(174,406)

As at 31 March,	2020 Rs.
31 LEASE LIABILITIES	
Adjustment on initial application of SLFRS 16	24,435,222
Interest charged for the year	2,150,953
Payments made during the year	(8,905,215)
Balance as at 31 March	**17,680,960**

31.1 Amounts recognised in profit or loss

31.1.1 Leases under SLFRS 16 for the year ended 31 March 2020

Interest on Lease Liabilities	2,150,953
Right-of-use Asset Amortization	7,974,422
Expenses relating to short term leases	1,336,667

Operating Leases under LKAS 17 for the year ended 31 March 2019

Rent Expense	9,500,163

31.1.2 Amounts recognised in statement of cash flows under SLFRS 16 for the year ended 31 March 2020

Lease interest paid	(2,150,953)
Payment of Lease Liabilities	(6,754,262)

31.1.3 Undiscounted lease payable

The following table sets out the maturity analysis of lease payment showing the undiscounted lease payments to be paid after the report date.

	Rs.
Less than one year	7,851,381
One to two years	5,067,251
Two to three years	2,195,770
Three to four years	1,676,230
Four to five years	2,104,200
Over five years	1,269,020
	20,163,852

As at 31 March,	Notes	2020 Rs.	2019 Rs.
32 DEFERRED TAX (ASSETS) / LIABILITIES			
As at 01 April		**(157,006,118)**	**(154,156,707)**
Origination/ (reversal) of temporary differences			
- Recognized in profit or loss	(Note 32.2)	4,148,995	(2,853,335)
- Recognized in other comprehensive income		6,169,921	3,924
As at 31 March		**(146,687,202)**	**(157,006,118)**

32.1 Summary of net deferred tax liabilities

	As at 31 March 2020		As at 31 March 2019	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Deferred tax liabilities				
Accelerated depreciation for tax purposes - Lease Assets (Note 32.4)	369,608,270	103,490,316	469,128,455	131,355,968
Accelerated depreciation for tax purposes - Own Assets	55,559,050	15,556,534	40,653,863	11,383,082
Accelerated depreciation for tax purposes - Right of use Assets	16,460,800	4,609,024	-	-
Revaluation surplus on buildings	70,566,797	19,758,703	56,555,111	15,835,431
Tax on capital assets (lands) (Note 32.3)	43,416,132	12,156,517	35,748,632	10,009,617
Unrealized gain on FVOCI	1,159,314	324,608	716,269	200,555
	556,770,363	**155,895,702**	**602,802,330**	**168,784,653**
Deferred tax assets				
Defined benefit plans	8,777,241	2,457,628	5,440,426	1,523,319
Carried forward tax losses	-	-	86,305,533	24,165,549
Carried forward unclaimed impairment losses	1,054,195,026	295,174,607	1,071,792,511	300,101,903
Amortization of right of use Assets	17,680,961	4,950,669	-	-
	1,080,653,228	**302,582,904**	**1,163,538,470**	**325,790,771**
Net deferred tax liability as at 31 March	**(523,882,865)**	**(146,687,202)**	**(560,736,140)**	**(157,006,118)**

32.2 Deferred tax assets and liabilities are attributable to the following:

	Recognized in Profit or Loss		Recognized in Other Comprehensive Income		Statement of Financial Position	
	2020	2019	2020	2019	2020	2019
Deferred tax liabilities	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Accelerated depreciation for tax purposes - Lease Assets (Note 32.4)	(27,865,652)	(9,017,897)	-	-	103,490,316	131,355,968
Accelerated depreciation for tax purposes - Own Assets	4,173,452	648,395	-	-	15,556,534	11,383,082
Amortization of right of use Assets	4,609,024	-	-	-	4,609,024	-
Revaluation surplus on buildings	(331,535)	(331,536)	4,254,809	-	19,758,703	15,835,431
Revaluation surplus on lands (Note 32.3)	-	-	2,146,900	-	12,156,517	10,009,617
Unrealized loss on FVOCI	-	-	124,051	(288,353)	324,608	200,555
	(19,414,711)	(8,701,038)	6,525,760	(288,353)	155,895,702	168,784,653
Deferred tax assets						
Defined benefit plans	(578,470)	(56,826)	(355,839)	114,847	2,457,628	1,523,319
Carried forward tax losses	24,165,549	(24,165,549)	-	-	-	24,165,549
Carried forward unclaimed impairment losses	4,927,296	30,070,078	-	-	295,174,607	300,101,903
Amortization of right of use Assets	(4,950,669)	-	-	-	4,950,669	-
Unrealized loss on AFS	-	-	-	177,430	-	-
	23,563,706	5,847,703	(355,839)	292,277	302,582,904	325,790,771
Deferred tax effect on statement of profit or loss and other comprehensive income	**4,148,995**	**(2,853,335)**	**6,169,921**	**3,924**		
Net deferred tax liabilities as at 31 March					**(146,687,202)**	**(157,006,118)**

For the year ended 31 March 2020

32 DEFERRED TAX LIABILITIES (CONT.)

32.3 As per the Inland Revenue Act No. 24 of 2017, which is effective from 1 April 2018, Capital Assets attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

32.4 As per the Inland Revenue Act No. 24 of 2017, which is effective from 1 April 2018, Finance Lease agreements need to be considered as a loan granted by the lessor to the lessee. Accordingly, the previous method of calculating the profits from the business of finance lease has been changed and the leasing business would be subject to tax on profits derived from such operations being the lease interest less expenses.

However, any profit, loss, receipt or payment in respect of any finance lease agreement entered into, prior to 1 April 2018, will be computed in accordance with the respective provisions of the Inland Revenue Act, No. 10 of 2006. Therefore, a deferred tax liability has been recognised on accelerated depreciation for tax purposes on lease assets as at 31 March 2020 which were entered prior to 1 April 2018.

With the introduction of the Inland Revenue Act No. 24 of 2017 which became effective from 1 April 2018, the Company will be eligible to claim its brought forward tax losses against its future taxable income within a period of 6 years.

As at 31 March,	**2020**	**2019**
	Rs.	**Rs.**
33 CURRENT TAX LIABILITIES		
As at 01 April	-	13,660,833
Provision for the year	52,937,381	-
Under provision in relation to prior years	1,982,387	3,231,579
Payments made during year	(20,765,358)	(16,892,412)
As at 31 March	**34,154,410**	**-**
34 OTHER LIABILITIES		
Financial		
Trade payables	-	29,391,991
	-	**29,391,991**
Non-financial		
Accrued expenses	51,977,176	47,920,388
Direct deposits from customers	-	1,212,168
Value added tax payable	-	483,547
Stamp duty payable	653,980	762,760
	52,631,156	**50,378,863**
Total	**52,631,156**	**79,770,854**

35 STATED CAPITAL

	2020		**2019**	
	Number of shares	**Value of shares**	**Number of shares**	**Value of shares**
Fully paid ordinary shares		**Rs.**		**Rs.**
As at 01 April	138,978,909	2,079,999,975	53,352,686	1,079,999,992
Issue of ordinary shares	12,491,077	174,999,989	85,626,223	999,999,983
As at 31 March	**151,469,986**	**2,254,999,964**	**138,978,909**	**2,079,999,975**

35.1 Shareholders as at 31 March,	**2020 Holding %**	**2020 No of shares**	**2019 No of shares**
Commercial Bank of Ceylon PLC	100	151,469,986	138,978,909
Total	100	151,469,986	138,978,909

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per individual present at meetings of the shareholders or one vote per share in the case of a poll.

As at 31 March,	Notes	Rs. 2020 Rs.	Rs. 2019 Rs.
36 ACCUMULATED LOSSES			
As at 01 April		(294,391,823)	(23,046,820)
Adjustment on initial application of SLFRS 9, net of tax		-	(290,357,073)
Restated balance at 1 April		(294,391,823)	(313,403,893)
Profit for the year		68,975,984	19,701,840
Actuarial gains / (losses) on defined benefits plans, after tax		(915,015)	295,322
Transferred to statutory reserve fund (Note 37.1)		(3,448,799)	(985,092)
As at 31 March		**(229,779,653)**	**(294,391,823)**
37 OTHER RESERVES			
Capital reserve		50,000	50,000
Statutory reserve fund	**(Note 37.1)**	26,462,750	23,013,951
Revaluation reserve	**(Note 37.2)**	81,543,160	65,081,622
Fair value reserve	**(Note 37.3)**	834,703	515,715
General reserve	**(Note 37.4)**	20,097,889	20,097,889
Total		**128,988,502**	**108,759,177**
37.1 Statutory reserve fund			
As at 01 April		23,013,951	22,028,859
Transferred from retained earnings		3,448,799	985,092
As at 31 March		**26,462,750**	**23,013,951**

'Statutory reserve fund' is a capital reserve which contains profits transferred as required by Department of Supervision of Non Bank Financial Institutions of Central Bank of Sri Lanka, under the Finance Companies (Capital Funds) Direction No. 01 of 2003. Accordingly, 5% of the net profit for the year is transferred to the Statutory reserve fund during the financial year.

As at 31 March,	2020 Rs.	2019 Rs.
37.2 Revaluation reserve		
As at 01 April	65,081,622	65,081,622
Revaluation surplus of property plant and equipment	22,863,247	-
Revaluation surplus of Land transferred to retained earnings on disposal	-	-
Deferred tax charge on revaluation surplus	(6,401,709)	-
As at 31 March	**81,543,160**	**65,081,622**

37.3 Fair value reserve

The fair value reserve comprises;

- the cumulative net change in the fair value of equity securities designated at FVOCI and

- the cumulative net change in fair value of debt securities at FVOCI until the assets are derecognised or reclassified. This amount is reduced by the amount of loss allowance.

37.4 General reserve

The purpose of the transfer to General Reserve is to increase Tier 1 Core Capital as per sec 2 (ii) of Finance Companies (Minimum Core Capital) Direction 01 of 2011 in order to fulfill requirements to obtain the license to carry out Finance Business from the Monetary Board of the Central Bank of Sri Lanka.

For the year ended 31 March 2020

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

* Verification of observable pricing;
* Re-performance of model valuations;
* Quarterly calibration and back-testing of models against observed market transactions;
* Analysis and investigation of significant daily valuation movements; and
  Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 as explained below

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

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

31 March 2020	Classification	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets measured at Fair value						
Investment in Unquoted Shares	Fair value through OCI	1,981,382	-	-	1,981,382	1,981,382
Investments in government securities		242,874,209	-	242,874,209	-	242,874,209
		244,855,591				
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	56,383,446	-	-	-	-
Securities purchased under resale agreements		29,985,786	-	-	-	-
Loans and advances		7,872,464,871	-	-	-	-
Other Assets (Note 27)		1,984,100	-	-	-	-
		7,960,818,203	-	-	-	-
Financial Liabilities not measured at Fair value						
Deposit liability	Other financial liabilities	222,658,572	-	-	-	-
Due to banks		5,085,412,198	-	-	-	-
Lease liability		17,680,960	-	-	-	-
		5,325,751,730				

31 March 2019	Classification	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets measured at Fair value						
Investment in Unquoted Shares	Fair value through OCI	1,869,800	-	-	1,869,800	1,869,800
Investments in government		242,510,815	-	242,510,815	-	242,510,815
		244,380,615				
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	60,922,009	-	-	-	-
Securities purchased under resale agreements		87,703,424	-		-	-
Loans and advances		5,626,463,911	-	-	-	-
Other Assets (Note 27)		2,030,100	-	-	-	-
		5,777,119,444	-	-	-	-
Financial Liabilities not measured at Fair value						
Due to banks	Other financial liabilities	4,426,027,341	-	-	-	-
Other liabilities (Note 34)		29,391,991	-	-	-	-
		4,455,419,332				

For the year ended 31 March 2020

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

38.1 Financial Assets measured at Fair value

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

a. Investments in government securities

As Treasury Bills/ Treasury Bonds are valued using Central Bank published rates, investments in government securities are classified under Level 1.

b. Unquoted Shares

The unquoted shares, which are held for regulatory purposes, are valued based on internal management information derived from the audited financial statements based on the net asset value of the investee, which is a significant unobservable input in measuring the fair value and hence it is categorized under level 3 in the fair value hierarchy.

c. Level 3 fair values

Reconciliation of Level 3 fair value

The following table shows a reconciliation form the opening balances to the closing balances for Level 3 fair values.

	Unquoted Equity securities Rs.
Balance as at 1 April 2018	123,700
Gain included in OCI	
- Net change in fair value (unrealized)	1,746,100
Purchases	-
Balance as at 31 March 2019	**1,869,800**
Balance as at 1 April 2019	1,869,800
Gain included in OCI	
- Net change in fair value (unrealised)	111,582
Purchases	-
Balance as at 31 March 2020	**1,981,382**

38.2 Financial assets not measured at fair value

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (e.g. fixed rate loans and receivables, fixed rate borrowings) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which Fair Value Approximates Carrying Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value.

38.3 Transfers between Level 1 and Level 2

There were no transfers between Level 1 and Level 2 during the year ended 31 March 2020.

For the year ended 31 March 2020

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Company is detailed below.

	2020			2019		
	Within 12 Months	**After 12 Months**	**Total as at 31/03/2020**	**Within 12 Months**	**After 12 Months**	**Total as at 31/03/2019**
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	56,383,446	-	56,383,446	60,922,009	-	60,922,009
Financial investments - FVOCI	242,874,209	1,981,382	244,855,591	242,510,815	1,869,800	244,380,615
Financial investments - Amortized cost	29,985,786	-	29,985,786	87,703,424	-	87,703,424
Loans and advances	2,891,057,840	3,919,566,282	6,810,624,122	2,779,160,632	2,847,303,279	5,626,463,911
Property, plant and equipment	-	234,611,303	234,611,303	-	196,582,613	196,582,613
Intangible assets	-	11,617,126	11,617,126	-	10,443,805	10,443,805
Right of use assets	2,005,599	14,455,201	16,460,800	-	-	-
Deferred tax assets	-	146,687,202	146,687,202	-	157,006,118.00	157,006,118
Other assets	22,313,874	1,984,100	24,297,974	20,073,355	2,030,100	22,103,455
Total assets	**3,244,620,754**	**4,330,902,596**	**7,575,523,350**	**3,190,370,235**	**3,215,235,715**	**6,405,605,950**
Percentage	**43%**	**57%**	**100%**	**50%**	**50%**	**100%**
Liabilities						
Deposit liability	198,358,572	24,300,000	222,658,572	-	-	-
Due to banks	4,316,903,015	768,509,183	5,085,412,198	2,850,758,330	1,575,269,011	4,426,027,341
Employee benefits	-	8,777,241	8,777,241	-	5,440,426	5,440,426
Lease liability	2,154,265	15,526,695	17,680,960	-	-	-
Income Tax Liabilities	-	34,154,410	34,154,410	-	-	-
Other liabilities	52,631,156	-	52,631,156	61,438,800	18,332,054	79,770,854
Total liabilities	**4,570,047,008**	**851,267,529**	**5,421,314,537**	**2,912,197,130**	**1,599,041,491**	**4,511,238,621**
Equity						
Stated capital	-	2,254,999,964	2,254,999,964	-	2,079,999,975	2,079,999,975
Retained earnings	-	(229,779,653)	(229,779,653)	-	(294,391,823)	(294,391,823)
Other reserves	-	128,988,502	128,988,502	-	108,759,177	108,759,177
Total equity	**-**	**2,154,208,813**	**2,154,208,813**	**-**	**1,894,367,329**	**1,894,367,329**
Total equity and liabilities	**4,570,047,008**	**3,005,476,342**	**7,575,523,350**	**2,912,197,130**	**3,493,408,820**	**6,405,605,950**
Percentage	**60%**	**40%**	**100%**	**45%**	**55%**	**100%**

40 RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard -LKAS 24 - "Related party disclosures ", the details of which are reported below.

40.1 Parent and ultimate controlling party

On 1 September 2014, Commercial Bank of Ceylon PLC fully acquired the Serendib Finance Limited (formerly known as Indra Finance Limited) and accordingly the ownership of the Company was transferred to the Commercial Bank of Ceylon PLC. Therefore in the opinion of Directors, Commercial Bank of Ceylon PLC became the parent and ultimate controlling party of the Serendib Finance Limited from 1 September 2014 to as of date.

40.2 Transactions with Key Management Personnel (KMP)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company and selected key employees who meet the criteria for KMP.

As Commercial Bank of Ceylon PLC is the ultimate parent of the Company and the Board of Directors of Commercial Bank of Ceylon PLC has the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of Commercial Bank of Ceylon PLC have also been identified as KMP of the Company.

40.2.1 Compensation of Key Management Personnel

	2020 Rs.	2019 Rs.
Short term employee benefits	5,796,000	5,255,000
Post employement benefits	Nil	Nil

40.2.2 Transactions with KMP

There were no transactions with the KMPs during the year.

40.2.3 Transactions, Arrangements and Agreements Involving Close Family Members (CFMs) of KMP

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KPM in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner.

There were no transactions with the CFMs of KMP during the year.

40.2.4 Transactions with the Parent and Related Entities

Name of the Company	Nature of transactions	Value of transactions 2020 Rs.	Value of transactions 2019 Rs.	Balance as at 31 March 2020 Rs.	Balance as at 31 March 2019 Rs.
Commercial Bank of Ceylon PLC (Parent from 01 Sep 2014	Loan/Bank overdraft balance as at end of the year	-	-	2,591,204,155	2,031,999,091
	Loan interest charged	(294,678,707)	(135,040,698)	-	-
	Loan repayment made during the year	(2,349,379,800)	(890,840,925)	-	-
Names of the common Directors/ KMPs	Deposits/Advances held at the end of the year	-	-	50,026,700	49,186,096
	Interest on Deposits/Advances	9,288,187	4,928,685	-	-
K.G.D.D. Dheerasinghe	Building Rent received	912,240	918,360	-	-
N. Sooriyarachchi	Building Rent paid	810,000	-	-	-
	Dividend paid	-	-	-	-
	Ordinary shares issued	174,999,989	999,999,983	2,254,999,964	2,079,999,975

Commercial Bank of Ceylon PLC has provided letters of Comfort to Sampath Bank PLC , Bank of Ceylon and DFCC Bank PLC as security against the term loans obtained amounting to Rs.3.5 Bn, Rs.1.5 Bn and Rs. 0.6 Bn respectively. (refer Note 29.2)

41 RISK MANAGEMENT

INTRODUCTION

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company has exposure to the following risks arising from financial instruments.

1 Credit Risk
2 Liquidity Risk
3 Market Risk
4 Operational Risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by a non-executive director and comprises executive and non-executive directors. Meetings of BIRMC are held regularly, and the Board of Directors is duly updated of its activities.

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

The outbreak of COVID-19 in the last quarter of the financial year has caused disruption to many economic activities. The Company has been closely monitoring the impact on the Company's Business Operation as at year end and also in the immediate future. Maintaining a liquidity position during this uncertain period remains a key prority for the Company. The management has assessed the impact of the pandemic on the performance and cashflows of the Company and has ensured the financial strength of the Company. The significant risk the company has is from the Loans and Receivables to Customers. Note 48 describes the significant impact on credit risk of the Company.

Senior Management involvement in Risk Management

The Business units (i.e. Credit Departments, Collection & Recovery Departments, Branches/Centers and Finance etc.) have primary responsibility for Risk Management. The corporate management team comprising Managing Director/Chief Executive Officer, Chief Operating Officer, Cheif Financial Officer/Chief Risk Officer, Head of Human Resource and Operation and Head of Credit and Branch Administarion, provide an independent oversight function, acts as the 2nd line of defence.

Risk Measurement & Reporting

The Company's Risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to BIRMC on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept. The Senior Management team meets every week and deliberates on matters of interest in risk management arising from operations. The monthly risk management meeting is held to shortlist matters to be forwarded to BIRMC.

Board Credit Committee

Board Credit Committee is chaired by the Chairman of the Company's Board and comprises non-executive directors. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The Committee also periodically reviews company's credit policy and lending rates to different business segments, in light of prevailing market conditions and industry dynamics.

A separate Executive credit Committee chaired by the Managing Director/ CEO reports to the Board Credit Committee and is responsible for managing the Company's credit risk.

Board Audit Committee Oversight

The Board Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board Audit Committee is assisted in its oversight role by the Risk Officer. Risk Officer undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK

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

41.1.1 Management of Credit Risk

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

* Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

* Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Company's Executive Credit Committee, Board Credit Committee or the Board of Directors, as appropriate.

* Reviewing and assessing credit risk: the Company's Executive Credit Committee and Board Credit Committee assess all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

* Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities)

* Developing and maintaining the Company’s processes for measuring ECL: This includes processes for:
    - initial approval, regular validation and back-testing of the models used;
    - determining and monitoring significant increase in credit risk; and
    - incorporation of forward-looking information.

* Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of portfolios are provided to Board Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.

* Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

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

Regular audits of business units and the Company's Credit processes are undertaken by Internal Audit.

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

41.1.2 Credit Quality Analysis

The following table sets out information about the overdue status of financial assets measured at amortised cost, FVOCI debt investments (2020). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.2.7.1.

As at 31 March	2020				2019
	Stage 1 Rs.	**Stage 2 Rs.**	**Stage 3 Rs.**	**Total Rs.**	**Total Rs.**
i. *Loans and advances at amortised cost*					
Current	3,800,956,255	-	-	3,800,956,255	3,490,557,699
Overdue less than 30 days	1,024,293,829		-	1,024,293,829	589,319,676
Overdue 30 to 180 days	-	1,412,479,979	-	1,412,479,979	1,000,924,047
Overdue more than 180 days	-	-	1,634,734,808	1,634,734,808	1,546,177,030
Gross Carrying amount	**4,825,250,084**	**1,412,479,979**	**1,634,734,808**	**7,872,464,871**	**6,626,978,452**
Loss allowance	(28,678,345)	(150,360,768)	(882,801,636)	(1,061,840,749)	(1,000,514,541)
Carrying amount	**4,796,571,739**	**1,262,119,211**	**751,933,172**	**6,810,624,122**	**5,626,463,911**
ii. *Debt investment securities at amortised cost*					
Low-fair risk	29,985,786	-	-	29,985,786	87,703,424
Carrying amount	**29,985,786**	**-**	**-**	**29,985,786**	**87,703,424**
iii. *Debt investment securities at FVOCI*					
Low-fair risk	242,874,209	-	-	242,874,209	242,510,815
Carrying amount - fair value	**242,874,209**	**-**	**-**	**242,874,209**	**242,510,815**
iv. *Cash and cash equivalents at amortised cost*					
Low-fair risk	56,383,446	-	-	56,383,446	60,922,009
Carrying amount	**56,383,446**	**-**	**-**	**56,383,446**	**60,922,009**
v. *Other assets at amortised cost*					
Current	1,984,100	-	-	1,984,100	2,030,100
Overdue more than 180 days	1,783,178	-	1,783,178	3,566,356	1,783,178
Gross Carrying amount	**3,767,278**	**-**	**1,783,178**	**5,550,456**	**3,813,278**
Loss allowance	(1,783,178)	-	(1,783,178)	(3,566,356)	(1,783,178)
Carrying amount	**1,984,100**	**-**	**-**	**1,984,100**	**2,030,100**

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

41.1.3 Collateral held and other credit enhancements

The Company holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Gross receivable		Percentage of exposure that is subject to collateral requirements		Principal type of collateral not held
As at 31 March,	**2020 Rs.**	**2019 Rs.**	**2020**	**2019**	
Loans and advances at amortised cost					
Mortgage lending	3,533,061,143	1,959,400,610	90.4%	97.14%	Residential and commercial properties, moveable assets.
Business, personal and other loans	2,462,371,839	2,222,175,296	5.3%	4.48%	Motor vehicles and equipment
Finance leases	1,876,235,315	2,439,804,396	96.4%	98.89%	Motor vehicles and equipment
Hire purchase	796,574	5,598,150	100.0%	42.19%	Motor vehicles and equipment
	7,872,464,871	**6,626,978,452**			
Debt investment securities at amortised cost					
Financial investments- Amortized cost	29,985,786	87,703,424	100	100	Government securities
	29,985,786	**87,703,424**			
Other assets at amortised cost					
Refundable deposits	1,984,100	2,030,100	-	-	None
Debtors	1,783,178	1,783,178	-	-	None
	3,767,278	**3,813,278**			

Loan-to-value analysis of loans and advances

The following tables stratify credit exposures from loans and advances by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

As at 31 March,	**2020 Rs.**	**2019 Rs.**
LTV Ratio		
Less than 50%	2,058,983,483	2,195,808,046
51% - 70%	1,477,382,910	1,684,750,049
71% - 90%	1,611,398,645	510,856,915
91%- 100%	294,578,040	64,711,060
More than 100%	104,688,614	48,889,153
Unsecured	2,325,433,179	2,121,963,229
	7,872,464,871	**6,626,978,452**

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

Credit-impaired loans

LTV Ratio	2020 Rs.	2019 Rs.
Less than 50%	305,082,283	246,373,317
51% - 70%	226,241,918	260,639,551
71% - 90%	335,738,993	285,526,583
91%- 100%	125,289,904	29,872,371
More than 100%	83,510,813	-
Unsecured	558,870,897	723,765,208
	1,634,734,808	1,546,177,030

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

	2020 Rs.	2019 Rs.
Motor vehicles	14,879,688	30,490,795
	14,879,688	30,490,795

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company does not generally use the non-cash collateral for its own operations.

41.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Refer accounting policy in Note 4.2.2.

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Generating the term structure of PD

Days past due are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by type of product and borrower.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economics factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include : GDP growth, inflation, interest rate, exchange rate and unemployment. Based on consideration of a variety of external actual and forcast information, the Company formulates a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Company then uses these forecast to adjust its estimates of PDs.

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

41.1.4 Amounts arising from ECL (Cont.)

Inputs, assumptions and techniques used for estimating impairment (cont.)

Significant increase in credit risk (cont.)

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending.

Using its expert credit judgement and, where possible, relevant historical loss experiences, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 180 days past due on any material credit obligation to the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

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

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

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company formulates three economic scenarios: a base case, which is the median scenario assigned a 68% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 14% and 18% probability of occurring respectively. The base case is aligned with information used by the Company for other purposes such as strategic planning and budgeting.

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

41.1.4 Amounts arising from ECL (Cont.)

Inputs, assumptions and techniques used for estimating impairment (cont.)

Incorporation of forward-looking information (cont.)

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Company has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and IMF.

The economic scenarios used include GDP Growth, Inflation, Interest Rate & Unemployement.

Qualitative drivers of credit risk

- Changes in Lending Policies and Procedure
- Changes in Bankruptcy and lending related Legislations
- Credit Growth
- Position of the Portfolio within the Business Cycle

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading ‘Generating the term structure of PD’.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. Also, the Company uses regulatory LGDs where adequate historical data for recovery rates of claims against defaulted counterparties are not available.

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

41.1.4 Amounts arising from ECL (Cont.)
Inputs, assumptions and techniques used for estimating impairment (cont.)
Measurement of ECL (Cont.)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.
The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances at amortised cost

As at 31 March,	**2020**				**2019**
	Stage 1 Rs.	**Stage 2 Rs.**	**Stage 3 Rs.**	**Total Rs.**	**Total Rs.**
Balance as at 1 April	52,588,211	117,376,704	830,549,626	1,000,514,541	1,288,148,547
Transfer to Stage 1	(9,804,919)	7,256,049	2,548,870	-	-
Transfer to Stage 2	(29,980,676)	25,469,312	4,511,364	-	-
Transfer to Stage 3	(11,446,639)	(44,457,374)	55,904,013	-	-
Net remeasurement of loss allowance	(15,612,520)	18,579,617	192,763,596	195,730,693	186,797,667
New financial assets originated or purchased	63,387,799	52,320,598	35,474,982	151,183,379	83,624,920
Financial assets that have been derecognised	(20,452,911)	(26,184,138)	(23,916,220)	(70,553,269)	(64,709,861)
Write-offs			(215,034,595)	(215,034,595)	(493,346,732)
Balance as at 31 March	**28,678,345**	**150,360,768**	**882,801,636**	**1,061,840,749**	**1,000,514,541**

41 RISK MANAGEMENT (Contd.)

41.1 CREDIT RISK (Contd.)

41.1.5 Analysis of credit risk concentration
Industry analysis

The following table shows the credit risk concentration by industry for the components of the Statement of Financial Position.

	Cash and bank balances	Financial investments - FVOCI	Loans and advances **	Other assets	Total financial assets
31 March 2020	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Agriculture	-	-	162,656,489	-	162,656,489
Manufacturing	-	-	438,290,671	-	438,290,671
Tourism	-	-	339,308,710	-	339,308,710
Transport	-	-	99,914,418	-	99,914,418
Construction	-	-	749,372,658	-	749,372,658
Trading	-	-	3,287,935,894	-	3,287,935,894
Financial services	56,383,446	-	243,867,983	-	300,251,429
Government	-	244,855,591	-	-	244,855,591
Other	-	-	1,489,277,299	1,984,100	1,491,261,399
Total	**56,383,446**	**244,855,591**	**6,810,624,122**	**1,984,100**	**7,113,847,259**

	Cash and bank balances	Financial investments - FVOCI	Loans and advances **	Other assets	Total financial assets
31 March 2019	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Agriculture	-	-	204,704,782	-	204,704,782
Manufacturing	-	-	274,242,523	-	274,242,523
Tourism	-	-	347,284,526	-	347,284,526
Transport	-	-	98,300,609	-	98,300,609
Construction	-	-	318,733,640	-	318,733,640
Trading	-	-	2,590,095,508	-	2,590,095,508
Financial services	60,922,009	-	72,253,838	-	133,175,847
Government	-	244,380,615	-	-	244,380,615
Other	-	-	1,720,851,485	2,030,100	1,722,881,585
Total	**60,922,009**	**244,380,615**	**5,626,466,911**	**2,030,100**	**5,933,799,635**

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

Province	**2020**	**2019**
	Rs.	**Rs.**
Central	2,901,917,424	2,751,874,712
Eastern	-	-
North Central	736,571,327	420,097,270
North Western	452,721,859	324,095,371
Northern	-	-
Sabaragamuwa	295,404,545	245,157,879
Southern	222,582,258	216,580,823
Uva	-	-
Western	2,201,426,709	1,668,660,856
Total	**6,810,624,122**	**5,626,466,911**

41 RISK MANAGEMENT (Contd.)

41.2 LIQUIDITY RISK

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitments and to accommodate additional funding needs of the growing business volumes.

Management of liquidity risk

The Company's Board of Directors sets the Company's strategy for managing liquidity risk and oversight of the implementation is administered by Asset and Liability Committee (ALCO). ALCO approves the Company's liquidity policies and procedures. Finance department manages the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Company.

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

- Maintaining a diversified funding and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Company's financial assets and financial liabilities, and the extent to which the Company's assets are encumbered and so not available as potential collateral for obtaining funding.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

41.2.1 Maturity analysis for financial assets and financial liabilities

Remaining contractual period to maturity of the financial assets and financial liabilities of the Company is as follows;

As at 31 March 2020	On demand	Less than 03 Months	03-12 Months	01-05 Years	Over 05 Years	Total
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	56,383,446	-	-	-	-	56,383,446
Financial investments - FVOCI	-	105,001	242,769,208	-	1,981,382	244,855,591
Financial investments - Amortized cost	-	29,985,786	-	-	-	29,985,786
Loans and advances	-	636,360,187	2,254,697,653	3,573,113,172	346,453,110	6,810,624,122
Other assets	-	-	-	1,984,100	-	1,984,100
Total financial assets	**56,383,446**	**666,450,974**	**2,497,466,861**	**3,575,097,272**	**348,434,492**	**7,143,833,045**
Financial Liabilities						
Deposit liability	254,560	10,673,128	187,430,884	24,300,000	-	222,658,572
Due to banks	-	326,448,299	3,990,454,716	768,509,183	-	5,085,412,198
Lease liability	-	-	2,154,265	15,526,695	-	17,680,960
Total financial liabilities	**254,560**	**337,121,427**	**4,180,039,865**	**808,335,878**	**-**	**5,325,751,730**
Total net financial assets/(liabilities)	**56,128,886**	**329,329,547**	**(1,682,573,004)**	**2,766,761,394**	**348,434,492**	**1,818,081,315**

As at 31 March 2019	On demand	Less than 03 months	03-12 Months	01-05 Years	Over 05 Years	Total
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	60,922,009	-	-	-	-	60,922,009
Financial investments - FVOCI	-	-	242,510,815	-	1,869,800	244,380,615
Financial investments - Amortized cost	-	-	87,703,424	-	-	87,703,424
Loans and advances	-	838,033,501	1,941,127,131	2,669,693,447	177,609,832	5,626,463,911
Other assets	-	-	-	2,030,100	-	2,030,100
Total financial assets	**60,922,009**	**838,033,501**	**2,271,341,370**	**2,671,723,547**	**179,479,632**	**6,021,500,059**
Financial Liabilities						
Due to banks	134,340,178	173,054,030	2,543,364,122	1,575,269,011	-	4,426,027,341
Other liabilities	-	26,695,995	2,695,996	-	-	29,391,991
Total financial liabilities	**134,340,178**	**199,750,025**	**2,546,060,118**	**1,575,269,011**	**-**	**4,455,419,332**
Total net financial assets/(liabilities)	**(73,418,169)**	**638,283,476**	**(274,718,748)**	**1,096,454,536**	**179,479,632**	**1,566,080,727**

41 RISK MANAGEMENT (Contd.)

41.2 LIQUIDITY RISK (Cont.)

41.2.1 Maturity analysis for financial liabilities and financial assets (cont.)

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

	2020	2019
Financial assets	**Rs.**	**Rs.**
Cash and cash equivalents	56,383,446	60,922,009
Financial investments - FVOCI	242,874,209	242,510,815
Financial investments - Amortized cost	29,985,786	-
Loans and advances	2,891,057,841	2,779,160,632
	3,220,301,282	**3,082,593,456**
Financial liabilities		
Deposit liability	198,358,572	-
Due to banks	4,316,903,015	2,850,758,330
Lease liability	2,154,265	-
Other liabilities	-	29,391,991
	4,517,415,851	**2,880,150,321**

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

	2020	2019
Financial assets	**Rs.**	**Rs.**
Financial investments - FVOCI	1,981,382	123,700
Loans and advances	3,919,566,282	2,746,932,740
Other assets	1,984,100	2,090,100
	3,923,531,764	**2,749,146,540**
Financial liabilities		
Deposit liability	24,300,000	-
Due to banks	768,509,183	2,541,127,779
	792,809,183	**2,541,127,779**

41.2.2 Liquidity reserves

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

	2020		2019	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	56,383,446	56,383,446	60,922,009	60,922,009
Unencumbered debt securities issued by sovereigns				
Securities purchased under resale agreement	29,985,786	29,985,786	87,703,424	87,703,424
Investment in government securities	242,874,209	242,874,209	242,510,815	242,510,815
Total liquidity reserves	**329,243,441**	**329,243,441**	**391,136,248**	**391,136,248**

41.2.3 Financial assets available to support future funding

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

	Encumbered		Unencumbered		
	Pledged as collateral	**Other ***	**Available as collateral**	**Other ****	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
31 March 2020					
Cash and cash equivalents	-	-	56,383,446	-	56,383,446
Financial investments - FVOCI	-	-	242,874,209	1,981,382	244,855,591
Financial investments - Amortized cost	-	-	-	29,985,786	29,985,786
Loans and advances	3,132,091,215	-	4,740,373,656	-	7,872,464,871
Other assets	-	-	1,984,100	-	1,984,100
	3,132,091,215	-	5,041,615,411	31,967,168	**8,205,673,793**

41 RISK MANAGEMENT (Contd.)
41.2 LIQUIDITY RISK (Cont.)
41.2.3 Financial assets available to support future funding (cont.)

	Encumbered		Unencumbered		
31 March 2019	**Pledged as collateral Rs.**	**Other * Rs.**	**Available as collateral Rs.**	**Other ** Rs.**	**Total Rs.**
Cash and cash equivalents	-	-	60,922,009	-	60,922,009
Financial investments - FVOCI	-	-	242,510,815	1,869,800	244,380,615
Financial investments - Amortized cost	-	-	-	87,703,424	87,703,424
Loans and advances	2,631,962,741	-	3,995,015,711	-	6,626,978,452
Other assets	-	-	-	2,030,100	2,030,100
	2,631,962,741	-	4,298,448,535	91,603,324	**7,022,014,600**

* Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.
** Represents assets that are not restricted for use as collateral, but that the Company would not consider readily available to secure funding in the normal course of business.

41.3 MARKET RISK

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

Management of market risks

Overall authority for market risk is vested in Board Integrated Risk Management Committee (BIRMC). BIRMC sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Asset and Liability Committee (ALCO) is responsible for the development of detailed risk management policies (subject to review and approval by BIRMC) and for the day-to-day review of their implementation.

Exposure to currency risk

As at the reporting date, there were no any foreign currency exposure to the company.

41.3.1 INTEREST RATE RISK

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the interest margin of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arising due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;
▪ Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio.
▪ Yield curve risk arising from unanticipated shifts of the market yield curve.

41.3.1.1 INTEREST RATE EXPOSURE – SENSITIVITY ANALYSIS

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Company's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

	2020		2019	
Net Interest Income	**Increase in 100 bp Rs.**	**Decrease in 100 bp Rs.**	**Increase in 100 bp Rs.**	**Decrease in 100 bp Rs.**
As at March 31,	5,220,976	(5,222,020)	7,743,842	(7,745,391)
Average for the period	4,920,231	(4,921,215)	7,384,576	(7,386,053)
Maximum for the period	5,220,976	(5,222,020)	7,743,842	(7,745,391)
Minimum for the period	4,549,616	(4,550,526)	7,157,845	(7,159,277)

41 RISK MANAGEMENT (Contd.)

41.3 MARKET RISK (Cont.)

41.3.1.2 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

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

	Up to 03 months	03-12 Months	01-03 Years	03-05 Years	Over 05 years	Non interest bearing	Total as at 31/03/2020
As at 31 March 2020							
Financial assets	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**
Cash and cash equivalents	56,383,446	-	-	-	-	-	56,383,446
Financial investments - FVOCI	105,001	242,769,208	-	-	1,981,382	-	244,855,591
Financial investments - Amortized cost	29,985,786	-	-	-	-	-	29,985,786
Loans and advances	636,360,187	2,254,697,653	2,618,384,902	954,728,270	346,453,110	-	6,810,624,122
Other assets	-	-	-	-	1,984,100	-	1,984,100
Total financial assets	**722,834,420**	**2,497,466,861**	**2,618,384,902**	**954,728,270**	**350,418,592**	**-**	**7,143,833,045**
Percentage	**10%**	**35%**	**37%**	**13%**	**5%**	**0%**	**100%**
Financial liabilities							
Deposit liability	10,927,688	187,430,884	19,300,000	5,000,000	-	-	222,658,572
Due to banks	326,448,299	3,990,454,717	536,009,183	232,499,999	-	-	5,085,412,198
Lease liability	-	2,154,265	8,004,339	7,522,357	-	-	17,680,961
Total financial liabilities	**337,375,987**	**4,180,039,866**	**563,313,522**	**245,022,356**	**-**	**-**	**5,325,751,731**
Percentage	**6%**	**78%**	**11%**	**5%**	**0%**	**0%**	**100%**
INTEREST SENSITIVITY GAP	**385,458,433**	**(1,682,573,005)**	**2,055,071,380**	**709,705,914**	**350,418,592**	**-**	**1,818,081,315**
Percentage	**21%**	**-93%**	**113%**	**39%**	**19%**	**0%**	**100%**

As at 31 March 2019	Up to 03 months	03-12 Months	01-03 Years	03-05 Years	Over 05 years	Non interest bearing	Total as at 31/03/2019
Financial assets	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**
Cash and cash equivalents	60,922,009	-	-	-	-	-	60,922,009
Financial investments - FVOCI	-	242,510,815	-	-	-	1,869,800	244,380,615
Financial investments - Amortized cost	-	87,703,424	-	-	-	-	87,703,424
Loans and advances	838,033,501	1,941,127,131	1,927,070,024	742,623,423	177,609,832	-	5,626,463,911
Other assets	-	-	-	-	2,030,100	-	2,030,100
Total financial assets	**898,955,510**	**2,271,341,370**	**1,927,070,024**	**742,623,423**	**179,639,932**	**1,869,800**	**6,021,500,059**
Percentage	**15%**	**38%**	**32%**	**12%**	**3%**	**0%**	**100%**
Financial liabilities							
Due to banks	307,394,208	2,543,364,122	1,286,255,820	289,013,191	-	-	4,426,027,341
Total financial liabilities	**307,394,208**	**2,543,364,122**	**1,286,255,820**	**289,013,191**	**-**	**-**	**4,426,027,341**
Percentage	**7%**	**57%**	**29%**	**7%**	**0%**	**0%**	**100%**
INTEREST SENSITIVITY GAP	**591,561,302**	**(272,022,752)**	**640,814,204**	**453,610,232**	**179,639,932**	**1,869,800**	**1,595,472,718**
Percentage	**37%**	**-17%**	**40%**	**28%**	**11%**	**0%**	**100%**

41 RISK MANAGEMENT (Contd.)

41.4 OPERATIONAL RISK

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, Company policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has established Board Intergrated Risk Management Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Company's Board Integrated Risk Management Committee, with summaries submitted to the Board Audit Committee and senior management of the Company.

41.5 CAPITAL MANAGEMENT

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

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

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

Capital Adequacy

Capital adequacy measures the Company's aggregate capital in relation to the risk, which may arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. The Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital with effect from 1 July 2018. This guidelines requires the Company to maintain minimum capital ratio of 6.5% and minimum risk weighted core capital of 10.5%.

Capital and risk weighted assets	**Minimum Requirement**		**Ratio**	
	2020	**2019**	**2020**	**2019**
Capital to risk weighted asset ratio				
Tier I Capital	6.50%	6.00%	21.82%	23.34%
Total Capital	10.50%	10.00%	21.82%	23.34%

42 SEGMENTAL INFORMATION

42.1 Basis of segmentation

The Company has the following four strategic divisions, which are its reportable segments. These divisions offer different services, and are managed separately because they require different credit risk management strategies.

The following summary describes the operations of each reportable segment.

Reportable segments	Operations
Leasing and Hire Purchase	Finance leases and Hire Purchase related transactions and balances with customers.
Mortgage Loans	Mortgage Loans related transactions and balances with customers.
Personal, Business and Other Unsecured Loans	Personal Loans, Business Loans and Other Unsecured Loans related transactions and balances with customers.
Investments and Others	Financial Investments kept for liquidity requirements and other short term investments related transactions and balances.

The Company's Board of Directors reviews the internal management reports of each division at least monthly.

42.2 Information about reportable segments

	Leasing and Hire Purchase		Mortgage Loans		Personal, Business and Other Unsecured Loans		Investments and Others		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
External Revenue										
Interest	353,838,146	437,935,631	431,690,924	154,906,165	312,110,040	189,442,668	33,466,632	34,504,600	1,131,105,742	816,789,064
Fees & Commissions	33,561,922	41,007,070	12,478,270	8,900,533	14,009,432	12,026,466	-	141,610	60,049,624	62,075,679
Dividends	-	-	-	-	-	-	280,000	240,000	280,000	240,000
Other income	-	-	-	-	-	-	19,313,963	5,224,246	19,313,963	5,224,246
Total external revenue	**387,400,068**	**478,942,701**	**444,169,194**	**163,806,698**	**326,119,472**	**201,469,134**	**53,060,595**	**40,110,456**	**1,210,749,329**	**884,328,989**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Total revenue	**387,400,068**	**478,942,701**	**444,169,194**	**163,806,698**	**326,119,472**	**201,469,134**	**53,060,595**	**40,110,456**	**1,210,749,329**	**884,328,989**
Profit/ (Loss) before tax									128,044,747	20,080,084
Income tax (expenses)/ reversal									(59,068,763)	(378,244)
Profit after tax									**68,975,984**	**19,701,840**
Segment assets	**2,423,918,965**	**2,495,789,755**	**2,779,117,048**	**1,628,014,937**	**2,040,493,119**	**1,871,315,649**	**331,994,218**	**410,485,609**	**7,575,523,350**	**6,405,605,950**
Segment liabilities	**1,734,642,812**	**1,757,695,247**	**1,988,835,220**	**1,146,552,554**	**1,460,249,609**	**1,317,900,522**	**237,586,896**	**289,090,298**	**5,421,314,537**	**4,511,238,621**

43 CONTINGENCIES

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

43.1 LITIGATIONS AND CLAIMS

There have been no material litigations and claims as at the reporting date, which require adjustments or disclosures in the Financial Statements.

44 COMMITMENTS

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

45 EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date, which require adjustments to or disclosure in the Financial Statements.

46 COMPARATIVE INFORMATION

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

47 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

48 THE IMPACT OF THE COVID-19

The company was well focused in considering the directions & guidelines issued by The Central Bank of Sri Lanka (CBSL) for financial institutions to offer concessions on financial obligations to individual customers and private business operations due to the adverse short-term impact on their sources of income. Further, the Company adhered to these directions and guidelines and has taken the appropriate measures to offer relief measures to the affected customers.

Having the fullest cooperation from its single shareholder, the Banking giant Commercial Bank of Ceylon PLC for maintaining a strong capital adequacy and uninterrupted liquidity during this uncertain period has been the key strength for the Company. The Company's current liquidity position built over the last few years is a source of financial strength, while company has also taken all necessary measures to ensure continuation of confirmed credit lines with several banking institutions. The Board of Directors continuously monitors the performance and financial position during this uncertain period.

The Company has also enacted a process to review future and recurring costs implications and cost savings measures in the coming months, while maintaining efficiencies and productivity without disadvantaging the stakeholders.

The Company is confident of the resilience of people and resources to withstand the impacts arising from this crisis as currently foreseen. However, the exact impact on the business in the foreseeable future is still to be realized given the volatility and unexpected developments caused by Covid-19 pandemic globally. Company will continue to monitor the impacts to business operations and stakeholders and will proactively take measures to ensure business continues with minimal interruptions as far as possible in these times.

The major impact from the COVID-19 outbreak to the Financial Statements is as follows:

48. 1 Impact of Covid-19 Pandemic on Expected Credit Lossess

ECL measurements need to incorporate forward-looking reasonable and supportable information available without undue cost or effort at the reporting date (SLFRS 9.5.5.17). Accordingly, SLFRS 9 requires the application of judgement and both requires and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment due to the COVID-19. To assess Significant Increase in Credit Risk (“SICR”), SLFRS 9 requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument. Entities are required to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration needs to be given both to the effects of the COVID-19 and the significant government support measures being undertaken.

The extension of payment holidays granted to borrowers in stressed/ specific industries under the Government approved Relief Schemes shall not automatically result in all those instruments being considered to have suffered a SICR. Consideration also needs to be given on whether the concessions under moratoriums could enable certain borrowers to resume regular payments in the foreseeable future (who otherwise would have fallen into financial difficulty), such that significant increase in credit risk would not occur over expected remaining lives of the receivables.

Due to the insufficiency of relevant and accurate information, uncertainty arises relating to customers repayment ability, resource constraints and various government relief measures as a result of the outbreak.

48. 1 Impact of Covid-19 Pandemic on Expected Credit Lossess (Cont.)

The Company measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by SLFRS 9 Financial Instruments. The Company’s accounting policy for the recognition and measurement of the allowance for expected credit losses is described at Note 4.2.2 of Financial Statements for the year ended 31 March 2020.

Collectively assessed allowance for expected credit losses

During the year collectively assessed allowance for expected credit losses increased by Rs. 61 Mn. In estimating collectively assessed ECL, the company makes judgements and assumptions in relation to the selection of an estimation technique or modelling methodology, noting that the modelling of the Company's ECL estimates are complex; and the selection of inputs for those models, and the interdependencies between those inputs.

The modelling methodology applied in estimating ECL in these Financial Statements is consistent with those applied in Financial Statements for the year ended 31 March 2019.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to the COVID-19, judgments and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the asociated impact on the economy. Accordingly, the Company's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Illustrated below the key judgements and assumptions in relation to the model inputs:

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the forecast resulting in an understatement of the ECL balance due to uncertainties around:
• The extent and duration of measures to stop or reduce the speed of the spread of the COVID-19;
• The extent and duration of the economic down turn, along with the time required for economies to recover;
• The effectiveness of government stimulus measures, in particular their impact on the Magnitude of economic downturn and the extent and the duration of the recovery.

The Company used the economic factor adjustments as at 31 March 2020 in line with the Guidance Notes on Accounting Considerations of the COVID 19 Outbreak issued by CA Sri Lanka. Accordingly, weightage assigned to worst case scenario has to be increased by transferring the weightage from base case/ best case scenario to worst case scenario.

Staging of the Loans

The Company continued the same staging that existed as at 29 February 2020 which allowed under the guidance notes on Accounting Considerations of the COVID-19 outbreak issued by CA Sri Lanka.

ECL-Sensitivity analysis

The uncertainty on the impact of the COVID-19 introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of the COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance within the current and next financial years.

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

	Total ECL	Impact
	Rs.	Rs.
100% upside scenario	988,193,614	(73,647,135)
100% base scenario	1,053,336,319	(8,504,430)
100% downside scenario	1,111,354,420	49,513,671

48. 2 Interest income recognition for financial assets at amortised cost - Loans and advances

Based on the Debt Moratoriums as per Circulars issued by Monetary Board during the year 2020, Central Bank of Sri Lanka granted extension of payment holidays to borrowers in stressed/ specific industries.

For not credit impaired receivables, interest has to be accrued throughout the period (during the moratorium and extended tenure) applying the original Effective Interest Rate (EIR) in accordance with SLFRS 9.5.4.1 and SLFRS 9.5.4.2 applied to the gross carying amount of the financial assets. Accordingly, the modification gain or loss shall be charged to profit or loss immediately (SLFRS 9.5.4.3 and SLFRS 9.B5.5.2). This is on the basis that the modification is not substantial. If there is a substantial modification, that would result in derecognition of the financial asset. Consequently, a new financial asset would be recognised and the EIR would be restated based on the pre modification carrying value and the revised cash flows.

For credit impaired receivables, interest revenue shall be accrued in the financial statements for the credit impaired assets, by applying the original EIR on the net carrying value, after adjusting for Expected Credit Loss (ECL).

48. 3 Interest expenses on financial liabilities at amortised cost - Interest Bearing Borrowings

Due to the impact of the Covid-19 pandemic, there were revisions to interest rates and these rates may need to be reconsidered. However, there was no significant impact from interest rate volatility for the financial year ended 31 March 2020.

The impact on other Financial Statement captions are described in the respective notes to the financial statements.

48. 4 Fair Valuation of financial investments measured at fair value through other comprehensive income (FVOCI)

The company has continued to value the FVOCI securities based on the same valuation technique used in prior financial year and not used the Guidance Notes on Accounting Considerations of the COVID 19 Outbreak issued by CA Sri Lanka which allowed to change the valuation technique subject to not to exceed the market value reported as at 31 December 2019.