CBC FINANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2021

KPMG
(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CBC FINANCE LIMITED (FORMERLY KNOWN AS SERENDIB FINANCE LIMITED)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CBC Finance Limited (formerly known as Serendib Finance Limited), ("the Company"), which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, 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 include the other information.

Our opinion on the financial statements do not cover the other information and we do 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional 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
28 June 2021

For the year ended 31 March,	Notes	2021 Rs.	2020 Rs.
Gross income	**10**	**1,057,909,452**	**1,210,749,329**
Interest income		963,004,076	1,131,105,742
Interest expenses		(480,981,089)	(572,366,015)
Net interest income	**11**	482,022,987	558,739,727
Fee and commission income		61,590,055	60,049,624
Fee and commission expenses		(1,341,109)	(1,345,217)
Net fee and commission income	**12**	60,248,946	58,704,407
Other operating income	**13**	33,315,321	19,593,963
Total operating income		575,587,254	637,038,097
Impairment charges for loans and other losses	**14**	(196,479,621)	(276,360,800)
Net operating income		379,107,633	360,677,297
Operating expenses			
Personnel expenses	**15**	(104,423,835)	(92,157,135)
Depreciation and amortization		(29,804,077)	(20,718,484)
Other operating expenses	**16**	(74,626,468)	(69,985,657)
Fair value losses on investment properties		(7,711,634)	-
Operating profit before taxes on financial services		162,541,619	177,816,021
Taxes on financial services		(33,098,736)	(49,771,274)
Profit before taxation		**129,442,883**	**128,044,747**
Income tax expense	**17**	(64,952,304)	(59,068,763)
Profit for the year		**64,490,579**	**68,975,984**
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	**25**	-	22,863,247
Deferred tax charge on revaluation surplus of property, plant and equipment	**17**	-	(6,401,709)
Effect on change in tax rate	**17**	4,571,158	-
		4,571,158	16,461,538
Actuarial losses on defined benefit plans, net of tax			
Actuarial losses on defined benefit plans	**31**	(838,044)	(1,270,854)
Deferred tax reversal on actuarial losses	**17**	201,131	355,839
Effect on change in tax rate	**17**	(62,116)	-
		(699,029)	(915,015)
Unquoted equity securities, net of tax			
Net change in fair value of FVOCI financial assets	**39**	116,884	111,582
Deferred tax charge on fair value reserve	**17**	(28,052)	(31,243)
Effect on change in tax rate	**17**	4,463	-
		93,295	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		422,423	331,457
Deferred tax charge on fair value reserve	**17**	(101,382)	(92,808)
Effect on change in tax rate	**17**	(27,929)	-
		293,112	238,649
Other comprehensive income for the year, net of tax		**4,258,536**	**15,865,511**
Total comprehensive income for the year		**68,749,115**	**84,841,495**
Basic earnings per share	**18**	**0.35**	**0.48**

Figures in brackets indicate deductions.

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

CBC FINANCE LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31 March,	Notes	2021 Rs.	2020 Rs.
ASSETS			
Cash and cash equivalents	20	324,309,571	56,383,446
Financial investments at fair value through other comprehensive income	21	511,999,386	244,855,591
Financial investments at amortized cost	22	227,314,205	29,985,786
Loans and advances	23	8,070,139,117	6,810,624,122
Investment properties	24	25,150,000	-
Property, plant and equipment	25	248,941,125	234,611,303
Intangible assets	26	31,199,041	11,617,126
Right of use assets	27	40,590,614	16,460,800
Deferred tax assets	33	195,023,364	146,687,202
Other assets	28	26,236,364	24,297,974
Total assets		**9,700,902,787**	**7,575,523,350**
LIABILITIES			
Deposit liabilities	29	4,838,979,172	222,658,572
Due to banks	30	1,411,123,680	5,085,412,198
Employee benefits	31	11,430,854	8,777,241
Lease liabilities	32	43,830,248	17,680,960
Current tax liabilities	34	101,505,099	34,154,410
Other liabilities	35	71,075,807	52,631,156
Total liabilities		6,477,944,860	5,421,314,537
EQUITY			
Stated capital	36	3,254,999,963	2,254,999,964
Accumulated losses	37	(169,212,632)	(229,779,653)
Other reserves	38	137,170,596	128,988,502
Total equity		3,222,957,927	2,154,208,813
Total liabilities and equity		**9,700,902,787**	**7,575,523,350**

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

....
R. Senanayake
Director

28 June 2021
Kandy

CBC FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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 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**
Balance as at 01 April 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
Comprehensive income								
Profit for the year	-	-	-	-	-	-	64,490,579	64,490,579
Other comprehensive income for the year net of tax	-	-	4,571,158	-	386,407	-	(699,029)	4,258,536
Total comprehensive income	**-**	**-**	**4,571,158**	**-**	**386,407**	**-**	**63,791,550**	**68,749,115**
Transactions recognized directly in Equity								
Transfers during the year	-	-	-	3,224,529	-	-	(3,224,529)	-
	-	**-**	**-**	**3,224,529**	**-**	**-**	**(3,224,529)**	**-**
Transactions with owners of the Company								
Issue of ordinary shares	999,999,999	-	-	-	-	-	-	999,999,999
Balance as at 31 March 2021	**3,254,999,963**	**50,000**	**86,114,318**	**29,687,279**	**1,221,110**	**20,097,889**	**(169,212,632)**	**3,222,957,927**

Figures in brackets indicate deductions.

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

For the year ended 31 March,	Notes	2021 Rs.	2020 Rs.
Cash flows from operating activities			
Profit before taxation		129,442,883	128,044,747
Adjustments for:			
Interest expenses	**11**	480,981,089	572,366,015
Impairment charges for loans and other losses	**14**	196,479,621	276,360,800
Interest income from bank deposits and government securities	**11**	(30,079,064)	(33,466,632)
Dividend income	**13**	(320,000)	(280,000)
Depreciation	**25**	14,642,697	10,965,335
Amortization		15,161,380	9,753,149
Provision for defined benefit plans	**31**	2,928,599	2,212,211
Loss on sale of property, plant and equipment		24,611	7,088
Fair value losses on investment properties	**24**	7,711,634	-
Operating profit before working capital changes		816,973,450	965,962,713
Increase in loans and receivables		(1,488,856,250)	(1,460,521,011)
Increase in other assets		(38,119,995)	(26,629,741)
Increase in deposit liabilities		4,428,690,611	219,775,792
Increase / (decrease) in other liabilities		40,666,979	(11,609,691)
Cash generated from / (used in) operations		3,759,354,795	(313,021,938)
Taxes paid	**34**	(41,414,104)	(20,765,358)
Gratuity paid	**31**	(1,113,030)	(146,250)
Net cash flows generated from / (used in) operating activities		**3,716,827,661**	**(333,933,546)**
Cash flows from investing activities			
Net Investment in Financial investments - FVOCI		(266,604,488)	(31,937)
Net Investment in Financial investments - at amortized cost		(197,328,419)	57,717,638
Interest received from bank deposits and government securities		30,079,064	33,466,632
Acquisition of property, plant and equipment	**25**	(29,001,630)	(26,226,089)
Acquisition of intangible assets	**26**	(22,657,904)	(2,952,048)
Dividend income	**13**	320,000	280,000
Proceeds from sale of property, plant and equipment		4,500	88,223
Net cash flows (used in) / generated from investing activities		**(485,188,877)**	**62,342,419**
Cash flows from financing activities			
Loans obtained during the year	**30**	2,240,000,000	4,345,000,001
Loan repayments during the year	**30**	(6,218,527,535)	(4,168,845,568)
Interest paid on overdraft		(678,025)	(11,404,166)
Net proceeds from the issue of ordinary shares	**36**	999,999,999	174,999,989
Net cash flows (used in) / generated from financing activities		**(2,979,205,561)**	**339,750,256**
Net increase in cash and cash equivalents		**252,433,223**	**68,159,129**
Cash and cash equivalents at the beginning of the year		(5,259,040)	(73,418,169)
Cash and cash equivalents at the end of the year *		**247,174,183**	**(5,259,040)**
*** Analysis of cash and cash equivalents at the end of the year**			
Cash and bank balances	**20**	324,309,571	56,383,446
Bank overdraft	**30**	(77,135,388)	(61,642,486)
		247,174,183	**(5,259,040)**

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

CBC Finance Limited (formerly known as Serendib 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 under the Company Registration No. PB 279.

The registered office and the principal place of business of the Company is located at No. 187, Katugastota Road, Kandy.

The name of the Company was changed from Serendib Finance Limited to CBC Finance Limited on 23rd December 2020.

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, whilst accepting public deposits from customers. 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 31st March 2021 is 145 (2020: 131).

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.

2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31st March 2021 were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 28th June 2021.

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.
- Investment property measured at cost at the time of acquisition and subsequently at fair value.

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 40.

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.

a) Offsetting
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.

b) Rounding
The amounts in the Financial Statements have been rounded-off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements"

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.
The Company considered the impact of COVID -19 in preparing the Financial Statements in line with the circulars and guidelines issued by the CBSL and the CA Sri Lanka. While the specific areas of judgment may not change, the impact of COVID-19 resulted in the application of further judgment within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Further, changes to estimates

were made in the measurement of Company's assets where applicable. The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below and/or in the relevant notes to Financial Statements.

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 2021 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** – Fair value of investment property;
- **Note 4.7.4** – revaluation of property, plant and equipment;
- **Note 4.11.1.1** – measurement of defined benefit obligations: key actuarial assumptions;
- **Note 4.12 and 4.13** – provisions and contingencies;
- **Note 6.1** – recognition of current tax expense;
- **Note 6.1.2** – 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.

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. INITIAL APPLICATION OF ACCOUNTING POLICIES

The Company initially applied LKAS 40 Investment Property from 01st April 2020. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Details of "Investment Property" are given in Note 24.

3.1 Classification of investment property

Management uses its judgment to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Company are classified as investment property. On the other hand, a property used in production or supply of goods and services or administrative purposes and thus generates cash flows that are attributable not only to property but also to other assets used in the production or supply process are classified as property, plant & equipment. The Company assesses the accounting classification of its investment properties on an annual basis, taking into consideration the current use of such properties.

3.2 Fair valuation of investment property

Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The key assumptions used to determine the fair value of investment property are provided in detail in Note 24.

3.3 Gain or loss on disposal of investment property

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by a Chartered valuation surveyor. Any gain or loss arising from a change in fair value is recognised through profit or loss.

3.4 Derecognition of investment property

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Company considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer, if any.

3.5 Transfer in and out of investment property

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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.

The Institute of Chartered Accountants of Sri Lanka has issued number of new amendments to Sri Lanka Accounting Standards (SLFRSs/ LKASs) that are effective for the current financial year. These amendments and interpretations did not have any significant impact on the reported financial statements of the Company.

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.

“Day 1” Profit or Loss

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

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.

The Company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgments in the assessment of the impact of the COVID-19 outbreak on the loans and advances portfolio of the Company, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures.

The impact of the outbreak has been assessed and adjusted in these Financial Statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka. Accordingly, customers operating in risk elevated industries were assessed for lifetime ECL unless such exposures are have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

The management decided to increase the weightings assigned for worst case scenario while reducing the weightings assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators. In addition, management overlay adjustment on the ECL computation, based on the qualitative indicators on forward looking macro-economic factors were considered with the objective of capturing the impact of COVID-19 related uncertainties and volatilities.

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 other operating income 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 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 Investment Property

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date

4.6.1 Classification of investment property

Management uses its judgment to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Company are classified as investment property. On the other hand, a property used in production or supply of goods and services or administrative purposes and thus generates cash flows that are attributable not only to property but also to other assets used in the production or supply process are classified as property, plant & equipment. The Company assesses the accounting classification of its investment properties on an annual basis, taking into consideration the current use of such properties.

4.6.2 Fair valuation of investment property

Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location.

4.6.3 Gain or loss on disposal of investment property

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by a Chartered valuation surveyor. Any gain or loss arising from a change in fair value is recognised through profit or loss.

4.6.4 Derecognition of investment property

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Company considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer, if any.

4.6.5 Transfer in and out of investment property

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

4.7 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.

4.7.1 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.

4.7.2 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.

4.7.3 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.

4.7.4 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 to 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.

4.7.5 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.

4.7.6 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.

4.7.7 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.

4.7.8 Changes in Estimates

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

4.8 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.

4.8.1 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.

4.8.2 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.

4.8.3 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.

4.8.4 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.

4.8.5 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

4.8.6 Lease

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.

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.

4.9 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.

4.10 Share Capital

4.10.1 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.

4.10.2 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).

4.11 Employee Benefits

4.11.1 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.

4.11.1.1 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 31 to the financial statements.

4.11.1.2 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

4.11.1.3 Funding Arrangements

The Gratuity liability is not externally funded.

4.11.2 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.

4.11.2.1 Employees’ Provident Fund

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

4.11.2.2 Employees’ Trust Fund

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

4.12 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.

4.13 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.

4.14 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.

4.15 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 2020 or 2021.

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.

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.

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 - TAXATION

6.1 Income Tax

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.

6.1.1 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.

6.1.2 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.

6.2 Changes proposed to Income Tax from Government Tax Proposals

As per Notice dated 08th April 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017", effective from financial reporting period ended from 26th March 2021, Corporate Income Tax rate was revised from 28% to 24%. Such revised tax rate been considered in computing the income tax liabilities and deferred taxation.

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 01st December 2019.

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.

6.6 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 01st October 2018 till 31st 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 01st January 2020.

6.7 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. SIGNIFICANT ACCOUNTING POLICIES - 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 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

A number of new standards are effective for annual periods beginning after 01st April 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

9.1 Onerous contracts

Cost of Fulfilling a Contract (Amendments to LKAS 37) the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for financial reporting periods beginning on or after 01 April 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Company has determined that all contracts existing at 31st March 2021 will be completed before the amendments become effective.

9.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2) – (“IBOR reform”)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark based cash flows of the hedged item or the hedging instrument. IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments support companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform. These amendments to various standards are effective for the financial reporting periods beginning on or after 01st April 2021. The Company is currently assessing the potential impact on its Financial Statements resulting from these amendments.

9.3 Other Standards

The following new and amended standards are not expected to have a significant impact on the Company’s financial statements.

- COVID-19-Related Rent Concessions (Amendment to SLFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Reference to Conceptual Framework (Amendments to SLFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Annual Improvements to SLFRS Standards 2018 – 2020.

For the year ended 31 March,		Notes	2021 Rs.	2020 Rs.
10	**GROSS INCOME**			
	Interest income	**11.1**	963,004,076	1,131,105,742
	Fee and commission income	**12.1**	61,590,055	60,049,624
	Other operating income	**13**	33,315,321	19,593,963
	Total income		**1,057,909,452**	**1,210,749,329**
11	**NET INTEREST INCOME**			
11.1	**Interest income**			
	Lease rentals and hire purchase receivable		198,684,906	353,838,146
	Loans and advances		734,240,106	743,800,964
	Interest income from bank deposits and government securities		30,079,064	33,466,632
	Total interest income		**963,004,076**	**1,131,105,742**
11.2	**Interest expenses**			
	Interest on overdraft		678,025	11,404,166
	Interest on long term borrowings		288,746,115	555,928,116
	Interest on deposits		187,629,989	2,882,780
	Interest on lease liabilities		3,926,960	2,150,953
	Total interest expenses		**480,981,089**	**572,366,015**
	Net interest income		**482,022,987**	**558,739,727**

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.

	2021 Rs.	2020 Rs.
Financial assets measured at amortised cost	944,155,419	1,106,910,944
Financial assets measured at FVOCI	18,848,657	24,194,798
Total	**963,004,076**	**1,131,105,742**
Financial liabilities measured at amortised cost	**480,981,089**	**572,366,015**

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.

	2021 Rs.	2020 Rs.
Fee and commission income		
Service charge	32,844,763	22,356,325
Insurance commission	3,081,918	3,939,720
Other fees recovered	25,663,374	33,753,579
Total fee and commission income	**61,590,055**	**60,049,624**
Fee and commission expenses		
Sales commission	38,609	357,039
Introducer commission	1,302,500	988,178
Total fee and commission expenses	**1,341,109**	**1,345,217**
Net fee and commission income	**60,248,946**	**58,704,407**

The fees and commission presented in this note include income of Rs. 61.6 million (2020: Rs. 60.0 million) and expense of Rs. 1.3 million (2020: Rs. 1.3 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 NET FEE AND COMMISSION INCOME (CONT.)

12.2 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	2021 Rs.	2020 Rs.
13	**OTHER OPERATING INCOME**			
	Dividend income		320,000	280,000
	Recoveries of bad debts		26,983,954	18,294,708
	Rent Income		900,000	912,240
	Profit on disposal of property, plant and equipment		9,430	-
	Other income		5,101,937	107,015
	Total		**33,315,321**	**19,593,963**
14	**IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES**			
	Lease rentals receivable		(17,772,902)	71,694,942
	Loans and Hire Purchases receivable		232,451,046	204,665,858
	Direct Write off for the year		4,700	-
		23.1	214,682,844	276,360,800
	Interest unwinding on stage three contracts		(20,914,620)	-
	Insurance premium receivable	**28.1**	2,711,397	-
	Total		**196,479,621**	**276,360,800**
15	**PERSONNEL EXPENSES**			
	Salaries and other related expenses		68,609,970	62,666,118
	Employer's contribution to Employees' Provident Fund		6,411,616	5,746,090
	Employer's contribution to Employees' Trust Fund		1,602,910	1,436,535
	Gratuity charge for the year	**31.1.1**	2,928,599	2,212,211
	Other staff related expenses		24,870,740	20,096,181
	Total		**104,423,835**	**92,157,135**
16	**OTHER OPERATING EXPENSES**			
	Directors' emoluments		4,130,000	3,996,000
	Auditors' remuneration - Audit & audit related services		2,001,467	1,676,466
	Professional and legal expenses		4,434,526	328,799
	General insurance expenses		567,863	394,014
	Office administration and establishment expenses		57,825,557	56,309,334
	Sales, marketing and business promotional expenses		5,667,055	7,281,044
	Total		**74,626,468**	**69,985,657**
17	**INCOME TAX CHARGE / (REVERSAL)**			
17.1	**Amounts recognized in profit or loss**			
	Current tax expense			
	Provision for the year		106,121,814	52,937,381
	Under provision in relation to prior years		2,609,379	1,982,387
			108,731,193	**54,919,768**
	Deferred tax expense			
	Reversal / (origination) of deferred tax asset		(80,556,519)	4,148,995
	Effect on change in tax rate		36,777,630	-
		33	**(43,778,889)**	**4,148,995**
	Total		**64,952,304**	**59,068,763**

For the year ended 31 March,

17 INCOME TAX CHARGE / (REVERSAL) (CONT.)

17.2 Amount recognized in OCI

	Note	2021 Rs.	2020 Rs.
Income that will not be reclassified to profit or loss			
Revaluation surplus of capital asset		-	(6,401,709)
Remeasurement of defined benefit liability		201,131	355,839
Net change in fair value of unquoted equity securities		(28,052)	(31,243)
Effect on change in tax rate		4,513,505	-
		4,686,584	**(6,077,113)**
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)		(101,382)	(92,808)
Effect on change in tax rate		(27,929)	
	33	**4,557,273**	**(6,169,921)**

17.3 Reconciliation of effective tax rate

For the year ended 31 March,		2021 Rs.		2020 Rs.
Profit for the year		64,490,579		68,975,984
Income tax charge		64,952,304		59,068,763
Profit before taxation		129,442,883		128,044,747
Tax using the domestic corporation tax rate of 24%	24%	31,066,292	28%	35,852,529
Tax effect of aggregate disallowed items	73%	95,134,247	92%	117,414,872
Tax effect of aggregate allowable expenses	-46%	(58,970,284)	-144%	(183,903,815)
Tax effect of capital portion of rentals	30%	38,891,559	84%	107,739,356
Tax effect on tax losses during the year	0%	-	-19%	(24,165,561)
Adjustment for prior years	2%	2,609,379	2%	1,982,387
Deferred tax reversal	-34%	(43,778,889)	3%	4,148,995
	50%	**64,952,304**	46%	**59,068,763**

17.4 Amounts recognized directly in equity

There were no items recognized directly in equity during the year ended 31 March 2021 and 2020.

For the year ended 31 March,	2021 Rs.	2020 Rs.
17.5 Tax losses carried forward		
Tax loss brought forward	-	86,305,533
Set off against the current taxable income	-	(86,305,533)
Tax loss carried forward	-	-

17.6 The income tax provision of the company is calculated on its adjusted profits at the standard rate of 24% (2020: 28%), in accordance with the Inland Revenue Act No. 24 of 2017 and amendments thereto. Refer accounting policy in Note 6.2.

18 BASIC EARNINGS 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,	2021	2020
Profit attributable to ordinary shareholders for basic earnings per share (Rs.)	64,490,579	68,975,984
Weighted average number of ordinary shares in issue for basic earnings per share (Note 18.1)	186,342,729	142,289,386
Basic earnings per ordinary share (Rs.)	**0.35**	**0.48**

	2021	2020
18.1 Weighted average number of ordinary shares in issue		
Issued ordinary shares as at 1 April	151,469,986	138,978,909
Effect of shares issued on 2 October 2020 *(70,323,488 ordinary shares)*	34,872,743	-
Effect of shares issued on 26 December 2019 *(12,491,077 ordinary shares)*	-	3,310,477
	186,342,729	**142,289,386**

18.2 There were no potentially dilutive ordinary shares outstanding at any time during the year, hence diluted earnings per share is equal to the basic earnings per share.

19 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 March 2021	At amortized cost	Fair value through OCI	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	324,309,571	-	-	324,309,571
Loans and advances	8,070,139,117	-	-	8,070,139,117
Financial investments	227,314,205	511,999,386	-	739,313,591
Other assets (Note 28)	15,877,875	-	-	15,877,875
Total financial assets	**8,637,640,768**	**511,999,386**	**-**	**9,149,640,154**
Liabilities				
Deposit liabilities	-	-	4,838,979,172	4,838,979,172
Due to banks	-	-	1,411,123,680	1,411,123,680
Lease liabilities	-	-	43,830,248	43,830,248
Total financial liabilities	**-**	**-**	**6,293,933,100**	**6,293,933,100**

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 28)	9,419,977	-	-	9,419,977
Total financial assets	**6,906,413,331**	**244,750,591**	**-**	**7,151,163,922**
Liabilities				
Deposit liabilities	-	-	222,658,572	222,658,572
Due to banks	-	-	5,085,412,198	5,085,412,198
Lease liabilities	-	-	17,680,960	17,680,960
Total financial liabilities	**-**	**-**	**5,325,751,730**	**5,325,751,730**

As at 31 March,		2021 Rs.	2020 Rs.
20 CASH AND CASH EQUIVALENTS			
Cash in hand held in local currency		4,335,060	1,350,311
Balances with licensed commercial banks		319,974,511	55,033,135
Total		**324,309,571**	**56,383,446**
21 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
Investments in unquoted equities	**21.1**	2,098,266	1,981,382
Investments in government securities		509,901,120	242,874,209
Total		**511,999,386**	**244,855,591**

21.1 Unquoted equities	31 March 2021			31 March 2020		
	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	2,098,266	100	123,700	1,981,382
Total		**123,700**	**2,098,266**		**123,700**	**1,981,382**

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

As at 31 March,	2021 Rs.	2020 Rs.
22 FINANCIAL INVESTMENTS AT AMORTIZED COST		
Securities purchased under resale agreements	26,134,631	29,985,786
Investments in money market funds	201,179,574	-
	227,314,205	**29,985,786**

As at 31 March,		Notes	2021 Rs.	2020 Rs.
23	**LOANS AND ADVANCES**			
	Loans and advances		11,382,290,191	10,085,260,827
	Less: Unearned income		2,355,545,327	2,212,795,956
	Gross loans and advances		9,026,744,864	7,872,464,871
	Less: Allowance for impairment losses	**23.1**	956,605,747	1,061,840,749
	Net loans and advances		**8,070,139,117**	**6,810,624,122**
23.1	**Allowance for impairment losses**			
	Collective impairment			
	As at 01 April		1,061,840,749	1,000,514,541
	Charge for the year		214,682,844	276,360,800
	Write off for the year		(319,917,846)	(215,034,592)
	As at 31 March		**956,605,747**	**1,061,840,749**
23.1.1	**Analysis of allowance for impairment losses by product**			
	Leases	**23.2.1**	128,421,164	225,469,204
	Hire purchase	**23.2.2**	20,947	379,991
	Mortgage loans	**23.2.3**	414,799,730	236,134,064
	Other loans	**23.2.4**	413,363,906	599,857,490
			956,605,747	**1,061,840,749**

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.

23.2	**Analysis by product**			
	Leases	**23.2.1**	1,210,827,973	1,650,766,118
	Hire purchase	**23.2.2**	25,449	416,583
	Mortgage loans	**23.2.3**	4,527,357,158	3,296,927,079
	Other loans	**23.2.4**	2,331,928,537	1,862,514,342
			8,070,139,117	**6,810,624,122**
23.2.1	**Leases**			
	Gross lease receivable			
	Within one year	**23.2.1 (a)**	737,600,522	850,634,033
	One to five years	**23.2.1 (b)**	599,849,372	1,024,414,438
	Over five years	**23.2.1 (c)**	1,799,243	1,186,851
			1,339,249,137	1,876,235,322
	Less: Allowance for impairment losses		128,421,164	225,469,204
	Net lease receivable		**1,210,827,973**	**1,650,766,118**
23.2.1 (a)	**Gross lease receivable within one year**			
	Total lease receivable within one year		889,372,610	1,075,350,708
	Less: Unearned income		151,772,088	224,716,675
			737,600,522	**850,634,033**
23.2.1 (b)	**Gross lease receivable within one to five years**			
	Total lease receivable within one to five years		730,789,303	1,232,916,260
	Less: Unearned income		130,939,931	208,501,822
			599,849,372	**1,024,414,438**
23.2.1 (c)	**Gross lease receivable over five years**			
	Total lease receivable over five years		2,005,657	1,258,515
	Less: Unearned income		206,414	71,664
			1,799,243	**1,186,851**
23.2.2	**Hire purchase**			
	Gross hire purchase receivable			
	Within one year	**23.2.2 (a)**	46,396	485,376
	One to five years	**23.2.2 (b)**	-	311,198
			46,396	796,574
	Less: Allowance for impairment losses		20,947	379,991
	Net hire purchase receivable		**25,449**	**416,583**

As at 31 March,

		Notes	2021 Rs.	2020 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		46,396	485,376
	Less: Unearned income		-	-
			46,396	**485,376**
23.2.2 (b)	**Gross hire purchase receivable within one to five years**			
	Total hire purchase rentals receivable		-	311,198
	Less: Unearned income		-	-
			-	**311,198**
23.2.3	**Mortgage loans**			
	Gross mortgage loans receivable			
	Within one year	**23.2.3 (a)**	1,696,127,339	825,970,911
	One to five years	**23.2.3 (b)**	2,761,366,446	2,307,945,032
	Over five years	**23.2.3 (c)**	484,663,103	399,145,200
			4,942,156,888	3,533,061,143
	Less: Allowance for impairment losses		414,799,730	236,134,064
	Net mortgage loans receivable		**4,527,357,158**	**3,296,927,079**
23.2.3 (a)	**Gross mortgage loans receivable within one year**			
	Total mortgage loans receivable		2,313,781,088	1,323,225,473
	Less: Unearned income		617,653,749	497,254,562
			1,696,127,339	**825,970,911**
23.2.3 (b)	**Gross mortgage loans receivable within one to five years**			
	Total mortgage loans receivable		3,951,382,115	3,303,706,853
	Less: Unearned income		1,190,015,669	995,761,821
			2,761,366,446	**2,307,945,032**
23.2.3 (c)	**Gross mortgage loans receivable over five years**			
	Total mortgage loans receivable		548,241,961	458,085,166
	Less: Unearned income		63,578,858	58,939,966
			484,663,103	**399,145,200**
23.2.4	**Other loans**			
	Gross other loans receivable			
	Within one year	**23.2.4 (a)**	2,324,947,134	1,664,710,796
	One to five years	**23.2.4 (b)**	411,510,851	797,524,659
	Over five years	**23.2.4 (c)**	8,834,458	136,377
			2,745,292,443	2,462,371,832
	Less: Allowance for impairment losses		413,363,906	599,857,490
	Net other loans receivable		**2,331,928,537**	**1,862,514,342**
23.2.4 (a)	**Gross other loans receivable within one year**			
	Total other loans receivable		2,498,162,474	1,855,116,985
	Less: Unearned income		173,215,340	190,406,189
			2,324,947,134	**1,664,710,796**
23.2.4 (b)	**Gross other loans receivable within one to five years**			
	Total other loans receivable		439,674,129	834,662,332
	Less: Unearned income		28,163,278	37,137,673
			411,510,851	**797,524,659**
23.2.4 (c)	**Gross other loans receivable over five years**			
	Total other loans receivable		8,834,458	141,961
	Less: Unearned income		-	5,584
			8,834,458	**136,377**

23.2.4 (d) Other loans includes personal loans, business loans and other unsecured loans.

As at 31 March,

	2021
	Rs.

24 INVESTMENT PROPERTIES

Cost/Valuation

Additions during the year	32,861,634
Removal during the year	-
Fair value losses	(7,711,634)
As at 31 March	**25,150,000**

24.1 Details of investment properties

Location	Date of valuation	Extent (Perches)	Price per perch Rs.	Fair value of the investment property	Carrying value of investment property before fair valuation	Fair value gain/(losses) recognized in income statement
Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	11.04.2021	18.70	310,000	5,800,000	3,865,382	1,934,618
Lot 01, plan No: 1366, Boyagama, Pilimathalawa		312.00	62,000	19,350,000	28,996,252	(9,646,252)

24.2 Measurement of Fair Value

The fair value measurement for the investment property of the Company has been categorized as a Level 3 fair value measurement based on the inputs to the valuation techniques used.

Details of the professional valuer	Location	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value
K.M.U Dissanayake, Incorporated Valuer B. Sc. (E.M.V.) Sp. (Sri Lanka) A.I.V. (Sri Lanka) - R/No : A 359	Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	Market comparable method - price per perch (Note - 24.2.1)	Rs. 310,000 p.p.	The estimated fair value would increase / (decrease) if price per perch would higher / (lesser)
	Lot 01, plan No: 1366, Boyagama, Pilimathalawa		Rs. 62,000 p.p.	

24.2.1 Market Comparable Method

The comparison method to property valuation is an approach which uses the value of recently sold comparable assets to determine the value of a property.

For the year ended 31 March 2021

25 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 2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At cost/ valuation											
Balance as at 01 April	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
Additions	-	-	1,690,789	1,969,307	11,540,129	1,732,303	397,283	3,565,998	237,372	3,453,375	24,586,556
Disposals	-	-	-	-	(2,180,262)	-	-	-	-	-	(2,180,262)
Balance as at 31 March	**83,730,000**	**112,220,000**	**10,014,585**	**13,708,963**	**44,216,931**	**3,748,581**	**1,234,670**	**7,081,613**	**21,767,873**	**7,017,774**	**304,740,990**
Depreciation											
Balance as at 01 April	-	-	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
Charge for the year	-	2,609,767	942,872	1,396,501	6,136,845	307,600	179,377	584,215	1,856,490	629,030	14,642,697
Disposals	-	-	-	-	(2,151,151)	-	-	-	-	-	(2,151,151)
Balance as at 31 March	**-**	**2,609,767**	**6,674,906**	**8,497,970**	**21,848,038**	**1,008,319**	**746,008**	**2,680,592**	**14,837,760**	**1,766,394**	**60,669,754**
Building work- in-progress (Note 25.12)											4,869,889
Carrying value											
As at 31 March 2021	**83,730,000**	**109,610,233**	**3,339,679**	**5,210,993**	**22,368,893**	**2,740,262**	**488,662**	**4,401,021**	**6,930,113**	**5,251,380**	**248,941,125**

For the year ended 31 March 2021

25 PROPERTY, PLANT AND EQUIPMENT (CONT.)

	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 (Note 25.12)											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**

The Property, Plant and Equipment do not include any assets subject to operating lease where the Company is the Lessor.

25.1 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. 29,001,630/- (2020 - Rs. 25,771,273/-).

Also, there is a cash payments amounting to Rs. 29,001,630/- (2020 - Rs. 26,226,089/-) was paid during the year for purchases of property, plant and equipment.

25.2 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.

25.3 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 2021 (2020: Nil).

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

The Company had no contractual commitments for the acquisition of property, plant and equipment as at the reporting date. (2020: 770,440/-)

25.5 Property, plant and equipment included fully depreciated assets amounting to Rs. 23,761,872/- as at 31 March 2021 (2020 - Rs. 25,624,127/-).

For the year ended 31 March 2021

25 PROPERTY, PLANT AND EQUIPMENT (CONT.)

25.6 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.

25.7 Information 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		Revaluation amount of		Revaluation gain Recognized on	
					Land Rs.	Buildings Rs.	Land Rs.	Buildings Rs.	Land Rs.	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 (Note - 25.11)	• 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	3,531,923
					76,062,500	**97,024,253**	**83,730,000**	**112,220,000**	**7,667,500**	**15,195,747**

25.7.1 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,	2021			2020		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	40,313,868	-	40,313,868	40,313,868	-	40,313,868
Buildings	49,485,023	9,509,287	39,975,736	49,485,023	8,519,587	40,965,436
Total	**89,798,891**	**9,509,287**	**80,289,604**	**89,798,891**	**8,519,587**	**81,279,304**

25.8 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.

25.9 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 2021 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.

25.10 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 30.3.

25.11 Market Comparable Method

The comparison method to property valuation is an approach which uses the value of recently sold comparable assets to determine the value of a property.

25.12 Building work-in-progress

As at 31 March,	2021 Rs.	2020 Rs.
As at 01 April	454,815	-
Additions during the year	4,415,074	454,815
As at 31 March	4,869,889	454,815

As at 31 March,		2021 Rs.	2020 Rs.
26	**INTANGIBLE ASSETS**		
	Computer software		
	Cost		
	As at 01 April	20,537,466	17,585,418
	Additions during the year	22,657,904	2,952,048
	As at 31 March	**43,195,370**	**20,537,466**
	Amortization		
	As at 01 April	8,920,340	7,141,613
	Amortization for the year	3,075,989	1,778,727
	As at 31 March	**11,996,329**	**8,920,340**
	Carrying value as at 31 March	**31,199,041**	**11,617,126**

As at 31 March,		2021 Rs.	2020 Rs.
27	**RIGHT OF USE ASSETS**		
	As at 01 April	16,460,800	-
	Adjustment on initial application of SLFRS 16	-	24,435,222
	Additions during the year	42,564,150	-
	Removal during the year	(6,348,945)	-
	Amortization for the year	(12,085,391)	(7,974,422)
	As at 31 March	**40,590,614**	**16,460,800**

As at 31 March,		Notes	2021 Rs.	2020 Rs.
28	**OTHER ASSETS**			
	Financial			
	Refundable deposits		6,694,100	1,984,100
	Debtors		1,783,178	1,783,178
	Insurance premium receivable		11,895,172	7,435,877
			20,372,450	**11,203,155**
	Less: Allowance for impairment losses - debtors & insurance premium receivable	**28.1**	(4,494,575)	(1,783,178)
			15,877,875	**9,419,977**
	Non-financial			
	Prepayments		8,404,737	4,839,146
	Other receivables		1,880,952	9,898,458
	Insurance crop levy receivable		-	101,193
	WHT receivable		72,800	39,200
			10,358,489	**14,877,997**
	Total		**26,236,364**	**24,297,974**
28.1	**Allowance for impairment losses - debtors & insurance premium receivable**			
	Debtors		(1,783,178)	(1,783,178)
	Insurance premium receivable		(2,711,397)	-
			(4,494,575)	**(1,783,178)**
29	**DEPOSIT LIABILITIES**			
	Savings deposits		17,080,296	225,560
	Fixed deposits		4,821,898,876	222,433,012
			4,838,979,172	**222,658,572**

As at 31 March,

	Notes	2021 Rs.	2020 Rs.
30 DUE TO BANKS			
Bank overdrafts		77,135,388	61,642,486
Securitized borrowings	**30.1**	610,607,345	2,597,697,183
Unsecuritized borrowings	**30.2**	723,380,947	2,426,072,529
Total		**1,411,123,680**	**5,085,412,198**

30.1 Securitized borrowings

For the year ended 31 March 2021

	As at 01.04.2020	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.03.2021
	Rs.	Rs.	Rs.	Rs.	Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	2,597,697,183	1,890,000,000	148,388,435	(4,025,478,273)	610,607,345
Total	**2,597,697,183**	**1,890,000,000**	**148,388,435**	**(4,025,478,273)**	**610,607,345**

For the year ended 31 March 2020

	As at 01.04.2019	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.03.2020
	Rs.	Rs.	Rs.	Rs.	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**

30.2 Unsecuritized borrowings

For the year ended 31 March 2021

	As at 01.04.2020	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.03.2021
Direct bank borrowings	Rs.	Rs.	Rs.	Rs.	Rs.
Sampath Bank PLC	1,007,385,129	-	44,348,473	(1,051,733,602)	-
Bank Of Ceylon	816,891,920	-	62,277,348	(395,428,474)	483,740,794
DFCC Bank PLC	601,795,480	-	32,754,216	(394,909,543)	239,640,153
Seylan Bank PLC	-	350,000,000	977,643	(350,977,643)	-
Total	**2,426,072,529**	**350,000,000**	**140,357,680**	**(2,193,049,262)**	**723,380,947**

For the year ended 31 March 2020

	As at 01.04.2019	Loans obtained during the year	Interest expense for the year	Repayments during the year	As at 31.03.2020
Direct bank borrowings	Rs.	Rs.	Rs.	Rs.	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**

30 DUE TO BANKS (CONT.)

30.3 Institutional borrowings

Institution	As at 01/04/2020 (Rs)	Loan obtained during the year (Rs)	Interest expense for the year (Rs)	Repayments Capital (Rs)	Repayments Interest (Rs)	As at 31/03/2021 (Rs)	Tenure of loan	Security offered	Prevailing interest rate
Commercial Bank of Ceylon PLC	2,597,697,183	1,890,000,000	148,388,435	3,868,046,550	157,431,723	610,607,345	5 Years / revolving	Primary property mortgage & Mortgage over lease and loan receivables	6.76%
Sampath Bank PLC	1,007,385,129	-	44,348,473	1,004,848,933	46,884,669	-	5 Years / revolving	Commercial Bank letter of Comfort	7.76%
Bank of Ceylon	816,891,920	-	62,277,348	325,000,013	70,428,461	483,740,794	5 Years	Commercial Bank letter of Comfort	7.76%
DFCC Bank PLC	601,795,480	-	32,754,216	361,016,952	33,892,591	239,640,153	5 Years / revolving	Commercial Bank letter of Comfort	7.72%
Seylan Bank PLC	-	350,000,000	977,643	350,000,000	977,643	-	3 Years / revolving	Commercial Bank letter of Comfort	-
	5,023,769,712	2,240,000,000	288,746,115	5,908,912,448	309,615,087	1,333,988,292			

30.4 Assets pledged

The following assets have been pledged as security for liabilities.

Nature of assets	Facility	2021 Rs.	2020 Rs.
Lease and loan receivable	Commercial Bank of Ceylon PLC -	3,964,766,458	3,132,091,215
Property at No. 182 & 187, Katugastota Road, Kandy	Commercial Bank of Ceylon PLC -	75,000,000	75,000,000
		4,039,766,458	**3,207,091,215**

For the year ended 31 March,		Notes	2021 Rs.	2020 Rs.
31	**EMPLOYEE BENEFITS**			
31.1	**Defined benefit plans**			
	Movement in the present value of the defined benefit obligations			
	As at 01 April		8,777,241	5,440,426
	Included in profit or loss			
	Current service cost	31.1.1	2,050,874	1,586,562
	Interest cost		877,724	625,649
			2,928,599	2,212,211
	Included in OCI			
	Actuarial losses during the year	31.1.2	838,044	1,270,854
	Payments made during the year		(1,113,030)	(146,250)
	As at 31 March		**11,430,854**	**8,777,241**
31.1.1	**Expense recognized in profit or loss**			
	Current service cost for the year		2,050,874	1,586,562
	Interest cost for the year		877,724	625,649
	Total		**2,928,598**	**2,212,211**
31.1.2	**Amount recognized for defined benefit obligation in other comprehensive income**			
	Cumulative losses as at 1 April		2,041,924	771,070
	Actuarial losses recognized during the year		838,044	1,270,854
	Cumulative losses as at 31 March		**2,879,968**	**2,041,924**

		2021	2020
31.1.3	**Actuarial assumptions**	**2021**	**2020**
	Discount rate	8.0% p.a.	10.0% p.a.
	Salary increment rate	10% p.a.	10% p.a.
	Staff turnover	11%	15%

Mortality - A 1967/70 Mortality Table
Disability - 10% of Mortality Table
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 2021 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.

31 EMPLOYEE BENEFITS (CONT.)

31.1.4 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 2021		As at 31 March 2020	
	Increase (Rs.)	Decrease (Rs.)	Increase (Rs.)	Decrease (Rs.)
Discount rate (1% movement)	(791,846)	903,081	(442,521)	489,880
Salary increment rate (1% movement)	921,728	(823,749)	517,979	(475,965)

As at 31 March,	2021 Rs.	2020 Rs.
32 LEASE LIABILITIES		
As at 01 April	17,680,960	-
Adjustment on initial application of SLFRS 16	-	24,435,222
Additions during the year	42,564,150	-
Removal during the year	(6,799,242)	-
Accrual of interest for the year	3,926,960	2,150,953
Payments made during the year	(13,542,580)	(8,905,215)
Balance as at 31 March	**43,830,248**	**17,680,960**

32.1 Amounts recognised in financial statements

32.1.1 Amounts recognised in profit or loss under SLFRS 16

Interest on lease liabilities	3,926,960	2,150,953
Right-of-use asset amortization	12,085,391	7,974,422
Expenses relating to short term leases	1,721,378	1,336,667

32.1.2 Amounts recognised in statement of cash flows under SLFRS 16

Lease interest paid	(3,926,960)	(2,150,953)
Payment of lease liabilities	(9,615,620)	(6,754,262)

32.1.3 Undiscounted lease payable

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

	Rs.	Rs.
Less than one year	13,956,781	7,851,381
One to two years	11,497,645	5,067,251
Two to three years	11,589,480	2,195,770
Three to four years	11,275,850	1,676,230
Four to five years	2,744,720	2,104,200
Over five years	-	1,269,020
	51,064,476	**20,163,852**

As at 31 March,	Notes	2021 Rs.	2020 Rs.
33 DEFERRED TAX ASSETS			
As at 01 April		(146,687,202)	(157,006,118)
Origination / (reversal) of temporary differences			
- Recognized in profit or loss	33.2	(43,778,889)	4,148,995
- Recognized in other comprehensive income	33.2	(4,557,273)	6,169,921
As at 31 March		**(195,023,364)**	**(146,687,202)**

33.1 Summary of net deferred tax

	As at 31 March 2021		As at 31 March 2020	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
Deferred tax liabilities				
Accelerated depreciation for tax purposes - Lease assets (Note 33.4)	221,519,708	53,164,730	369,608,270	103,490,316
Accelerated depreciation for tax purposes - Own assets	45,794,706	10,990,729	55,559,050	16,045,439
Accelerated depreciation for tax purposes - Right of use assets	40,590,614	9,741,747	16,460,800	4,609,024
Revaluation surplus on buildings	69,078,823	16,578,918	70,566,797	19,758,703
Tax on capital assets (lands) (Note 33.3)	43,416,132	10,419,872	43,416,132	12,156,517
	420,399,983	**100,895,996**	**555,611,049**	**156,059,999**
Deferred tax assets				
Defined benefit plans	11,430,854	2,743,405	8,777,241	2,457,628
Carried forward unclaimed impairment losses	1,174,475,563	281,874,135	1,054,195,026	295,174,607
Amortization of right of use assets	43,830,248	10,519,260	17,680,960	4,950,669
Unrealized losses on FVOCI	47,486	11,397	586,775	164,297
Fair value losses on investment properties	7,711,634	771,163	-	-
	1,237,495,785	**295,919,360**	**1,081,240,002**	**302,747,201**
Net deferred tax assets as at 31 March	**(817,095,802)**	**(195,023,364)**	**(525,628,953)**	**(146,687,202)**

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

	Recognized in Profit or Loss		Recognized in Other Comprehensive Income		Statement of Financial Position	
	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.	2021 Rs.	2020 Rs.
Deferred tax liabilities						
Accelerated depreciation for tax purposes - Lease assets (Note 33.4)	(50,325,586)	(27,865,652)	-	-	53,164,730	103,490,316
Accelerated depreciation for tax purposes - Own assets	(5,054,714)	4,173,452	-	-	10,990,729	16,045,439
Amortization of right of use assets	5,132,723	4,609,024	-	-	9,741,747	4,609,024
Revaluation surplus on buildings	(345,269)	(331,535)	(2,834,516)	4,254,809	16,578,918	19,758,703
Revaluation surplus on lands (Note 33.3)	-	-	(1,736,642)	2,146,900	10,419,872	12,156,517
	(50,592,846)	(19,414,711)	(4,571,158)	6,401,709	100,895,996	156,059,999
Deferred tax assets						
Defined benefit plans	(146,761)	(578,470)	(139,015)	(355,839)	2,743,405	2,457,628
Carried forward tax losses	-	24,165,549	-	-	-	-
Carried forward unclaimed impairment losses	13,300,472	4,927,296	-	-	281,874,135	295,174,607
Amortization of right of use assets	(5,568,591)	(4,950,669)	-	-	10,519,260	4,950,669
Unrealized loss on FVOCI	-	-	152,900	124,051	11,397	164,297
Fair value losses on investment properties	(771,163)	-	-	-	771,163	-
	6,813,957	23,563,706	13,885	(231,788)	295,919,360	302,747,201
Deferred tax effect on statement of profit or loss and other comprehensive income	**(43,778,889)**	**4,148,995**	**(4,557,273)**	**6,169,921**		
Net deferred tax assets as at 31 March					**(195,023,364)**	**(146,687,202)**

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33 DEFERRED TAX ASSETS (CONT.)

33.3 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 24% (2020 - 28%) on the revaluation surplus relating to freehold land in these Financial Statements.

33.4 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 2021 which were entered into prior to 1 April 2018.

As at 31 March,	2021 Rs.	2020 Rs.
34 CURRENT TAX LIABILITIES		
As at 01 April	34,154,410	-
Provision for the year	106,121,814	52,937,381
Under provision in relation to prior years	2,609,379	1,982,387
WHT reversal in relation to prior years	33,600	-
Payments made during year	(41,414,104)	(20,765,358)
As at 31 March	**101,505,099**	**34,154,410**
35 OTHER LIABILITIES		
Accrued expenses	69,880,687	51,977,176
Stamp duty payable	1,195,120	653,980
	71,075,807	**52,631,156**
Total	**71,075,807**	**52,631,156**

36 STATED CAPITAL

	2021		2020	
	Number of shares	Value of shares Rs.	Number of shares	Value of shares Rs.
Fully paid ordinary shares				
As at 01 April	151,469,986	2,254,999,964	138,978,909	2,079,999,975
Issue of ordinary shares	70,323,488	999,999,999	12,491,077	174,999,989
As at 31 March	**221,793,474**	**3,254,999,963**	**151,469,986**	**2,254,999,964**

36.1 Shareholders as at 31 March,	2021 Holding %	2021 No of shares	2020 No of shares
Commercial Bank of Ceylon PLC	100	221,793,474	151,469,986
Total	100	221,793,474	151,469,986

Authorised share capital was increased by Rs.999,999,999/- with the issue of 70,323,488 new ordinary shares at Rs.14.22 each, during the year.

As at 31 March,	Notes	2021 Rs.	2020 Rs.
37 ACCUMULATED LOSSES			
As at 01 April		(229,779,653)	(294,391,823)
Profit for the year		64,490,579	68,975,984
Actuarial losses on defined benefits plans, after tax		(699,029)	(915,015)
Transferred to statutory reserve fund	**38.1**	(3,224,529)	(3,448,799)
As at 31 March		**(169,212,632)**	**(229,779,653)**
38 OTHER RESERVES			
Capital reserve		50,000	50,000
Statutory reserve fund	**38.1**	29,687,279	26,462,750
Revaluation reserve	**38.2**	86,114,318	81,543,160
Fair value reserve	**38.3**	1,221,110	834,703
General reserve	**38.4**	20,097,889	20,097,889
Total		**137,170,596**	**128,988,502**
38.1 Statutory reserve fund			
As at 01 April		26,462,750	23,013,951
Transferred from retained earnings		3,224,529	3,448,799
As at 31 March		**29,687,279**	**26,462,750**

'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,	2021 Rs.	2020 Rs.
38.2 Revaluation reserve		
As at 01 April	81,543,160	65,081,622
Revaluation surplus of property plant and equipment	-	22,863,247
Deferred tax charge on revaluation surplus	-	(6,401,709)
Effect on change in tax rate	4,571,158	-
As at 31 March	**86,114,318**	**81,543,160**

38.3 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.

38.4 General reserve

The purpose of setting up the general reserve is to meet potential future unknown liabilities and the balance comprises of the amounts appropriated by the Board of Directors as a general reserve.

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39 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 2021	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	2,098,266	-	-	2,098,266	2,098,266
Investments in government securities		509,901,120	-	509,901,120	-	509,901,120
		511,999,386				
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	324,309,571	-	-	-	-
Financial investment		227,314,205	-	-	-	-
Loans and advances		9,026,744,864	-	-	-	-
Other assets (Note 28)		20,372,450	-	-	-	-
		9,598,741,090	**-**	**-**	**-**	**-**
Financial liabilities not measured at fair value						
Deposit liabilities	Amortized cost	4,838,979,172	-	-	-	-
Due to banks		1,411,123,680	-	-	-	-
Lease liabilities		43,830,248	-	-	-	-
		6,293,933,100				

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	-	-	-	-
Financial investment		29,985,786	-		-	-
Loans and advances		7,872,464,871	-	-	-	-
Other assets (Note 28)		20,372,450	-	-	-	-
		7,979,206,553				
Financial liabilities not measured at fair value						
Deposit liabilities	Amortized cost	222,658,572				-
Due to banks		5,085,412,198	-	-	-	-
Lease liabilities		17,680,960	-	-	-	-
		5,325,751,730				

For the year ended 31 March 2021

39 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT.)

39.1 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 2.

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 2019	1,869,800
- Net change in fair value (unrealised)	111,582
Balance as at 31 March 2020	**1,981,382**
Balance as at 1 April 2020	1,981,382
- Net change in fair value (unrealised)	116,884
Balance as at 31 March 2021	**2,098,266**

39.2 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.

39.3 Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 March 2021.

For the year ended 31 March 2021

40 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.

	2021			2020		
	Within 12 Months	**After 12 Months**	**Total as at 31/03/2021**	**Within 12 Months**	**After 12 Months**	**Total as at 31/03/2020**
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	324,309,571	-	324,309,571	56,383,446	-	56,383,446
Financial investments - FVOCI	509,901,120	2,098,266	511,999,386	242,874,209	1,981,382	244,855,591
Financial investments - Amortized cost	227,314,205	-	227,314,205	29,985,786	-	29,985,786
Loans and advances	4,254,417,757	3,815,721,360	8,070,139,117	3,565,259,573	3,245,364,549	6,810,624,122
Investment properties	-	25,150,000	25,150,000	-	-	-
Property, plant and equipment	-	248,941,125	248,941,125	-	234,611,303	234,611,303
Intangible assets	-	31,199,041	31,199,041	-	11,617,126	11,617,126
Right of use assets	11,537,832	29,052,782	40,590,614	7,776,865	8,683,935	16,460,800
Deferred tax assets	-	195,023,364	195,023,364	-	146,687,202	146,687,202
Other assets	19,542,264	6,694,100	26,236,364	22,313,874	1,984,100	24,297,974
Total assets	**5,347,022,749**	**4,353,880,038**	**9,700,902,787**	**3,924,593,753**	**3,650,929,597**	**7,575,523,350**
Percentage	**55%**	**45%**	**100%**	**52%**	**48%**	**100%**
Liabilities						
Deposit liabilities	4,630,465,468	208,513,704	4,838,979,172	198,358,572	24,300,000	222,658,572
Due to banks	527,789,555	883,334,125	1,411,123,680	4,316,903,015	768,509,183	5,085,412,198
Employee benefits	-	11,430,854	11,430,854	-	8,777,241	8,777,241
Lease liabilities	10,564,958	33,265,290	43,830,248	7,339,988	10,340,972	17,680,960
Income tax liabilities	101,505,099	-	101,505,099	-	34,154,410	34,154,410
Other liabilities	67,588,263	3,487,544	71,075,807	52,631,156	-	52,631,156
Total liabilities	**5,337,913,343**	**1,140,031,517**	**6,477,944,860**	**4,575,232,731**	**846,081,806**	**5,421,314,537**
Equity						
Stated capital	-	3,254,999,963	3,254,999,963	-	2,254,999,964	2,254,999,964
Retained earnings	-	(169,212,632)	(169,212,632)	-	(229,779,653)	(229,779,653)
Other reserves	-	137,170,596	137,170,596	-	128,988,502	128,988,502
Total equity	**-**	**3,222,957,927**	**3,222,957,927**	**-**	**2,154,208,813**	**2,154,208,813**
Total equity and liabilities	**5,337,913,343**	**4,362,989,444**	**9,700,902,787**	**4,575,232,731**	**3,000,290,619**	**7,575,523,350**
Percentage	**55%**	**45%**	**100%**	**60%**	**40%**	**100%**

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41 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.

41.1 Parent and ultimate controlling party

On 1 September 2014, Commercial Bank of Ceylon PLC fully acquired the CBC Finance Limited (formerly known as Indra Finance Limited and Serendib 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 CBC Finance Limited from 1 September 2014 to as of date.

41.2 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.

41.2.1 Compensation of Key Management Personnel	2021 Rs.	2020 Rs.
Short term employee benefits	6,189,000	5,796,000

41.2.2 Transactions with KMP

41.2.2.1 Statement of financial position

Deposit Liabilities	41,789,692	-

41.2.2.2 Statement of profit or loss and other comprehensive income

Interest on deposits	2,482,654	-

41.2.3 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 KMP 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.

41.2.3.1 Statement of financial position

Deposit Liabilities	6,127,115	-

41.2.3.2 Statement of profit or loss and other comprehensive income

Interest on deposits	495,837	-

41.2.4 Transactions with the parent and related entities

Name of the Company	Nature of transactions	Value of transactions 2021 Rs.	Value of transactions 2020 Rs.	Balance as at 31 March 2021 Rs.	Balance as at 31 March 2020 Rs.
Commercial Bank of Ceylon PLC (Parent from 01 Sep 2014	Loans / Bank overdraft balance as at end of the year	-	-	687,742,733	2,659,339,669
	Loan interest charged	(148,426,093)	(294,678,707)	-	-
	Loan repayment made during the year	(3,877,089,838)	(2,349,379,800)	-	-
	Deposits/ Advances held at the end of the year	-	-	345,074,197	50,026,700
	Interest on deposits / Advances	10,004,128	9,288,187	-	-
	Building Rent received	900,000	912,240	-	-
	Building Rent paid	270,000	810,000	-	-
	Ordinary shares issued	999,999,999	174,999,989	3,254,999,963	2,254,999,964
Commercial Development Company PLC	Deposits held at the end of the year	-	-	362,523,288	-
	Interest on deposits	12,476,712		-	-
CBC Tech Solutions Ltd	Deposits held at the end of the year	-	-	72,946,986	-
	Interest on deposits	2,932,603	-		-
	Software development	1,954,982	-	-	-

Commercial Bank of Ceylon PLC has provided letters of Comfort to Sampath Bank PLC , Bank of Ceylon, DFCC Bank PLC and Seylan Bank PLC as security against the term loans obtained amounting to Rs.3.3 Bn, Rs.1.5 Bn, Rs. 0.6 Bn and Rs. 0.5 Bn respectively.

For the year ended 31 March 2021

42 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 since the last quarter of the previous 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. Further, in response to Covid -19, and the Company’s expectations of the economic impacts, calculation of ECL have been revised. Accordingly, as at the reporting date, the expected impacts of Covid -19 have been captured via the modelled outcome as well as a separate management overlay adjustment. In addition forward looking macroeconomic assumptions too were revised in response to Covid -19 pandemic.

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.

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, Chief Financial Officer / Chief Risk Officer, Head of Human Resource and Operation and Head of Credit and Branch Administration, 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 / Chief Executive Officer 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 adhoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 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.

42.1.1 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.

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 CREDIT RISK (CONT.)

42.1.2 Credit Quality Analysis

The following table sets out information about the overdue status of financial assets measured at amortised cost, FVOCI debt investments. 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 4.2.2.

As at 31 March	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
i. *Loans and advances at amortised cost*					
Current	3,623,635,910	-	-	3,623,635,910	3,800,956,255
Overdue less than 30 days	1,545,615,769		-	1,545,615,769	1,024,293,829
Overdue 30 to 180 days	-	2,089,529,003	-	2,089,529,003	1,412,479,979
Overdue more than 180 days	-	-	1,767,964,182	1,767,964,182	1,634,734,808
Gross Carrying amount	**5,169,251,679**	**2,089,529,003**	**1,767,964,182**	**9,026,744,864**	**7,872,464,871**
Loss allowance	(67,335,260)	(198,248,558)	(691,021,929)	(956,605,747)	(1,061,840,749)
Carrying amount	**5,101,916,419**	**1,891,280,445**	**1,076,942,253**	**8,070,139,117**	**6,810,624,122**
ii. *Debt investment securities at amortised cost*					
Low-fair risk	227,314,205	-	-	227,314,205	29,985,786
Carrying amount	**227,314,205**	**-**	**-**	**227,314,205**	**29,985,786**
iii. *Debt investment securities at FVOCI*					
Low-fair risk	509,901,120	-	-	509,901,120	242,874,209
Carrying amount - fair value	**509,901,120**	**-**	**-**	**509,901,120**	**242,874,209**
iv. *Cash and cash equivalents at amortised cost*					
Low-fair risk	324,309,571	-	-	324,309,571	56,383,446
Carrying amount	**324,309,571**	**-**	**-**	**324,309,571**	**56,383,446**
v. *Other assets at amortised cost*					
Current	11,810,779	-	-	11,810,779	1,984,100
Overdue more than 180 days	-	-	8,561,670	8,561,670	3,566,356
Gross Carrying amount	**11,810,779**	**-**	**8,561,670**	**20,372,450**	**5,550,456**
Loss allowance	-	-	(4,494,575)	(4,494,575)	(3,566,356)
Carrying amount	**11,810,779**	**-**	**4,067,095**	**15,877,875**	**1,984,100**

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 CREDIT RISK (CONT.)

42.1.3 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,	2021 Rs.	2020 Rs.	2021	2020	
Loans and advances at amortised cost					
Mortgage lending	4,942,156,888	3,533,061,143	95.11%	90.42%	Residential and commercial properties, moveable assets.
Other loans	2,745,292,443	2,462,371,839	6.20%	5.32%	Motor vehicles and equipment
Finance leases	1,339,249,138	1,876,235,315	99.80%	96.43%	Motor vehicles and equipment
Hire purchase	46,395	796,574	99.73%	100.00%	Motor vehicles and equipment
	9,026,744,864	**7,872,464,871**			
Debt investment securities at amortised cost					
Financial investments-Amortized cost	227,314,205	29,985,786	100.00%	100.00%	Government securities
	227,314,205	**29,985,786**			
Other assets at amortised cost					
Refundable deposits	6,694,100	1,984,100	-	-	None
Debtors	1,783,178	1,783,178	-	-	None
Insurance premium receivable	11,895,172	-	-	-	None
	20,372,450	**20,372,450**			

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.

As at 31 March,	2021 Rs.	2020 Rs.
LTV Ratio		
Less than 50%	1,984,700,389	2,058,983,483
51% - 70%	1,252,656,232	1,477,382,910
71% - 90%	2,050,704,311	1,611,398,645
91%- 100%	511,143,032	294,578,040
More than 100%	644,755,723	104,688,614
Unsecured	2,582,785,176	2,325,433,179
	9,026,744,864	**7,872,464,871**

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)
42.1 CREDIT RISK (CONT.)

Credit-impaired loans

LTV Ratio	2021 Rs.	2020 Rs.
Less than 50%	297,948,374	305,082,283
51% - 70%	234,836,491	226,241,918
71% - 90%	281,961,033	335,738,993
91%- 100%	268,350,389	125,289,904
More than 100%	315,543,298	83,510,813
Unsecured	369,324,597	558,870,897
	1,767,964,182	1,634,734,808

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.

	2021 Rs.	2020 Rs.
Motor vehicles	16,834,314	14,879,688
	16,834,314	14,879,688

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.

42.1.4 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 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.

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 CREDIT RISK (CONT.)

42.1.4 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 58% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 14% and 28% probability of occurring respectively. The base case is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The management overlays have been kept due to the uncertainties from COVID - 19 pandemic.

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 CREDIT RISK (CONT.)

42.1.4 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 and management overlays have been kept due to the uncertainties from COVID 19 pandemic.

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 CREDIT RISK (CONT.)

42.1.4 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,	**2021**				**2020**
	Stage 1 Rs.	**Stage 2 Rs.**	**Stage 3 Rs.**	**Total Rs.**	**Total Rs.**
Balance as at 1 April	81,997,843	127,503,363	852,339,543	1,061,840,749	1,000,514,541
Transfer to Stage 1	13,865,218	(12,952,394)	(912,824)	-	-
Transfer to Stage 2	(13,284,492)	49,927,149	(36,642,657)	-	-
Transfer to Stage 3	(4,966,246)	(34,749,623)	39,715,869	-	-
Net remeasurement of loss allowance	(24,230,960)	53,456,632	198,361,927	227,587,599	195,730,693
New financial assets originated or purchased	39,312,783	38,059,655	3,079,976	80,452,414	151,183,379
Financial assets that have been derecognised	(25,358,886)	(22,996,224)	(45,002,059)	(93,357,169)	(70,553,269)
Write-offs	-	-	(319,917,846)	(319,917,846)	(215,034,595)
Balance as at 31 March	**67,335,260**	**198,248,558**	**691,021,929**	**956,605,747**	**1,061,840,749**

As at the reporting date, the Company has captured the impact on ECL due to COVID - 19 via the modelled outcome as well as management overlays. Management overlays include additional ECL provisions of Rs. 89.53 Mn (approx) on assessing lifetime ECL on the exposures outstanding from the borrowers operating in the risk elevated industries and impact on changing the probability weightages assigned for multiple economic scenarios and stressing the qualitative factors used to assess forward looking macro economic indicators on ECL amounting to Rs. 6.72 Mn (approx.).

Modified financial assets

Certain financial assets were modified while they had a loss allowance measured at an amount equal to life time ECL during the year. Amortised cost of such financial assets before modification was Rs. 3,939,256,069/-. Net modification loss of Rs. 38,296,401/- recognized for such assets at the time of modification.

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)

42.1 CREDIT RISK (CONT.)

42.1.5 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	Financial investments -amortized cost	Loans and advances	Other assets	Total financial assets
31 March 2021	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	-	348,625,271	-	348,625,271
Manufacturing	-	-	-	543,863,120	-	543,863,120
Tourism	-	-	-	403,218,238	-	403,218,238
Transport	-	-	-	85,506,879	-	85,506,879
Construction	-	-	-	1,267,355,177	-	1,267,355,177
Trading	-	-	-	3,712,445,418	-	3,712,445,418
Financial services	324,309,571	-	227,314,205	373,782,618	-	925,406,394
Government	-	511,999,386	-	-	-	511,999,386
Other	-	-	-	1,335,342,396	20,372,450	1,355,714,846
Total	**324,309,571**	**511,999,386**	**227,314,205**	**8,070,139,117**	**20,372,450**	**9,154,134,729**

	Cash and bank balances	Financial investments - FVOCI	Financial investments -amortized cost	Loans and advances	Other assets	Total financial assets
31 March 2020	Rs.	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	-	29,985,786	243,867,983	-	330,237,215
Government	-	244,855,591	-	-	-	244,855,591
Other	-	-	-	1,489,277,299	11,203,155	1,500,480,454
Total	**56,383,446**	**244,855,591**	**29,985,786**	**6,810,624,122**	**11,203,155**	**7,153,052,100**

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

Province	**2021**	**2020**
	Rs.	**Rs.**
Central	2,705,399,349	2,901,917,424
North Central	923,927,705	736,571,327
North Western	474,652,769	452,721,859
Sabaragamuwa	1,159,210,111	295,404,545
Southern	336,408,198	222,582,258
Western	2,470,540,985	2,201,426,709
Total	**8,070,139,117**	**6,810,624,122**

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42 RISK MANAGEMENT (CONT.)

42.2 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 and further, any unprecedented events such as COVID - 19.

42.2.1 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 2021	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	324,309,571	-	-	-	-	324,309,571
Financial investments - FVOCI	-	509,901,120	-	-	2,098,266	511,999,386
Financial investments - Amortized cost	-	227,314,205	-	-	-	227,314,205
Loans and advances	2,046,582,315	571,019,508	1,636,815,934	3,372,913,440	442,807,920	8,070,139,117
Other assets	-	-	7,577,565	8,300,310	-	15,877,875
Total financial assets	**2,370,891,886**	**1,308,234,833**	**1,644,393,499**	**3,381,213,750**	**444,906,186**	**9,149,640,154**
Financial Liabilities						
Deposit liabilities	17,080,296	1,144,175,598	3,469,209,574	208,513,704	-	4,838,979,172
Due to banks	77,135,388	161,041,173	289,612,994	883,334,125	-	1,411,123,680
Lease liabilities	-	2,506,630	8,058,329	33,265,289		43,830,248
Total financial liabilities	**94,215,684**	**1,307,723,401**	**3,766,880,897**	**1,125,113,118**	**-**	**6,293,933,100**
Total net financial assets/(liabilities)	**2,276,676,202**	**511,432**	**(2,122,487,398)**	**2,256,100,632**	**444,906,186**	**2,855,707,054**

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	1,360,740,059	637,978,508	1,566,541,006	2,898,911,439	346,453,110	6,810,624,122
Other assets	-	-	-	9,419,977	-	9,419,977
Total financial assets	**1,417,123,505**	**668,069,295**	**1,809,310,214**	**2,908,331,416**	**348,434,492**	**7,151,268,922**
Financial Liabilities						
Deposit liabilities	254,560	10,673,128	187,430,884	24,300,000	-	222,658,572
Due to banks	61,642,486	264,805,813	3,990,454,716	768,509,183	-	5,085,412,198
Lease liabilities	-	1,950,873	5,389,115	10,340,972	-	17,680,960
Total financial liabilities	**61,897,046**	**277,429,814**	**4,183,274,715**	**803,150,155**	**-**	**5,325,751,730**
Total net financial assets/(liabilities)	**1,355,226,459**	**390,639,481**	**(2,373,964,501)**	**2,105,181,261**	**348,434,492**	**1,825,517,192**

For the year ended 31 March 2021

42 RISK MANAGEMENT (CONT.)
42.2 LIQUIDITY RISK (CONT.)

42.2.1 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.

	2021	2020
Financial assets	**Rs.**	**Rs.**
Cash and cash equivalents	324,309,571	56,383,446
Financial investments - FVOCI	509,901,120	242,874,209
Financial investments - Amortized cost	227,314,205	29,985,786
Loans and advances	4,254,417,757	2,891,057,840
Other assets	7,577,565	-
	5,323,520,218	**3,220,301,281**
Financial liabilities		
Deposit liabilities	4,630,465,468	198,358,572
Due to banks	527,789,555	4,316,903,015
Lease liabilities	10,564,958	2,154,265
	5,168,819,981	**4,517,415,851**

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.

	2021	2020
Financial assets	**Rs.**	**Rs.**
Financial investments - FVOCI	2,098,266	1,981,382
Loans and advances	3,815,721,360	3,919,566,282
Other assets	8,300,310	9,419,977
	3,826,119,936	**3,930,967,641**
Financial liabilities		
Deposit liabilities	208,513,704	24,300,000
Due to banks	883,334,125	768,509,183
Lease liabilities	33,265,290	15,526,695
	1,125,113,119	**808,335,878**

42.2.2 Liquidity reserves

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

	2021		2020	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	324,309,571	324,309,571	56,383,446	56,383,446
Unencumbered debt securities issued by sovereigns				
Financial investments - Amortized cost	227,314,205	227,314,205	29,985,786	29,985,786
Investment in government securities	509,901,120	509,901,120	242,874,209	242,874,209
Total liquidity reserves	**1,061,524,896**	**1,061,524,896**	**329,243,441**	**329,243,441**

42.2.3 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 2021					
Cash and cash equivalents	-	-	324,309,571	-	324,309,571
Financial investments - FVOCI	-	-	509,901,120	2,098,266	511,999,386
Financial investments - Amortized cost	-	-	-	227,314,205	227,314,205
Loans and advances	3,996,877,402	-	4,073,261,715	-	8,070,139,117
Other assets	-	-	15,877,875	-	15,877,875
	3,996,877,402	-	4,923,350,281	229,412,471	**9,149,640,154**

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42 RISK MANAGEMENT (CONT.)

42.2 LIQUIDITY RISK (CONT.)

42.2.3 Financial assets available to support future funding (CONT.)

	Encumbered		Unencumbered		
31 March 2020	**Pledged as collateral Rs.**	**Other * Rs.**	**Available as collateral Rs.**	**Other ** Rs.**	**Total Rs.**
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	-	3,678,532,907	-	6,810,624,122
Other assets	-	-	9,419,977	-	9,419,977
	3,132,091,215	-	3,987,210,539	31,967,168	**7,151,268,922**

* 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.

42.3 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.

42.3.1 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.

42.3.1.1 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.

	2021		2020	
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,	4,512,670	(4,513,573)	5,220,976	(5,222,020)
Average for the period	3,508,690	(3,509,392)	4,920,231	(4,921,215)
Maximum for the period	4,608,330	(4,609,252)	5,220,976	(5,222,020)
Minimum for the period	2,859,577	(2,860,149)	4,549,616	(4,550,526)

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42 RISK MANAGEMENT (CONT.)

42.3 MARKET RISK (CONT.)

42.3.1.2 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.

As at 31 March 2021	Up to 03 months	03-12 Months	01-03 Years	03-05 Years	Over 05 years	Non interest bearing	Total as at 31/03/2021
Financial assets	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**
Cash and cash equivalents	319,074,197	-	-	-	-	5,235,374	324,309,571
Financial investments - FVOCI	509,901,120	-	-	-		2,098,266	511,999,386
Financial investments - Amortized cost	227,314,205	-	-	-	-	-	227,314,205
Loans and advances	2,617,601,823	1,636,815,934	2,209,590,972	1,163,322,467	442,807,921	-	8,070,139,117
Other assets	-				-	15,877,875	15,877,875
Total financial assets	**3,673,891,345**	**1,636,815,934**	**2,209,590,972**	**1,163,322,467**	**442,807,921**	**23,211,515**	**9,149,640,154**
Percentage	**40%**	**18%**	**24%**	**13%**	**5%**	**0%**	**100%**
Financial liabilities							
Deposit liabilities	1,161,255,894	3,469,209,573	179,159,328	29,354,376	-	-	4,838,979,172
Due to banks	238,176,561	289,612,994	466,667,062	416,667,062	-	-	1,411,123,680
Lease liabilities	2,506,630	8,058,328	19,045,401	14,219,889	-	-	43,830,248
Total financial liabilities	**1,401,939,085**	**3,766,880,896**	**664,871,791**	**460,241,328**	**-**	**-**	**6,293,933,100**
Percentage	**22%**	**60%**	**11%**	**7%**	**0%**	**0%**	**100%**
INTEREST SENSITIVITY GAP	**2,271,952,260**	**(2,130,064,962)**	**1,544,719,181**	**703,081,139**	**442,807,921**	**23,211,515**	**2,855,707,054**
Percentage	**80%**	**-75%**	**54%**	**25%**	**16%**	**1%**	**100%**

As at 31 March 2020	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
Financial assets	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**	**Rs**
Cash and cash equivalents	22,193,475	-	-	-	-	34,189,971	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	1,998,718,567	1,566,541,006	1,944,183,170	954,728,269	346,453,110	-	6,810,624,122
Other assets	-	-	-	-		9,419,977	9,419,977
Total financial assets	**2,051,002,829**	**1,809,310,214**	**1,944,183,170**	**954,728,269**	**346,453,110**	**45,591,330**	**7,151,268,922**
Percentage	**29%**	**25%**	**27%**	**13%**	**5%**	**1%**	**100%**
Financial liabilities							
Deposit liabilities	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 liabilities	1,950,873	5,389,115	6,855,915	3,485,057	-	-	17,680,960
Total financial liabilities	**339,326,860**	**4,183,274,716**	**562,165,098**	**240,985,056**	**-**	**-**	**5,325,751,730**
Percentage	**6%**	**79%**	**11%**	**5%**	**0%**	**0%**	**100%**
INTEREST SENSITIVITY GAP	**1,711,675,969**	**(2,373,964,502)**	**1,382,018,072**	**713,743,213**	**346,453,110**	**45,591,330**	**1,825,517,192**
Percentage	**94%**	**-130%**	**76%**	**39%**	**19%**	**2%**	**100%**

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42 RISK MANAGEMENT (CONT.)

42.4 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.

42.5 CAPITAL MANAGEMENT

The primary objective of Company's capital management strategy 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 strategy 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**	
	2021	**2020**	**2021**	**2020**
Capital to risk weighted asset ratio				
Tier I Capital	6.50%	6.50%	26.57%	21.82%
Total Capital	10.50%	10.50%	26.57%	21.82%

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43 SEGMENTAL INFORMATION

43.1 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.
Other 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.

43.2 Information about reportable segments

	Leasing and Hire Purchase		Mortgage Loans		Other loans		Investments and others		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
External Revenue										
Interest	198,684,906	353,838,146	481,091,428	431,690,924	253,148,678	312,110,040	30,079,064	33,466,632	963,004,076	1,131,105,742
Fees & commissions	33,844,527	33,561,922	7,463,292	12,478,270	19,871,231	14,009,432	411,005	-	61,590,055	60,049,624
Dividends	-	-	-	-	-	-	320,000	280,000	320,000	280,000
Other income	-	-	-	-	-	-	32,995,321	19,313,963	32,995,321	19,313,963
Total external revenue	**232,529,433**	**387,400,068**	**488,554,720**	**444,169,194**	**273,019,909**	**326,119,472**	**63,805,390**	**53,060,595**	**1,057,909,452**	**1,210,749,329**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Total revenue before impairment	**232,529,433**	**387,400,068**	**488,554,720**	**444,169,194**	**273,019,909**	**326,119,472**	**63,805,390**	**53,060,595**	**1,057,909,452**	**1,210,749,329**
Impairment (charges) / Reversal	17,531,886	(71,645,381)	(238,639,218)	11,194,590	27,339,108	(215,910,009)	(2,711,397)	-	(196,479,621)	(276,360,800)
Net revenue	**250,061,319**	**315,754,687**	**249,915,502**	**455,363,784**	**300,359,017**	**110,209,463**	**61,093,993**	**53,060,595**	**861,429,831**	**934,388,529**
Profit before tax									129,442,883	128,044,747
Income tax expenses									(64,952,304)	(59,068,763)
Profit after tax									**64,490,579**	**68,975,984**
Segment assets	**2,293,032,299**	**2,495,789,755**	**4,479,988,184**	**1,628,014,937**	**2,503,559,819**	**1,871,315,649**	**585,087,773**	**410,485,609**	**9,700,902,787**	**7,575,523,350**
Segment liabilities	**1,423,858,008**	**1,757,695,247**	**2,991,589,244**	**1,146,552,554**	**1,671,795,174**	**1,317,900,522**	**390,702,434**	**289,090,298**	**6,477,944,860**	**5,421,314,537**

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44 CONTINGENCIES

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

44.1 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.

45 COMMITMENTS

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

46 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.

47 COMPARATIVE INFORMATION

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

48 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.