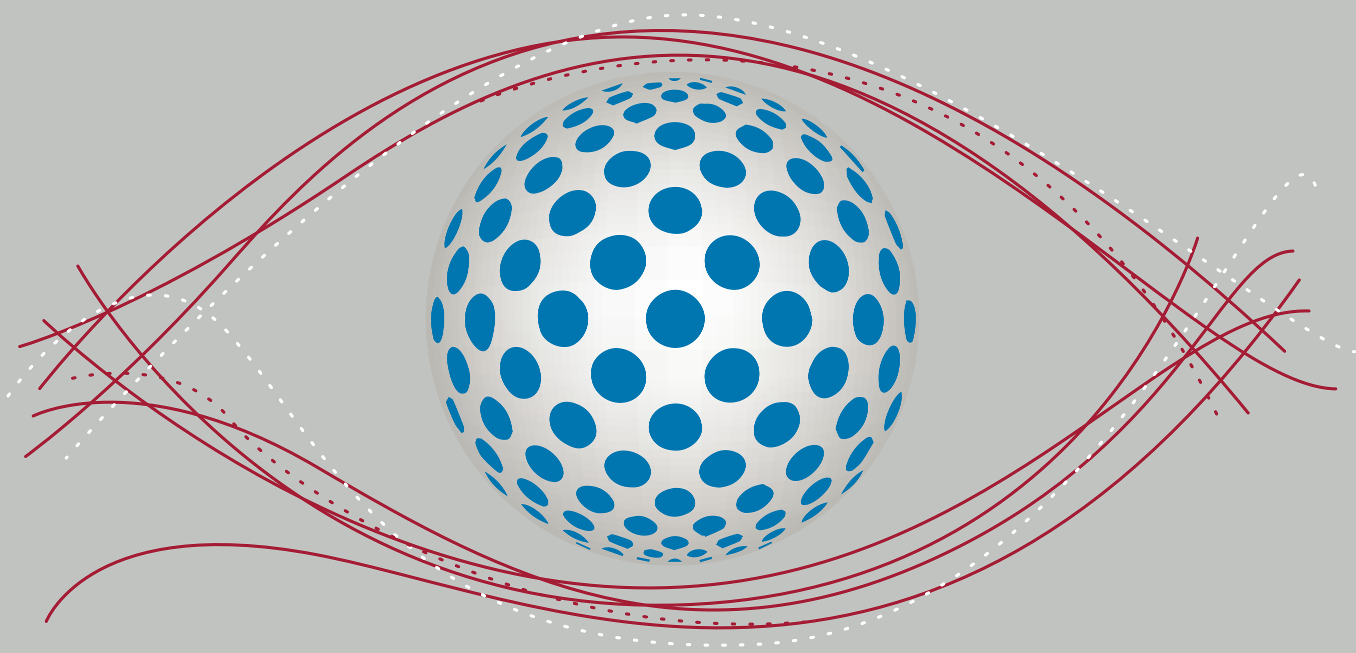
CBC FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC



An **NBFI** you can bank on

CBC Finance Ltd.

Annual Report 2020/21

AN NBFI YOU CAN BANK ON

The strong backing CBC Finance Ltd. receives from our illustrious parent Commercial Bank of Ceylon PLC, via their regime of systems, processes, technology and operating ethos means that... we are an NBFI you can "bank" on.

CBC FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

CONTENTS

ABOUT THE REPORT

The Report covers the performance of CBC Finance Ltd., during the financial year ended March 31, 2021 and its position as of that date. Our aim is to provide a balanced review of our performance by communicating relevant material information in a concise but comprehensive manner. This Report contains information about our strategy under which we manage our business, strategic corporate sustainability considerations and balancing the competing needs of our stakeholders. It also includes our risk management, governance practices and our performance inclusive of future prospects in the context of the surrounding economic, social, and environmental context for the year under review.

Report boundary

The Report covers the operations of CBC Finance Ltd. (CBCF), duly identified as the “Company”. The key financial aspects and non-financial aspects are discussed in the context of the Company. The CBCF Annual Report 2020/21 covers the 12-month period from April 01, 2020 to March 31, 2021, which is consistent with the usual annual reporting cycle for financial reporting.

Compliance

We operate in accordance with all applicable laws, rules, regulations, directions, and standards while abiding by guidelines for voluntary disclosures, both in letter and in spirit.

Queries

We welcome your comments and queries on this Report and we invite you to direct them to:

The Chief Financial Officer
CBC Finance Ltd.
No. 187, Katugastota Road,
Kandy.

Phone numbers: +94 081 220 0272, +94 081 221 3495,
+94 081 221 3496, +94 081 221 3498

Email: info@cbcfinance.lk

Reporting frameworks

Although this is not an integrated report, we have drawn on the concepts and principles mentioned in the following guides when preparing this Report for the purpose of communicating both the financial value and non-financial aspects of importance that impact the performance of the Company:

- The International Integrated Reporting Framework
  www.valuereportingfoundation.org
- The Global Reporting Initiative (GRI) Standards
  https://www.globalreporting.org/standards
- The Smart Integrated Reporting Methodology™
  https://www.smartannualreport.com/ebooks/4th_edition_2020/index.php
- The Code of Best Practice on Corporate Governance issued by the CA Sri Lanka

ABOUT US

CBC Finance Ltd. is a Non-Banking Financial Institution (NBFI) in Sri Lanka that is a fully owned subsidiary of the Commercial Bank of Ceylon PLC., the largest private sector bank in Sri Lanka. The Company has a credit rating of A (lka) from Fitch Ratings Lanka Ltd. and has been registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

The Company was incorporated as Indra Finance Ltd. in 1987 as a fully owned subsidiary of Indra Traders (Pvt) Ltd. At the initial stages, it catered to the growing market of financing vehicles. Commercial Bank acquired full ownership of Indra Finance Ltd. in 2014 under the then Financial Sector Consolidation Plan and renamed the entity Serendib Finance Ltd. in 2015.

In December 2020, the Company was renamed CBC Finance Ltd. in order to reflect the close association with the Commercial Bank (both in brand and in purpose). Having aligned its systems, processes and culture with the highest standards of corporate governance and risk management frameworks of the Bank, the Company expanded its offer of products and services over the past several years to include savings and term deposits, business and mortgage loans etc. However, the portfolio will continue to be updated and the services upgraded in the years to come.

VISION

To be a Financial Institution thriving on public confidence

MISSION

Growth and stability within a regulated market

OUR VALUES

- Derive customer confidence through superior service
- Be innovative and creative in delivering tangible value
- Ensure all activities are subject to risk management
- Deliver superior financial returns to attract and retain capital

The financial solutions we offer

- TIME AND SAVINGS DEPOSITS
- BUSINESS LOANS
- MORTGAGE LOANS
- LEASING

Our Group structure

The Commercial Bank of Ceylon PLC

CBC Finance Ltd.
(A fully owned subsidiary of Commercial Bank of Ceylon PLC)

Our journey

1987

Indra Finance (Pvt) Ltd. opened for business as a fully owned subsidiary of Indra Traders (Pvt.) Ltd. to cater to the growing market for financing vehicles.

2002

Re-registered as Indra Finance Ltd. under the registration number N(PVS/PBS)3261.

2007

The Company obtained the registration as a specialised leasing company on August 06, 2007, in terms Section 2 of the Finance Leasing Act No. 56 of 2000. Consequent to the enactment of the new Companies Act No. 07 of 2007, Indra Finance Ltd. was re-registered under the registration number PB276.

2008

The in-house IT team developed a system and implemented it to fully automate the entire lease financing process.

2010

The first branch of Indra Finance Ltd. was opened at Hingurakgoda on September 16, 2010.

2013

Indra Finance Ltd. registered as a finance company on May 08, 2013 in the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011.

The in-house developed core leasing system was replaced with an outsourced software module named “e-financial” system.

The Company moved to its own Head Office premises at No. 187, Katugastota Road, Kandy.

2014

The Commercial Bank acquired full ownership of Indra Finance Ltd. on September 01, 2014.

Mr Dharma Dheerasinghe, the then Chairman of Commercial Bank of Ceylon PLC was appointed as the Chairman of Indra Finance Ltd.

2015

Consequent to the acquisition by Commercial Bank, the Company was renamed “Serendib Finance Ltd.” on May 28, 2015.

The Company launched its first website in June 2015.

2019

Fitch Ratings Lanka Ltd. assigned A+ (lka) to Serendib Finance Ltd. for the first time.

The e-financial leasing system which was the core operating module was replaced by the International Comprehensive Banking System (ICBS) of Fiserv Inc., the core banking system used by Commercial Bank in September 2019.

2020

Fitch Ratings Lanka Ltd. upgraded the Company’s rating to AA- (lka) which has since been revised to A (lka) following a recalibration of the agency’s Sri Lankan national rating scale.

The Company was renamed as “CBC Finance Ltd.”

YEAR IN REVIEW

HIGHLIGHTS

	2020/21 (LKR Mn.)	2019/20 (LKR Mn.)	Variance %
Results for the year			
Income	**1,057.91**	1,210.75	(12.62)
Net interest income	**482.02**	558.74	(13.73)
Net operating income	**379.11**	360.68	5.11
Profit before tax	**129.44**	128.04	1.09
Profit after tax	**64.49**	68.98	(6.51)
Position as at the year-end			
Loans and receivables	**8,070.14**	6,810.62	18.49
Total asset	**9,700.90**	7,575.52	28.06
Total equity	**3,222.96**	2,154.21	49.61
Deposit liability	**4,838.98**	222.66	2073.26
Due to banks	**1,411.12**	5,085.41	(72.25)
Profitability ratios			
Net interest margin (%)	**6.21**	8.35	(2.14)
Return on assets (PBT) (%)	**1.50**	1.83	(0.33)
Return on equity (PAT) (%)	**2.40**	3.41	(1.01)
Cost to income ratio (%)	**38.34**	33.63	4.71
Capital adequacy and liquidity			
Capital adequacy ratio (%)	**26.57**	21.82	4.75
Liquid assets ratio (Times)	**2.63**	1.21	117.36
Advances to deposits ratio (%)	**166.75**	3,058.77	(2,892.02)
Other ratios			
NPA ratio (Gross) (%)	**14.08**	22.56	(8.48)
NPA ratio (Net) (%)	**3.48**	9.07	(5.59)
Provision cover ratio (%)	**75.30**	59.80	15.50
Manufactured capital			
Number of branches	**10**	10	–
Human capital			
Total workforce	**145**	131	10.69

CBC FINANCE
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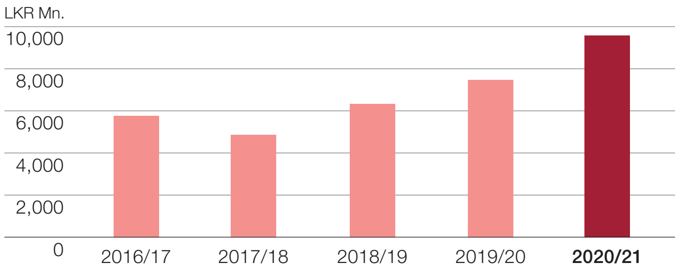
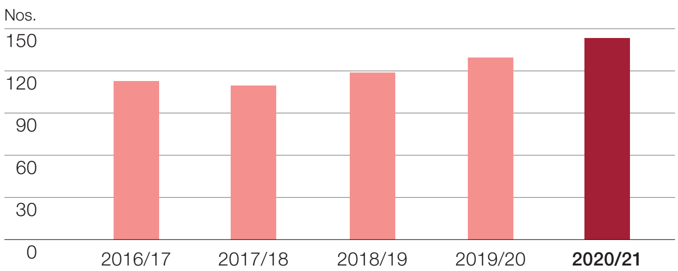
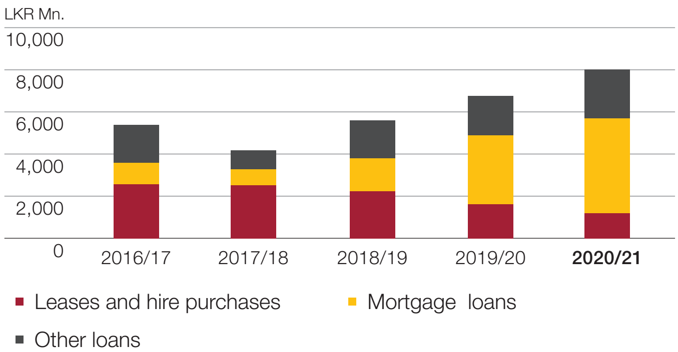
Total assets



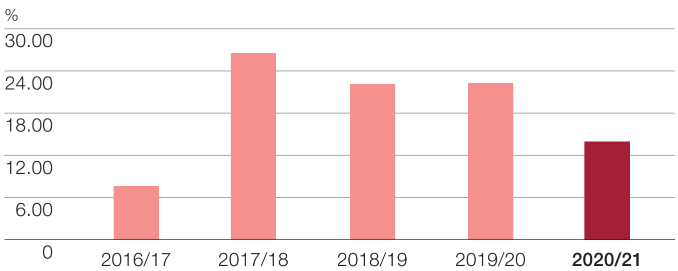
Total number of employees



Loan portfolio



Gross NPA ratio



The Company was renamed

CBC Finance Ltd.

A name that reflects the close association with its parent company, the Commercial Bank of Ceylon PLC

Debt moratoria extended to **144 customers** impacted by the COVID-19 pandemic

The deposit base swelled by **2,073%**

Customers enabled to transfer funds using the **CEFTS facility** for deposits and loan repayments

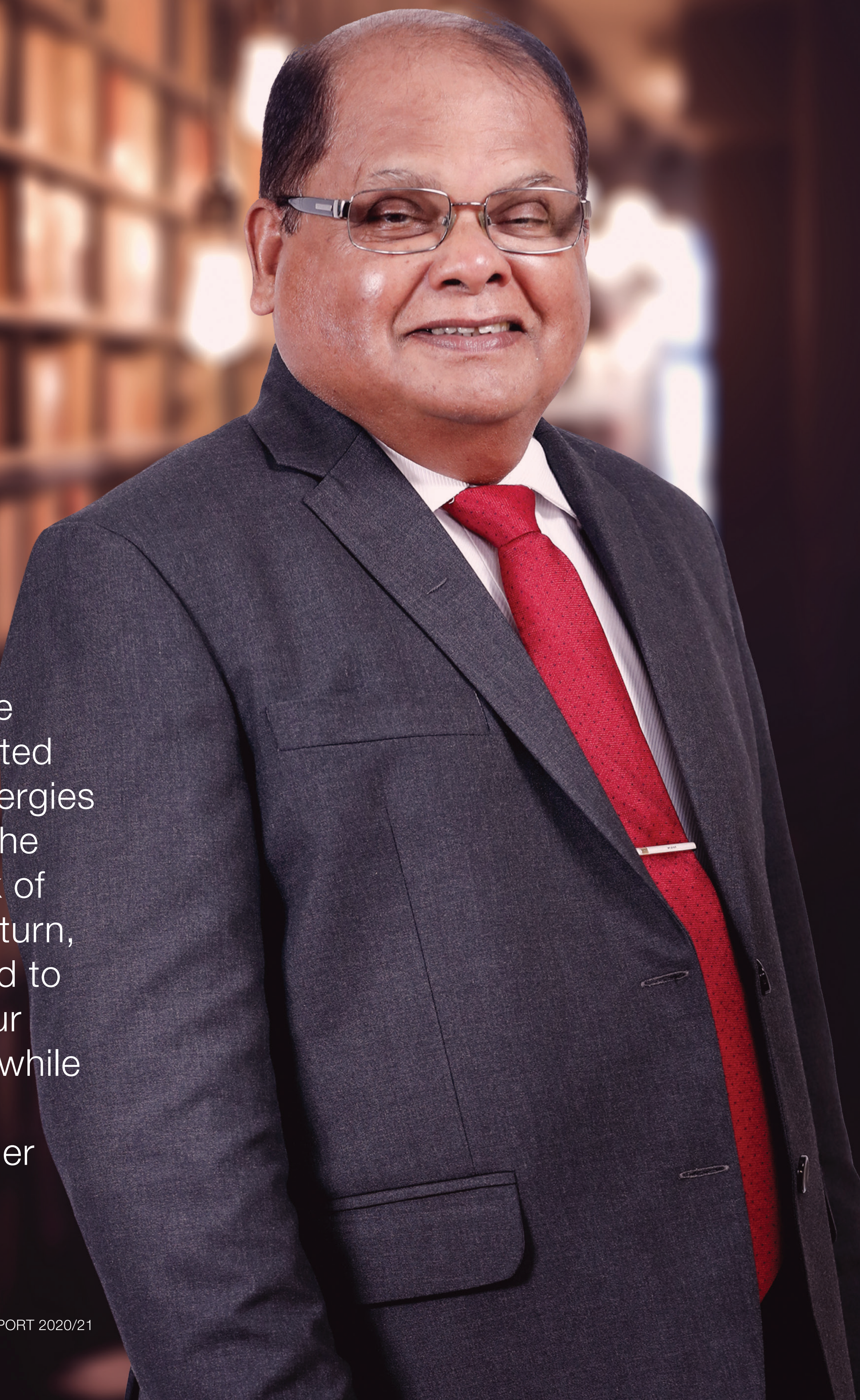
26 new recruits joined the CBCF family

The Company contributed **LKR 142 Mn.** in taxes to the Government

Relocation of branches

The Kohuwala branch was relocated and given greater visibility in a more spacious location. The Embilipitiya and Matara branches were also shifted to more customer-centric locations

CHAIRMAN'S MESSAGE



Our position in the industry is cemented by the strong synergies established with the Commercial Bank of Ceylon PLC. In return, we are determined to deliver value to our parent company, while strengthening the bonds with all other stakeholders.

Dear friends,

It gives me great pleasure to present the first Annual Report of CBC Finance Ltd. (CBCF).

As the Company embarks on a fresh journey as a renamed entity, I want to reflect on the opportunities and challenges that arose during the year. These defining moments not only helped refine our strategies but also strengthened our resolve to build a Company that is an asset to all our stakeholders.

Renaming our Company "CBC Finance Ltd.", previously known as "Serendib Finance Ltd." for a few years after the acquisition of Indra Finance Ltd. (incorporated in 1987) was a landmark event. With the branding under the new name, we are on a stronger footing backed by several new products with better and improved service to cater to the needs of our clients.

During these unpredictable times marked by the outbreak of the COVID-19 pandemic, there were many challenges we overcame with the assistance received from our parent company. A number of specific Board and Management level committees such as the Board Integrated Risk Management Committee, the Board Audit Committee, the Board Credit Committee, and the Executive Integrated Risk Management Committee etc., were established to improve the governance structure and the risk management function of the Company. The guidance and direction received from each of these committees has also helped us navigate these challenging times.

The Management and staff led by our MD/CEO with utmost commitment have achieved a commendable performance and their team efforts proved to be a strength during a challenging year. We were able to build a strong support system having acquired talent from our parent company. These team members lent their expertise, aligning the culture and practices of the Company with that of the parent bank in many aspects. However, while those with a banking background help ignite the flames of a non-banking financial institutions (NBFIs) such as ours, we also need team members especially in the area of business development to fan the fires of business growth. Therefore, in the coming years, we will build a team which will take calculated risks that will help propel the Company.

The robust governance structure and the supportive team also played a tremendous role in easing the challenges we faced. Consumer dependence in the NBFI sector dimmed as a result of the negative impact of the COVID-19 pandemic and the industry experienced a sluggish growth. However, the Company remained stable and strong with capital and liquidity maintained at healthy levels much above the minimum regulatory requirements.

The total assets of CBC Finance, grew by 28% during the year and stood at LKR 9.7 Bn. as at end March 31, 2021. The net advances also grew by 18.5% during the year negating the impact of the COVID-19 pandemic. The Company commenced mobilisation of customer deposits in October 2019 and during the year 2020/21 the deposit base increased to LKR 4.8 Bn., a remarkable achievement which displays the confidence our customers placed in CBCF.

One aspect of the business that was adversely affected due to COVID-19 was the leasing portfolio of the Company. The setback suffered in this area of business was mainly due to the restrictions imposed on vehicle imports and the loan-to-value (LTV) ratio applicable for granting credit facilities for the purchase of vehicles. Owing to these restrictions, the vehicle prices increased substantially and had to be financed at an artificially high price.

I am happy about our overall performance and wish to mention that we were not only considerate of the difficulties our customers faced but also supported them as they grappled with the hardships brought about by the pandemic. We provided our staff affected by the COVID-19 pandemic with required assistance.

We also provided clean and safe environments for our customers in all our offices abiding by all safety and health regulations. The staff was educated on taking the necessary precautions during their day-to-day operational interactions with customers and their colleagues.

Given the success achieved this year, I look forward to the future of CBC Finance with abundant hope and optimism. Our position in the industry is already cemented by the strong support we receive from the Commercial Bank. However, we are determined to add value to the relationship we have established with our parent company. At the moment the branch network of CBC Finance is limited to ten branches, but we are on the lookout for opportunities to grow inorganically by merging with a strong partner. Moreover, I believe our product mix is somewhat conservative although it has contributed towards the growth of the Company. As we forge ahead, we hope to make strategic decisions and expand our outreach and product portfolio.

To everyone who supported us in achieving growth this year, despite the challenges, I wish to say, "Thank you". I particularly wish to extend my gratitude to the Managing Director/Chief Executive Officer and all members of the Board for the assistance and valuable input I continue to receive. The staff of CBC Finance played an inimitable role in the success achieved during the year and I deeply appreciate their dedication and fearless commitment during challenging times. I also wish to extend my appreciation to our customers, regulators, and friends in the industry. Without you, I wouldn't have been as hopeful as I am about the journey CBC Finance has embarked upon.

As I set my eyes on the way forward, I see a successful Company – one that will add much value to its parent bank and all other stakeholders in the decades to come.

K G D D Dheerasinghe
Chairman

Colombo
September 22, 2021

MANAGING DIRECTOR/ CHIEF EXECUTIVE OFFICER'S REVIEW

Growth has been achieved on many fronts. For instance, total assets have grown by 28%, net advances by 18.5%, and the deposit base by 2,073%.

Furthermore, the parent's LKR 1 Bn. capital infusion during the year strengthened the Company's capital position as it surpassed LKR 3 Bn. and will comfortably meet the regulatory capital requirements in the years to come.

2020 was a defining year for many reasons. The outbreak of the COVID-19 pandemic dampened lives and economic activity across the globe and in turn impacted Sri Lanka and its NBFI sector. Moreover, during the financial year, the Company was renamed "CBC Finance Ltd." – a change that will have a notable impact on the Company as its identity is now closely associated with its parent company, the Commercial Bank of Ceylon PLC.

A sound performance

Growth has been achieved on many fronts. For instance, total assets have grown by 28%, net advances by 18.5%, and the deposit base by 2,073%. Furthermore, the parent's LKR 1 Bn. capital infusion during the year strengthened the Company's capital position as it surpassed LKR 3 Bn. and will comfortably meet the regulatory capital requirements in the years to come. As a result of an increase in the deposit base and the capital infused by the Bank, CBC Finance managed to prematurely settle a part of its bank borrowings by 72% during the financial year.

Moreover, the non-performing loans portfolio reduced drastically to LKR 1,271 Mn. and the NPA ratio to 14.08% from 22.56% when compared to the previous year. This is noteworthy since the high NPA ratio was a key concern for the Company over the past several years.

During the year under review, the Company also achieved a marginal 1% growth in its profit before tax. However, the increased tax liability of the Company resulted in a negative growth in profit after tax (PAT) and accordingly, PAT stood at LKR 64.49 Mn. as opposed to LKR 68.98 Mn. recorded during the previous year. Even though this is a 6.5% reduction, it is commendable that the Company managed to achieve this despite the seemingly insurmountable challenges that emerged due to the COVID-19 pandemic and the resulting economic setback. Concessions offered to customers affected by the COVID-19 pandemic coupled with the low interest rate regime affected the Company's interest income during the year. Despite a LKR 153 Mn. drop in gross income, the net interest income was only affected by LKR 77 Mn. due to a 16% drop in interest expenses as the Company's primary source of funding shifted to customer deposits as opposed to bank borrowings during previous years.

Nurturing customer-centricity

During the past few years, we developed a product portfolio that helped us grow strategically. We offer a variety of savings, lending, and leasing options. In this regard, I want to specifically mention the concessions provided to our borrowers.

We granted moratoria for 144 customers totalling LKR 2.6 Bn., which is one-third of our portfolio. Whilst granting moratoria, we prudently studied our borrowers' cash flows and financial position and continued to be in a dialogue with them. Accordingly, we have already discussed the necessary arrangements to be made after the moratorium period comes to an end.

While we met regulatory standards when providing borrowers with the necessary concessions, there have also been instances when we went beyond the stipulated regulations to provide additional relief for them. This has helped fortify the relationships we have established with our borrowers.

Another one of our offerings that has helped us build a rapport with our customers is the "doorstep service". We often meet our customers at their homes and provide them with additional information and clarifications on the products and services we offer.

While each of these products has helped us expand our reach, we believe in taking bold new decisions that will propel CBC Finance to grow exponentially in the years ahead.

Creating a unique culture

Our people are the driving force of the Company. Their expertise and experience play a vital role in the performance of CBC Finance. We also believe that it's through continuous training and development that they can be given the confidence to steer the Company ahead.

Creating a culture unique to the entity is also important to us. Throughout the years, our staff has felt a sense of belonging towards the Company which is a fully owned subsidiary of the Bank. This sentiment is reaffirmed because the Managing Director/ Chief Executive Officer, the Corporate Management and the Senior Management of the Bank take time to attend events organised for/ by the staff.

This sense of unity and belongingness prevailed during various indoor and outdoor activities organised during the financial year. I must add that all COVID-19 safety regulations were adhered to by the staff when attending these events.

Refining systems and processes

The benefit of being under the wing of such a financially robust parent is that its systems and processes can be borrowed and adapted to suit our own. CBC Finance uses the core banking software used by Commercial Bank. This system initially implemented in the Bank in 1993 has been continuously updated. It is thorough and provides a strong basis for our own IT system.

With regard to the systems and processes we adopted this year, I want to refer to the implementation of the CEFTS facilities for customer fund transfers and the new corporate website, which was relaunched with timely updates and information extracts useful to clients. In addition, we are now evaluating a few solutions to launch the online leasing application system as well.

Building a sustainable NBFI

I am proud of everything CBC Finance achieved during the year and am looking forward to what's planned for the future. While we seek to grow inorganically through an acquisition or a partnership with another suitable entity that will help us achieve our growth ambitions, there are many other aspects of the Company we hope to improve.

We hope to drive business growth by focusing on retail products and introducing new asset products as well. Digitalisation of the business will be taken forward by enabling an application for leasing online and opening fixed deposits online too. We also hope to outsource a part of the recovery operations.

Further strengthening compliance with regulations in the area of corporate governance and enhancing human capabilities are aspects we hope to continuously improve.

Extending my appreciation

As we step into a fresh financial year, I wish to convey my gratitude to the Chairman and the other members of the Board that helped the Company navigate the challenges that emerged as a result of the COVID-19 pandemic. I also extend my appreciation to the officials of the Central Bank of Sri Lanka and the Department of Supervision of Non-Bank Financial Institutions for their guidance. Furthermore, I must acknowledge the backing of the Managing Director/Chief Executive Officer and the Executive Director/Chief Operating Officer of the Commercial Bank of Ceylon PLC, Mr S Renganathan and Mr S Manatunge, who continuously supported me in strengthening the governance structure, systems, procedures and resources of CBC Finance. I also must commend all our employees for their unstinted support and the outstanding team spirit that prevailed within the organisation that contributed towards the excellence achieved in all areas of the Company. I am happy to say that I am looking forward to the new financial year with hope for greater success.

D M U N Dissanayake
Managing Director/Chief Executive Officer

Colombo
September 22, 2021

FINANCIAL REVIEW

The financial review provides insights into the Company's financial performance during the year under review and should be read in the context of the operating environment given on pages 21 to 23 and in conjunction with the detailed Financial Statements given on pages 98 to 165.

The Company recorded a substantial growth in deposits of LKR 4,616.32 Mn. during the year which enabled the Company to grow its total assets by LKR 2,125.38 Mn. and settle a portion of the high-cost borrowings. Growth in the net advances however was only LKR 1,259.52 Mn. during the year. Nevertheless, it is quite a significant achievement that we were able to grow all three aspects, i.e., assets, deposits, and net advances in the backdrop of the sector recording a negative growth during the period in the wake of the unprecedented challenges caused by the COVID-19 pandemic.

The Company's profit before tax increased marginally by 1.09%, while the profit after tax decreased by 6.51%.

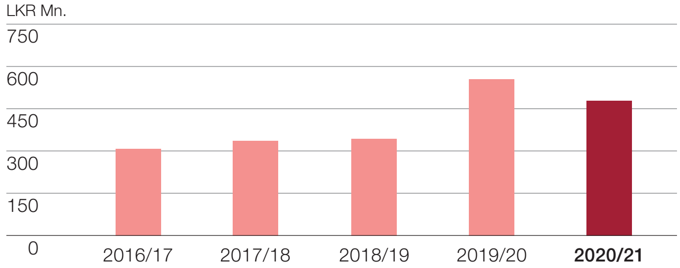
A summary of financials

A summary of Key Performance Indicators for the year under review in comparison to the preceding year is given below:

Indicator	2020/21	2019/20	Variance (%)
Total income (LKR Mn.)	**1,058.00**	1,211.00	(12.63)
Profit after tax (LKR Mn.)	**64.49**	68.98	(6.51)
Shareholders' funds (LKR Mn.)	**3,222.96**	2,154.21	49.61
Loan and advances (Gross) (LKR Mn.)	**9,026.74**	7,872.46	14.66
Deposit liability (LKR Mn.)	**4,838.98**	222.66	2,073.26
Bank borrowings (LKR Mn.)	**1,411.12**	5,085.41	(72.25)
Net cash flows (LKR Mn.)	**252.43**	68.16	270.35
Capital adequacy ratio; core capital as percentage of risk-weighted assets – Tier I (%)	**26.57**	21.82	4.75
– Total capital (%)	**26.57**	21.82	4.75
Debt/equity (Times)	**1.94**	2.46	(21.30)
Earnings per share (LKR)	**0.35**	0.48	(27.08)
Return on assets (before tax) (%)	**1.50**	1.83	(0.33)
Return on equity (after tax) (%)	**2.40**	3.41	(1.01)

Net Interest Income (NII)

Net interest income



Interest income for the year declined by LKR 168.11 Mn. or 14.86% compared to the last year, mainly due to the lower interest rate scenario and monetary concessions provided to our valued customers affected by the COVID-19 pandemic in compliance with the Directions issued by the Central Bank of Sri Lanka. In addition, the Company recognised a day one loss for the moratorium-related concessions granted to COVID-19 affected customers as a non-substantial modification to the loans and receivables in line with SLFRS 9.

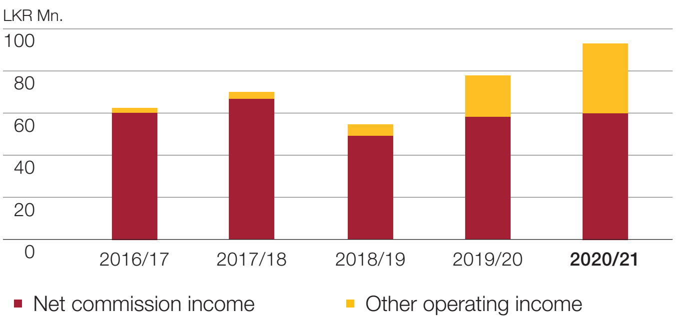
On the other hand, compared to the interest income, interest expense decreased by LKR 91.39 Mn. or 15.97% during the period under review, mainly due to Company's customer deposits becoming the primary source of funding compared to the bank borrowings in the past and settlement of high-cost borrowings during the year as stated earlier. The low-interest scenario in the economy too favourably impacted this situation. Consequently, the impact on net interest income was a decline of LKR 76.72 Mn. or 13.73% only. As a result, NII accounted for approximately 46% of the total income, almost at the same level recorded in 2019/20.

Furthermore, with the impact of COVID-19 during the first two quarters of the financial year, the lending business of the Company had to be heavily curtailed. However, with the slight recovery of the economic activities following the first wave of the pandemic, the Company accelerated its lending activities during the last quarter of the year. Growth in deposits and lower lending opportunities caused the Company to experience excess liquidity which had to be invested in low yielding assets, which, coupled with the reduction in lending rates, affected the interest margins of the Company.

Non-interest income

Net fee and commission income recorded a marginal growth of 2.64% to LKR 60.25 Mn. from LKR 58.70 Mn. in 2019/20. It accounted for 5.69% of the total income despite various challenges faced due to the COVID-19 outbreak and notable concessions extended to our customers on multiple strands of fees. Further, the Company recorded a substantial increase in other income of LKR 33.32 Mn. for the year, with a 70.09% growth compared to LKR 19.59 Mn. recorded in the previous year. This was mainly due to the Company's recovery efforts from its written-down lending portfolio. However, significant business disruptions during the year adversely affected the non-interest income growth as well.

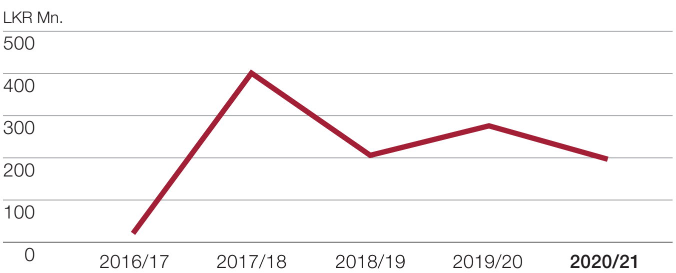
Non-interest income



Impairment charges

Impairment charges for the year amounted to LKR 196.48 Mn. reflecting a considerable decline compared to LKR 276.36 Mn. provided in the previous year. This is after considering LKR 6.72 Mn. and LKR 89.53 Mn. provided as Management overlays by way of economic factor adjustments and notionally moving the stages forward for exposures to risk-elevated industries, respectively. In addition, the Company carefully evaluated the customers' post moratorium ability to meet their loan commitments, the impact of COVID-19 on the respective industries where the particular customer is involved, and stressed economic factors when considering the Management overlays for the ECL computation. Accordingly, certain adjustments were brought in to accommodate the additional risks and uncertainties into the impairment provisioning of the Company.

Impairment charges

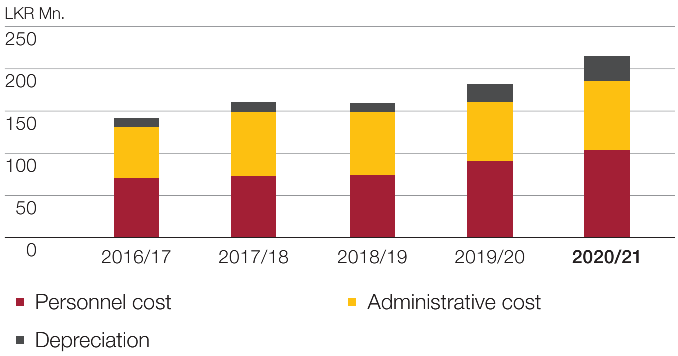


The Management believes that these additional changes sufficiently cover the additional credit risk due to the impact of COVID-19 on the customers of the Company.

Operating expenses

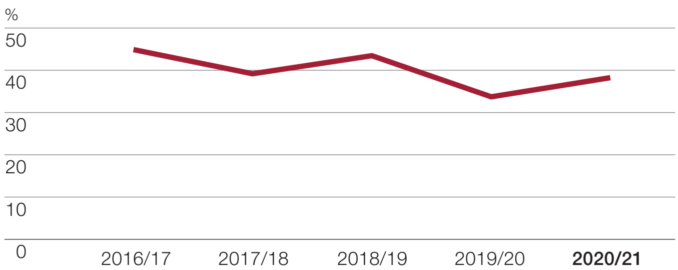
Total operating expenses for the year recorded an increase of LKR 33.71 Mn. compared to the previous year. The main factors contributing to this increase were the increased personnel expenses, increased depreciation charges due to SLFRS 16 on newly leased buildings, and fair value loss recognised over investment properties. As a result, the increase in the net operating expenses is more pronounced than the increase in operating income.

Operating expenses



The cost to income ratio increased to 38.34% from 33.63% in 2019/20. Even though it slightly increased, the cost to income ratio of 38.34% is still noteworthy under a challenging business environment and compares with the industry average.

Cost to income

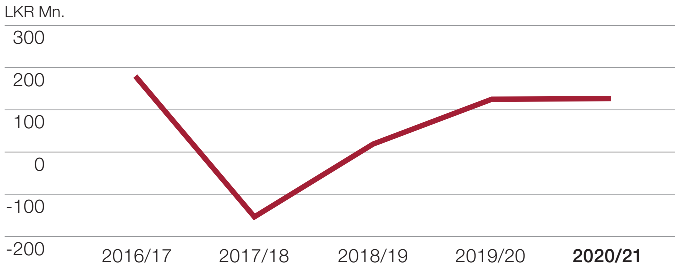


Profit before and after tax

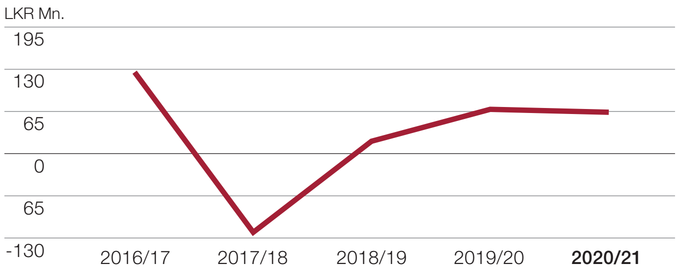
Profit before tax grew marginally by 1.09% over the last year. Despite the drop in net interest income, the growth in other operating income, reduction in impairment charges, value-added tax on financial services were the critical factors for the better performance. However, the 18.43% growth in operating expenses has adversely affected the bottom line.

Positive growth in profit before tax was dampened as the reduction of corporate income tax rate from 28% to 24% adversely affected the income tax charge as deferred tax assets got reversed to the Company's income tax expense. As a result, the profit after tax was LKR 64.49 Mn. with a negative growth of 6.51% for the year.

Profit before tax



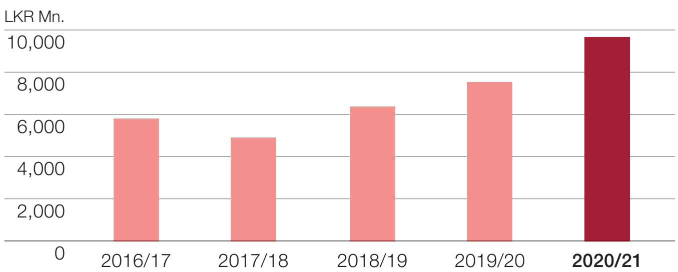
Profit after tax



Total assets

Total assets of the Company grew substantially by 28.06% (2019/20: 18.26%) during the year to reach LKR 9,700.90 Mn. from LKR 7,575.52 Mn. as of the previous year-end. This achievement is significant as the industry has recorded a negative growth of 3% during the period. Net loans and advances to customers registered a 18.49% growth while the balance is from the cash and short-term funds and financial investments, especially in Government Securities.

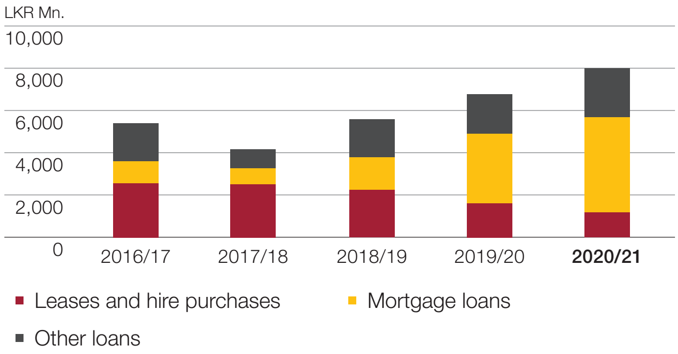
Total Assets



The Company's total gross loans crossed LKR 8 Bn. during the year despite various business and operational disruptions. Accordingly, the gross loan portfolio grew by 14.66% during the year.

However, the leasing portfolio recorded a negative growth of 26.67% due to adverse market conditions and restrictions on vehicle importation. Nevertheless, the Company managed to significantly improve its mortgage loans and other loans by 37.32% and 25.20% respectively, by seizing the opportunities created for new lending. However, the industry growth in loans and advances is a negative 4.23% for the period under review.

Loan portfolio

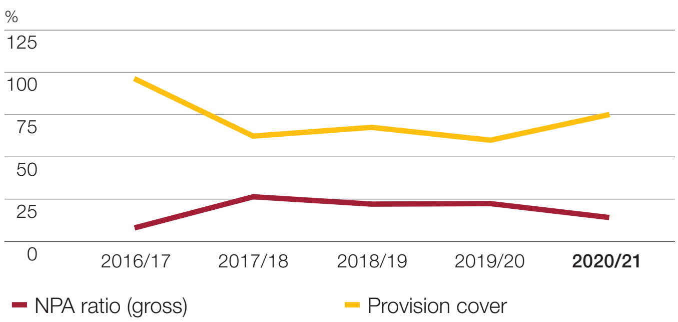


Assets quality

The Company managed to improve the Gross NPA ratio to 14.08% against the 22.56% recorded as of last year and net NPA ratio to 3.48% compared to 9.07% recorded in the previous year. It is noteworthy that this improvement came when the macroeconomic situation was not conducive to business stability with the COVID-19 outbreak.

While reducing its non-performing advances ratio, the Company managed to increase its impairment provision coverage ratio to 75.30% (2019/20: 59.80%) in 2020/21 compared to 64% for the industry. Further, cumulative impairment provisions for loans and advances as a percentage of the total loans and advances portfolio at the end of the year amounted to 10.60% (2019/20: 13.49%). Further, total regulatory provisions to the gross loans and advances portfolio stood at 3.32% (2019/20: 2.37%) as of the year-end.

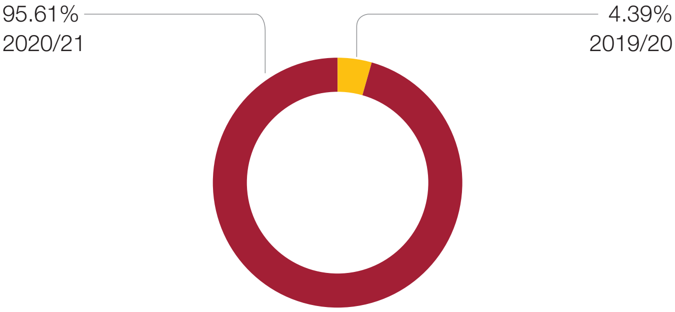
Quality of loan portfolio



Deposits

The Company commenced accepting deposits in October 2019 and deposits became the primary source of funding for the Company within a relatively short period. The deposit base of LKR 222.66 Mn. as of the previous year end increased manyfold to LKR 4,838.98 Mn. as of March 31, 2021. This reflects the level of public trust on the Company even during this volatile economic situation where the NBFI sector is struggling to retain the deposit base as reflected by the 0.67% negative growth recorded for the period. Being a fully owned subsidiary of Commercial Bank of Ceylon PLC and the higher credit rating of the Company among the other players in the sector were the key contributory factors for this growth.

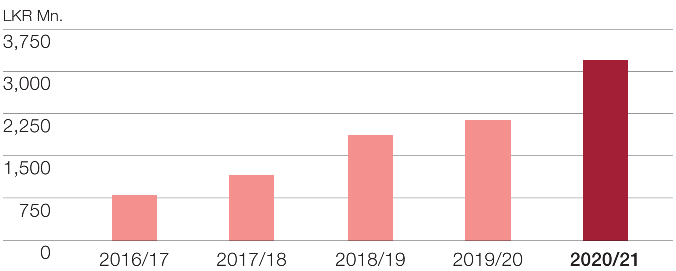
Composition of deposits by year of mobilisation



Net assets

The capital infusion of LKR 1,000 Mn. and the profit for the year caused the net assets to grow from LKR 2,154.21 Mn. as of March 31, 2020, to LKR 3,222.96 Mn. as of March 31, 2021. Consequently, the net assets value per share marginally improved from LKR 14.22 to LKR 14.53 as of March 31, 2021.

Net assets



Capital adequacy/capital management

A decision by the parent, Commercial Bank of Ceylon PLC to infuse LKR 1 Bn. to strengthen the Company's capital caused the stated capital to cross the LKR 3 Bn. milestone during the year. With this infusion of new capital, the Company can comfortably meet the proposed minimum capital requirement of LKR 2.5 Bn. by January 01, 2022 as per the CBSL regulations.

The Company's risk-weighted assets grew by 24.74% during the year from LKR 8,771.37 Mn. to LKR 10,949.31 Mn. as of March 31, 2021. Yet, as a result of fresh capital infusion, both the Tier 1 and the total capital ratios improved to 26.57% (2019/20: 21.82%) (minimum requirement; Tier I – 6.5% and total capital – 10.5%) as of March 31, 2021.

Funding and liquidity management

The Company always tries to strike an optimum balance between profitability and stability when it comes to maintaining liquidity. The Assets and Liabilities Committee (ALCO) of the Company meets every month, or more frequently if the circumstances so require, to closely monitor the current and future funding and liquidity requirements as well as pricing of products and services. The ALCO extensively deliberate various developments that affect funding and liquidity, such as market liquidity, current and perceived interest rates, changes in policy rates, regulatory directions, credit growth and facilities in the pipeline, capital expenditure commitments, contingency funding arrangements etc., at these meetings. During the last financial year, the ALCO was more cautious with its liquidity management due to delays experienced in loan recoveries due to the pandemic. As a result, the situation was monitored under different stress levels continuously. As of March 31, 2021, the Company's liquid assets were 2.63 times compared to the minimum requirement.

OUR MODEL

STAKEHOLDER RELATIONSHIPS

We are in mutually beneficial relationships with our stakeholders. They deliver value to the Company in a multiplicity of ways. In turn, we too understand the importance of adding value to these relationships – they sustain CBCF and contribute towards the overall performance of the Company.

Given below is a list of stakeholders of the Company, matters/concerns of interest to them based on their relationship with the Company, and how we responded to them:

Stakeholder group	Stakeholder interest	Our response
Customers	• Utilises the products and services provided by the Company. • Borrowers were keen to learn more about the concessions available to them due to the challenging operating environment caused by the pandemic. • Keenly observes the financial robustness of the Company and takes interest in its long-term growth plans.	o Provided "Doorstep Service" for customers who are interested in learning more about our products and services. o Provided moratoria for our borrowers, at times, going well beyond the amount stipulated for the industry. o Continuous growth of the Company while banking on the synergies with our parent the Commercial Bank of Ceylon PLC.
Employees	• An environment that prioritises their well-being and professional growth.	o As a result of the COVID-19 pandemic, we ensured all health and safety measures were adhered to at all locations of our operations. We also allowed most of our staff to work-from-home. o Put in place strategies for succession planning and promotions. For a detailed understanding of our contribution to this stakeholder group, refer to Human Capital (Pages 30 to 34).
Business Partners	• A financially robust entity that meets all regulatory requirements and has a vision for the future of the Company. • Transparency and non-discrimination with which the Company undertakes transactions with its partners.	o Reinstating that CBCF is under the wing of its parent, the Commercial Bank of Ceylon PLC. o Complementing the existing product portfolio with additions that will contribute towards exponential growth. o Centralised procurement process under the purview of a Procurement Committee.
Shareholder	• The financial soundness of the entity and long-term growth plans. • Full compliance with the applicable rules and regulations thereby minimising potential reputational risk to the Commercial Bank arising from the activities of the Company.	o Strengthened the Company's capital position which will comfortably meet the regulatory capital requirements in the years to come. o Strengthening the compliance function on an ongoing basis. o Continued to strengthen the risk management and governance functions.
Society	• An NBFI that can be relied upon to pay heed to the needs of all its stakeholders.	o Building a Company that comfortably meets all regulatory requirements and has a strategy for sustainable growth while promoting socially responsible business practices with the best interest of all the stakeholders at heart.
Regulator	• An NBFI that meets all stipulated regulatory requirements.	o Commitment to adhere to all the applicable rules and regulations both in letter and in spirit.

OPERATING ENVIRONMENT

Global economic growth

The International Monetary Fund (IMF) projects global economic growth to be 6.0% in 2021 and 4.9% in 2022 in its World Economic Outlook, July 2021 update. The recovery of economic activity is diverged across regions largely due to the pace of vaccine rollout and policy support. However, even in places where infections are seemingly under control, smooth and durable recoveries are not assured.

The prospects for emerging markets and developing economies have been marked down for 2021, especially for Emerging Asia. Following the severe second COVID-19 wave during March–May and expected slow recovery in confidence from that setback, the growth prospects in India have been downgraded to 9.5% in 2021. The forecast for China too has been revised down to 8.1% in 2021 and 5.7% in 2022 due to scaling back of public investment and overall fiscal support. On the other hand, growth prospects for advanced economies have been revised up for 2021–22, from expected further normalisation in the second half of 2021 as vaccine rollout proceeds and with additional fiscal support. Economic recovery of low-income developing country group is being weighed down by the slow rollout of vaccines and these nations would require close to USD 200 Bn. in spending to combat the pandemic and an additional USD 250 Bn. to regain their pre-pandemic convergence paths.

Sri Lanka's economic growth

Reflecting the effects of the COVID-19 pandemic, the Sri Lankan economy contracted by 3.6% in 2020, compared to the 2.3% growth recorded in the preceding year, with all sectors of the economy recording a decline in growth YoY. However, as per the estimates of the Department of Census and Statistics (DCS), the economy witnessed a stronger than expected recovery during the first quarter of 2021, recording a real growth of 4.3% YoY.

Economic recovery in 2H of 2021 could be weakened due to possible disruptions to domestic economic activity on account of COVID-19 related preventive measures. According to available indicators, real economic growth is likely to exceed 5% in 2021 and is likely to be sustained over the medium term.

The depreciation of the rupee against the US dollar was contained at 2.6% in 2020 and gross official reserves amounted to USD 5.7 Bn. at end 2020, providing an import cover of 4.2 months. By end July 2021, the gross official reserves are estimated to have declined to USD 2.8 Bn. with an import cover of 1.8 months. Measures are being taken by the Government to enhance non-debt creating foreign inflows, by strengthening the domestic production economy, which would help strengthen the external sector in the period ahead.

Non-Bank Financial Institutions (NBFI) sector

The NBFI sector deteriorated during the year 2020, with negative credit growth, declining profitability and an increase in NPLs. The slowdown in the sector, which accounts for 5.9% of Sri Lanka's financial system at end-December 2020, is attributed to pandemic-related impediments and the deterioration in public confidence. The Central Bank initiated several regulatory actions along with the introduction of the Financial Sector Consolidation Master Plan (FSCMP) to avoid further deterioration of the financial position of Licensed Finance Companies (LFCs) and, maintain the stability of the sector whilst safeguarding the interest of depositors. The FSCMP addresses non-compliance with the minimum core capital requirement and/or the minimum capital adequacy ratios of several LFCs.

Challenges and risks

There are key factors that shape the operating context. We have stated appropriate responses, by paying close attention to the impact of these market drivers and the challenges and opportunities linked to these factors.

Factors that affect our operations	Challenges and risks	Opportunities and our response
The COVID-19 pandemic	The health and economic impacts of the pandemic continued to have significant implications on our Company and its stakeholders. The NBFI sector experienced a decline in customer confidence, negative credit growth, decreasing profitability and increase in non-performing loans (NPL).	The COVID-19 pandemic has accelerated the shift to digital financial services, with more customers looking for digital solutions to enable them to do their financial transactions from the safety of their home. We adapted to new ways of working and delivering products and services to the customers' doorsteps. CEFTS facilities were made available for fund transfers and our corporate website was revamped with more functions. Debt moratoria was granted to customers affected by the pandemic as per the directions of the Central Bank of Sri Lanka (CBSL) and additional relief was granted beyond the regulator's minimum prescribed requirements. The health and safety of our employees and customers were assured by implementing the required health and safety protocols across the network. Displaying the customer confidence in our Company, the deposit base swelled to LKR 4.6 Bn. during the year. The Fitch Ratings affirmed the Company rating at "A(lka)". Non-performing asset ratio was reduced to 14.08% as at the end of FY 2020/21 from 22.56% in the previous year.
Import restrictions	The present restrictions imposed on vehicle imports and the loan-to-value (LTV ratio) applicable for granting credit facilities to purchase vehicles have caused the vehicle prices to escalate substantially. The vehicles need to be financed at an inflated price where the value might not hold if import restrictions are lifted.	Even though the gross leasing portfolio reduced by LKR 537 Mn., LKR 300 Mn. was granted as new leases after carefully analysing the credit worthiness of the customers despite the challenging environment.

Factors that affect our operations	Challenges and risks	Opportunities and our response
Decline in interest rates	The Standing Deposit Facility Rate (SDFR), the Standing Lending Facility Rate (SLFR) and the Statutory Reserve Ratio (SRR) were substantially reduced during the year. The decline in interest rates affect the net interest margin and profitability of our Company.	There was an opportunity to grow the lending portfolio as reflected by the increase in our lending portfolio. The impact on our net interest margin was reduced by shifting our source of funding towards customer deposits as against relatively high cost bank borrowings.
Regulatory oversight and governance	The pace and complexity of regulatory and statutory requirements across the financial services industry has increased. There is a requirement for stringent governance and transparency in business conduct along with an increase in the severity of penalties and regulatory sanctions for non-compliance.	This created an opportunity to build a strong and stable financial services sector and compelled financial institutions to offer sustainable products and services to customers. We introduced several new policies, procedures, and systems to enhance our Company's governance structure. A new system was implemented for anti-money laundering (AML) and conducting due diligence of the customer onboarding function. The implementation of comprehensive lending guidelines, Business Continuity Management Policy, and the ALCO Policy has strengthened the risk management function of our Company further.
Technological changes	The rapid change of technologies and pace of change of technology affects the Company’s ability to remain relevant to customers, enhancing the operational risk and adversely impacting the competitiveness of our Company. It also increases the exposure to cyber attacks and attempted frauds.	We implemented the same core banking system used in the Bank in our Company too. Being a tried and tested system, this has given a competitive advantage to the Company. We also made further improvements to our corporate website whilst further improving internally developed systems. We are in the process of launching an online leasing application system to enhance the efficiency of our leasing function to deliver an exceptional customer experience.

HOW WE CREATE VALUE

External

Vision and

Governance

Corporate

Financial intermediation

INPUTS

Financial capital

Shareholders' funds
Customer deposits
Borrowed funds

Intellectual capital

Institutionalised knowledge
Best practices
Brand equity

Human capital

Skills
Expertise
Commitment

Social and relationship capital

Services and supplies
Relationships
Collaborations
Partnerships
Social license

Primary activities:

Lending

Mobilising deposits

Providing other fee-based services

environment

purpose

structure

strategy

and maturity transformation

Support activities:

Relationship management

Risk management

Product development

Financial management and reporting

Human resources management

Marketing and sales

Support services

Information technology

OUTPUTS

Financial capital

Prudent growth
Profitability
Funding and liquidity

Intellectual capital

Compliance
Innovation
Ethical conduct
Brand value

Human capital

Training and development
Operational excellence
Motivation
Strong employee engagement
Career progression

Social and relationship capital

Increase in customer base
Customer satisfaction
Customer convenience
Strong supplier relationships
CSR activities
Dividends

OUR IMPACT

INTELLECTUAL CAPITAL

Intellectual capital is a culmination of both tangible and intangible aspects of a company. They contribute towards its bottom line and the future earning potential of the entity. These elements include investment in research and development, innovation, human resources, and external relationships.

At CBCF, the aspects of the business that contribute towards this capital are brand equity as a subsidiary of the Commercial Bank, IT and related system developments, institutionalised knowledge, credit rating systems, system of internal control, product and service upgrades and studies done in this regard, and the Company culture. Each of these aspects will be explored in detail throughout this chapter.

HIGHLIGHTS

Renamed CBC Finance Ltd.

A name closely associated with its parent company.

Upgraded IT systems and processes:

- CEFTS implementation
- Server room upgrade
- Relaunched the Company website
- Upgraded physical servers to virtual servers

Launched first digital mass advertising campaign.

Strengthened the Company culture to make it more cohesive.

Renamed and rebranded to demonstrate the close association with the parent company

Brand equity as a subsidiary of the Commercial Bank

2020 was a momentous year for CBCF in terms of establishing a solid brand identity. On December 23, 2020, the Company officially became CBC Finance Ltd. – a name and brand that is directly associated with its parent company, the Commercial Bank of Ceylon PLC. The Company's logo and all other related collateral reflect this change.

This is tremendously useful in communicating the solid backing we receive from the Bank. The Commercial Bank of Ceylon PLC gives the Company a robust financial backbone and provides it with a definite purpose and has influenced us in adopting a sustainable growth strategy.

Systems, processes, and digital innovation

Building robust systems and processes

Over the past 20 years, financial institutions have revolutionised how data is generated, disseminated, and consumed. Since its origin in 1987, the Company has made great strides from time to time to upgrade the Company's IT infrastructure, with the most significant step being the implementation of the ICBS System in September 2019. This is the core banking system of the Bank. With the technical support forthcoming from the Bank, the Management is making every effort to leverage it as a competitive advantage. In addition, with a view to ensure the acceptable use of all information technology-related assets and protect data confidentiality, integrity, and availability, the Company has developed an Information Security Policy (ISP) which details rules and processes for the staff on their use.

The following departments and stakeholders play a vital role in developing this aspect of the Company:

- **The Bank's IT Department and the Central System Support Department** have been the key external stakeholder of the IT Department from the day the Company implemented the International Comprehensive Banking System (ICBS). The ICBS, unlike the e-financials system, can support the diversification of the Company's product portfolio. The system has also helped integrate the Company with the Bank's internally developed systems, procedures and audit trails.
- **The Bank's Digital Banking Unit and the Branch Credit Monitoring Department** have helped the Company implement the Common Electronic Funds Transfer Switch (CEFT) from LankaClear (Pvt) Ltd., and the Recovery Module in the ICBS.
- **The CBC Tech Solutions Ltd.,** a subsidiary of the Bank, handled the relaunch of the Company website, recovery module, insurance module, and the Mcash System successfully.

Significant updates

During the year, the following changes and updates were implemented:

Relaunched the Company's intranet

All the circulars, guidelines, policies, workflows, and a host of other information are now on a single portal. The staff no longer needs to browse through files but could search and obtain the information speedily.

Mcas

This is an e-Memo System implemented with the support of a third-party vendor to wean away from paper-based memos to electronically transmitted memos. This will enable the Company to reduce paper usage, storage of the same, and minimise retrieval costs.

Printing and scanning security documents

An internal system was developed to obtain printed security documents moving away from filling these documents by hand or by typing. Security documents can now be scanned and uploaded to the system so that departments connected to the loan/lease granting process, auditors etc., can access and view security documents at the click of a button. This has improved processing time, ensured accuracy, and reduced the time taken for subsequent scrutiny by the Audit and Risk Departments.

Write-off registry

This system now holds all the facilities' data written-down/written-off with the capability of updating transactions. In addition, a host of analytical information regarding this portfolio could be obtained via reports and analytical tools built into the system.

Credit monitoring system

This system enables the marketing officers and recovery officers to record and track the progress of recovery/marketing initiatives. This enables timely and effective interactions with customers.

Constructed a modernised server room

The physical servers were moved to a Virtual Machines [VM] environment. This migration enabled the Company to:

- Run multiple applications per server.
- Manage security with ease.
- Host multiple VMs on a single server.
- Enabled on-demand scalability.

Connected to the Common Electronic Funds Transfer Switch [CEFTS]

The Company is now connected to all the financial institutions to send and receive money in real-time. As a result, the customers of CBCF greatly benefited as they can now deposit funds directly to their savings account to meet the monthly instalment. Furthermore, proceeds from the loans could be transferred to an account of their choice. Along with implementing the CEFTS, the Company enabled the SMS alert service, which informs the customer of the transactions routed through their accounts on a real-time basis.

With an eye to the future

The Company is formulating its digital strategy to align with Commercial Bank's standards and level of technological advancement. With continuous support from the Bank, we are planning to implement the Loan Origination System (LOS). The execution of the LOS would enhance the processing and approval speed of the credit facility papers and quicken the finalisation of approvals.

The mobile application for customer onboarding, online leasing, and fixed deposit application is also expected to be finalised before the end of the year. Another new initiative is the digital KYC from KPMG, which has already been implemented in the Bank. With assistance from the Group Compliance Officer, the Company is planning to roll out this system shortly.

Moreover, the ongoing collaboration with the parent organisation for continuous improvements towards network architecture and implementation of the latest firewalls and antivirus scanners would undoubtedly provide us with the required level of barriers against any unforeseen attacks.

Institutionalised knowledge

Institutionalised knowledge is another crucial component of the Intellectual Capital of the Company. It comprises knowledge and competencies that the staff has amassed for more than 30 years of the Company's existence and resides in our 145-strong employee cadre who have together accumulated a service period of 614 years as well as in credit rating systems, the system of internal control and other product and process documentation.

Product and service improvements

The Credit Administration Department located at the Head Office plays a central role in the Company. As a result of travel restrictions and the difficulty in moving among provinces, strategies to improve the retail lending portfolio of the Company were introduced. In addition, the decentralisation of credit operations accelerated the approval process.

In the meantime, the Company is making suitable arrangements to boost the outward appearance of the branches and even to shift some of the branches to improve customer interactions. Moreover, CBCF has taken great care to enhance the competencies of the staff and continues to support them in acquiring new skills and capabilities to improve its services.

Further, the Company is planning to revisit the asset products and develop an attractive set of products that will interest a variety of customers and enhance the lending portfolio. We also believe recruiting well experienced and competent Business Development Officers will expedite business growth.

Marketing initiatives

Due to the relatively small branch network, direct marketing and personal contacts were used as part of the Company's marketing strategy. As a result, the Company achieved rapid growth of mortgage-backed loans during the past few years.

A digital advertising campaign was launched during the latter part of the year to attract more leasing businesses. This was the first digital mass advertising campaign launched by the Company. This concluded successfully, and the Company was able to establish a brand image for CBC Finance leasing.

With the launch of the digital marketing initiative, the Company conducted several marketing campaigns in Colombo, the Central and the Southern clusters with the patronage of several vehicle traders and importers and was able to enhance the leasing business whilst improving customer networking and brand building.

However, the primary initiative that drives valuable clients towards our Company is the "doorstep delivery service". This helped us understand our customers' immediate requirements.

Creating a collaborative culture

The synergies established between Commercial Bank and CBCF certainly have had an immensely positive impact on the Company. The Bank's culture has fused with the culture of CBC Finance to create a company culture which is a wonderful blend that's embraced and nurtured by the staff. This collaborative culture nourishes professional and personal growth.

Everyone is well-attuned to the strategic goals and objectives of the Company. The fact that the CBCF family is still small is an added advantage since it helps build close relationships. This interactivity contributes towards a sense of unity when fulfilling Company goals and objectives.

HUMAN CAPITAL

Our people play a vital role in the performance of the Company. Our team consists of a perfect blend of the Company's employees and those handpicked from our parent company, the Commercial Bank of Ceylon PLC, on a secondment basis. The availability of a pool of talent from which the Company could draw staff with expertise in the financial services industry to supplement our human resources has undoubtedly given a unique edge to the Company. Besides helping our team develop their competencies, this move helped the Company align its culture and practices with that of the Bank, which our people have embraced wholeheartedly. Having done that, the Company intends to gradually replace the majority of the staff on secondment with direct recruitments from the industry. Therefore, recruitment of talent for the years ahead will most likely come from direct recruitments and inorganic growth opportunities currently being explored.

2020 was a challenging year for our team. The pandemic made us more sensitive to the well-being of our staff, their family commitments, practical concerns such as travelling and the need to meet targets. However, team spirit prevailed, and we made steady progress during the year under review. This chapter elaborates on how we addressed these concerns with empathy and other aspects that were impacted, such as recruitment, employee turnover, salaries and benefits, leadership management, and training.

HIGHLIGHTS

145 staff members

26 new recruits

44% female employees

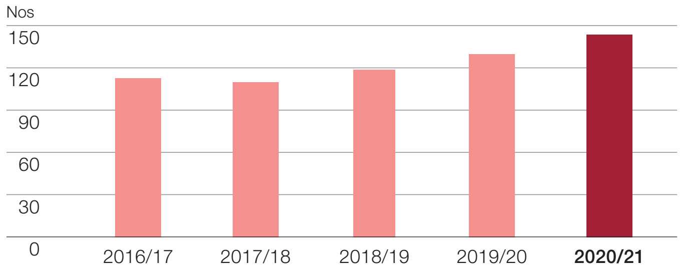
57 staff members under 30 years of age

1,450 hours dedicated to training

An overview of our team

The CBCF family consisted of 145 members as of March 31, 2021 – 127 are our own employees and 18 employees are on secondment from the Bank. Of them, 86 members are stationed at our Head Office in Katugastota, while the others work at the other ten branches scattered across the island. The members of the CBCF family exhibit diversity in terms of age, gender, experience, competencies, ethnicity, religious background etc.

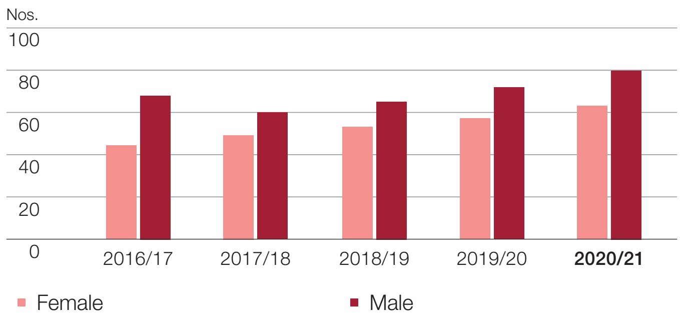
Total number of employees



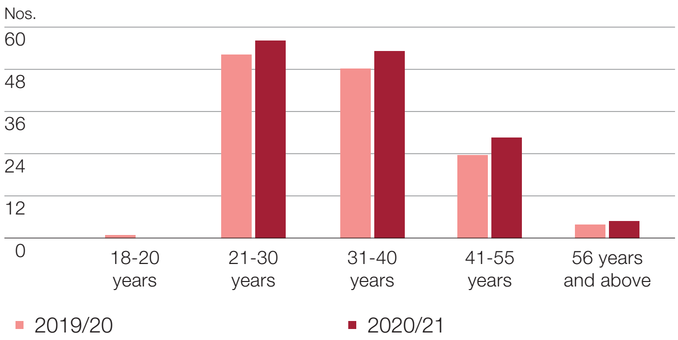
Analysis of employees - Our own and on secondment

	Our own	On secondment
2020/21	127	18
2019/20	114	17
2018/19	106	14
2017/18	106	5
2016/17	112	2

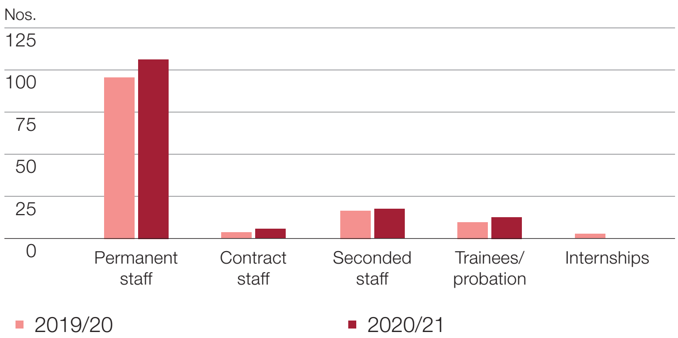
Gender analysis of employees



Employee analysis based on age

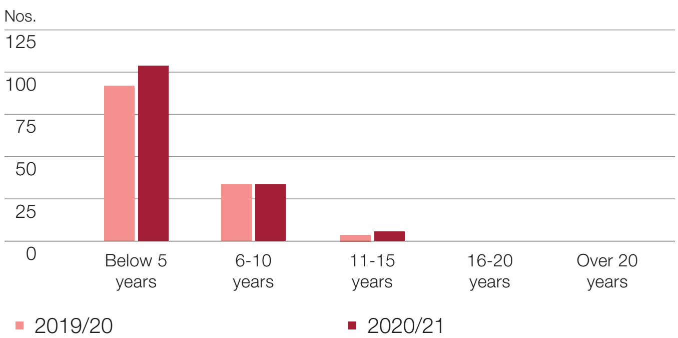


Total workforce by employment type



Employees based on grade

Service analysis of employees



Facing 2020 – A team effort

The COVID-19 pandemic presented myriad challenges for our people. Nevertheless, we were able to overcome them all because we were able to optimally balance the Company's needs with the needs of our people. The strategies we adopted in this regard throughout the year are given below:

Prioritising employee well-being

We followed all health and safety guidelines stipulated by the health authorities and the regulators to ensure the well-being of our staff. In addition, we allowed many of our staff members to work from home and ensured that those who had to come to office abided by all safety regulations.

Staff members and their families who were directly affected by the virus were given dry rations and other necessities.

Effective change and transformation

We have effectively identified changes to the business environment during the pandemic, such as the closure of branches, isolating of staff members who test positive for the COVID-19 virus, the risk of travelling in public transport etc., and developed plans to manage these changes while keeping in mind the well-being of our staff, the customers, and the growth plans of the Company.

Ability to identify and empower “leaders”

Several suitable staff members have been identified as “leaders”. They were evaluated based on their expertise and performance and how these aligned with the overall business objectives. These staff members took on managing the staff as most of our team members were working from home.

Exceptional networking and relationship-building

The HR Department frequently liaised with all departments and branches, maintaining a healthy relationship with all the units to understand their needs and support them whenever human capital was needed for welfare or safety requirements.

Ability to maintain confidentiality

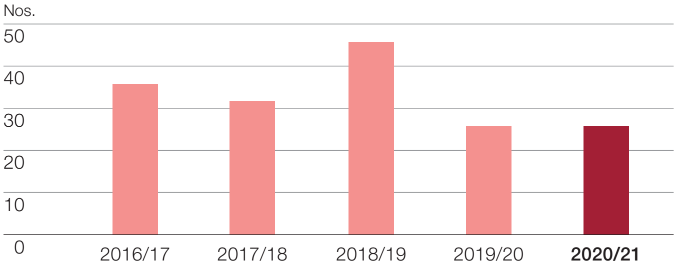
The HR Department maintained confidentiality concerning sensitive information on staff incidents, business operations, and remuneration.

Recruitment

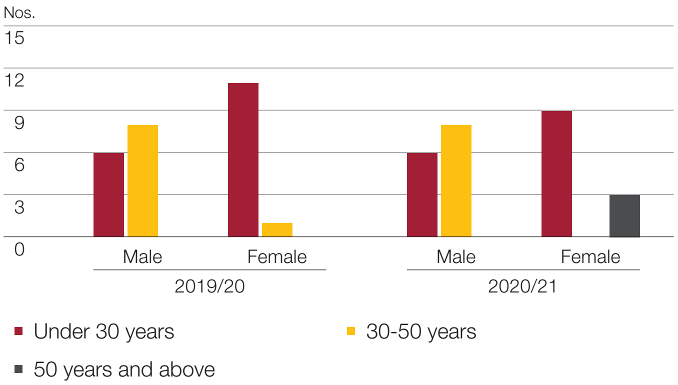
We are proud that we built a strong team over the years, having borrowed talent from our parent company. However, as we advance, we will be fortifying our staff by recruiting experts from the industry in Marketing, Finance, Credit, Recovery operations, and Information Technology. During the year, 26 recruits joined the CBCF family.

The recruitment criteria were revised, and we also introduced paper-based exams for the new applicants to test their competency level. Exams were conducted at the branch nearest to the candidate or at the Head Office under the supervision of the Branch Manager and a member of the Human Resource Team. Based on the performance at the exam, the interviews were conducted virtually.

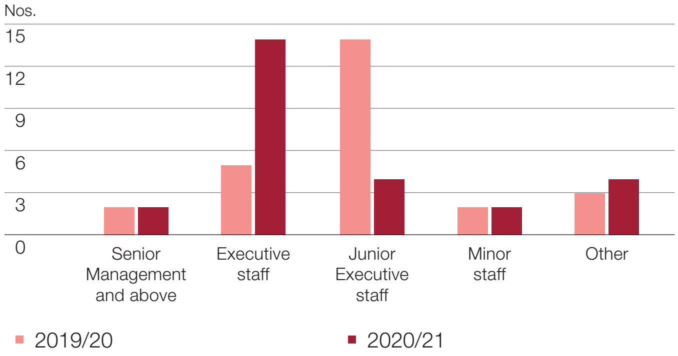
Total number of recruits



Recruits based on age and gender



Recruitments by grade



Recruits based on region

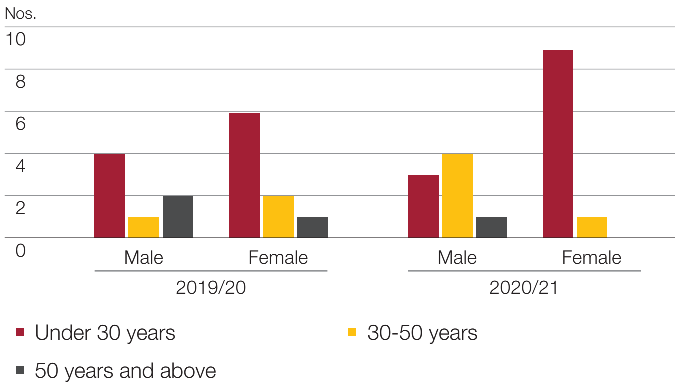
Province	2020/21 (Nos.)	2019/20 (Nos.)
Central	18	19
Eastern	–	–
Northern	–	–
North Central	1	4
North Western	–	–
Sabaragamuwa	–	–
Southern	1	2
Uva	–	–
Western	6	1

Talent retention is essential for the long-term sustainability of our Company. We believe that a great employee experience drives an excellent customer experience. Therefore, we strive to create an environment that's stress-free, fair and free from discrimination. In addition, we ensure the wellness and safety of our employees and reward and remunerate them in line with industry standards. Whilst these factors enable our staff to feel valued, they help foster their loyalty towards the Company, leading to retaining key talent in the long run.

Employee turnover

Having experienced relatively high staff turnover rates in the initial stages since the Company's acquisition by the Commercial Bank (23.83% in 2014/15), we have improved and stabilised the staff turnover ratio to a greater extent over the past several years. Accordingly, the staff turnover ratio stood at 13.02% (12.67% in 2019/20) during the year under review.

Employee turnover based on age and gender



Employee turnover based on employment category

Staff category	2020/21 Male	2020/21 Female	2019/20 Male	2019/20 Female
Senior Management and above	1	–	1	2
Executive staff	5	–	4	–
Junior Executive staff	–	6	2	6
Minor staff	2	–	–	–
Other	–	4	–	1

Employee turnover based on region

Province	2020/21 (%)	2019/20 (%)
Central	6.52	9.52
Eastern	–	–
Northern	–	–
North Central	2.17	0.79
North Western	–	–
Sabaragamuwa	–	–
Southern	0.72	0.79
Uva	–	–
Western	1.44	1.58

Employee welfare

We strive to create a healthy, safe, and inspiring work environment where our employees can thrive and realise their full potential. We maintain employee well-being focused on work-life balance, occupational health and safety, creating comfortable work environments, and promptly addressing employee grievances by maintaining an open-door policy. We also constantly keep in touch with our employees even through periods of lockdown.

Salaries and statutory benefits

We provide our staff with both financial and non-pecuniary benefits. Employee performance is taken into consideration when increments and additional benefits are provided.

The statutory contributions we provide our team include EPF, ETF, and the provision of gratuity. We also adhere to all statutory obligations concerning the provision of leave and ensure maternity leave is administered in conformity with statutory requirements.

During the year under review, five employees were entitled to maternity leave and they all returned to work in the reporting period after their maternity leave ended.

Staff salaries were also revised with effect from April 01, 2021, taking into account the market rates. This has provided immense motivation to the staff, especially when work is challenging due to the pandemic – it has incentivised them to attend to their duties diligently and work towards the growth of the Company.

	2020/21	2019/20
Salaries paid	68,609,970	62,666,118
Benefits paid	17,921,293	17,525,176
Gratuity paid	1,113,030	146,250
Employer EPF/ETF contributions	8,014,526	7,182,625

Benefits and rewards

Benefits	Permanent employees	Contract employees
Guaranteed cash and allowances		
Fuel/travelling allowance	☑	☑
Leave pay	☑	☑
Variable pay		
Performance bonus	☑	☑
Sales incentives	☑	☑
Overtime	☑	☑
Other perquisites		
Medical insurance scheme (In-house, Life, Personal accident cover)	☑	☑
Leave	☑	☑
Subsidised loan benefits	☑	☑
EPF/ETF/Gratuity	☑	☑

Return to work and retention rate after parental leave

Description	2020/21	2019/20	2018/19	2017/18	2016/17
Number of employees who took maternity leave	5	5	1	1	4
Returned to work after maternity leave	5	4	1	1	4
Returned to work rate (%)	100%	80%	100%	100%	100%

Training and leadership management

We believe training and leadership go hand in hand. During the year, we continued to conduct training for staff members through online channels. This helped staff members update their knowledge on industry-related best practices. As in the past, these training programmes have equipped our staff with the necessary guidance to take on more responsibilities. During the year, the Company spent a total of LKR 335,690/- on training and development.

As for leadership management, a succession plan was put in place for the Company's Key Management Positions and the Senior Management. Considering staff-related developments, market dynamics, and the challenges facing the Company, this plan is reviewed and updated once in three years.

Hours of training by grade

Grade	Number of training hours	
	Male	Female
Senior Management and above	300	40
Executive staff	570	80
Junior Executive staff	30	430
Minor staff	–	–
Other	–	–
Total	900	550

Average training hours by grade

Average training hours by category	2020/21
Senior Management and above	28
Executive staff	9
Junior Executive staff	9
Minor staff	–
Other	–

Employee training by type of skill development

Key areas of focus in training	Number of sessions
Evaluation of Credit facility papers/Risk Management and Credit operations	4
Debt moratorium	1
AML/CFT and Compliance	2
HR and operations	1
Finance operations	1
Fixed Deposits and operations	1
Motivational and personal development	3

Diversity and inclusivity

We believe a culture of inclusion and diversity broadens perspectives, drives innovation and enhances the resilience of our Company. Our workforce is diverse in terms of gender, age, ethnicity, religion and race. We remain dedicated to building a diverse and connected workforce where everyone feels a sense of belonging. As an equal opportunity employer, we treat our employees fairly and equitably without any discrimination.

SOCIAL AND RELATIONSHIP CAPITAL

Our Company derives value from a host of entities and individuals. Their contribution to the Company helps us sustain our growth, and we believe in fortifying each of these relationships on an ongoing basis. Therefore, understanding their concerns regarding the Company, valuing their contribution to its performance, and strategising for the future are essential to ensuring that we create mutually beneficial relationships.

HIGHLIGHTS

LKR 142 Mn. contribution to government as taxes

Debt moratoria extended to **144** customers accounting for **28.39%** of the lending portfolio

Enabled customers to transfer funds using the **CEFTS** facility for deposits and loan repayments

Business partner capital

The Company's supply chain plays a crucial role in business continuation as they provide various goods and services to the Company. While they are independent of the Company's business operations, the services they provide to the Company are essential to ensure uninterrupted service in our day-to-day operations. Hence, we value our business partners and remain committed to ensuring mutual prosperity as we strengthen and grow these relationships. As a result, we have an ever-widening supplier base that shares our values for sustainable growth. They broadly include regulators, Government institutions, technology partners, funding partners, utility service providers, assurance services providers, landlords providing premises, outsourced service providers, and support service providers.

Our key business partners in the above categories include:

Routine operations support

- Material suppliers
- Suppliers of premises
- Transport suppliers
- Suppliers of assets
- Communication providers
- Utility service providers
- Insurance providers
- Waste management
- Security providers

Fund management support

- Banks
- Wealth management companies

Other support

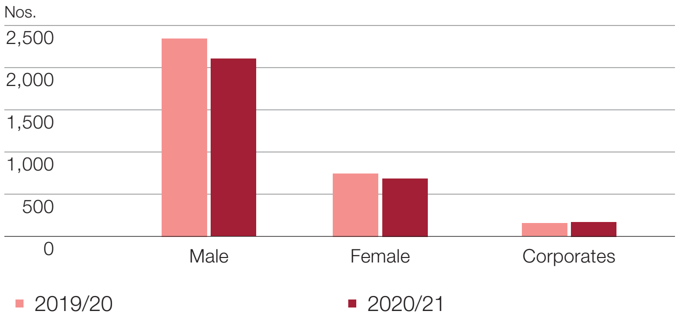
- Professional service providers

During the financial year, the total value of the Company's supplier payments amounted to LKR 204.98 Mn. (LKR 239.61 Mn. in 2019/20) on capital and operational expenditure-related expenses.

Customer capital

We have an active customer base of 3,003 and are happy to report that 404 became customers during the year under review. Our customers come from all walks of life and represent diverse genders, ethnicities, and religious groups. We support 177 businesses and during the year, we are happy to report that the deposit base swelled by 2073%, contributing towards The Company's overall growth. We were also keenly aware of the importance of becoming more customer-centric as the COVID-19 pandemic heightened the relevance of digitalised systems and processes.

Active customers



Assistance provided to customers during the pandemic

As a result of the COVID-19 pandemic, customer engagement became a key priority. A substantial number of our customers were affected by the pandemic, and many had to deal with disruptions to their businesses. To identify how the Company can assist them, CBCF maintained close relationships with the customers and took several bold initiatives to address their issues.

Details on the debt moratoria extended to customers impacted by the pandemic as of March 31, 2021 are as follows:

Number of customers	Amount in LKR Mn.
144	2,563

In addition to debt moratoria, the Company extended several other concessions such as flexible payment options, waiving, and reducing charges. Furthermore, the Company decreased the lending rates along with market-rate reductions.

Focus on customer-centricity

To ensure the safety of our customers, we also facilitated fund transfers using the newly introduced CEFTS facility for deposits and loan repayments.

Furthermore, in the case of new lending during this volatile situation, the Company identified existing customers' needs for additional funding. As a result, these were granted at highly competitive interest rates for several customers to overcome their temporary financial and working capital difficulties.

"Doorstep Service" was another initiative undertaken during the year to provide customers with additional information on products and services at their homes.

We have also enabled our customers to visit any Commercial Bank branch to make deposits to their accounts through our collection accounts maintained with the Bank.

Our product and service offering

We have a host of products and services that have contributed to the Company's growth during the past few years. The influence of our parent company has played a considerable role in the enhancements made to these products and services.

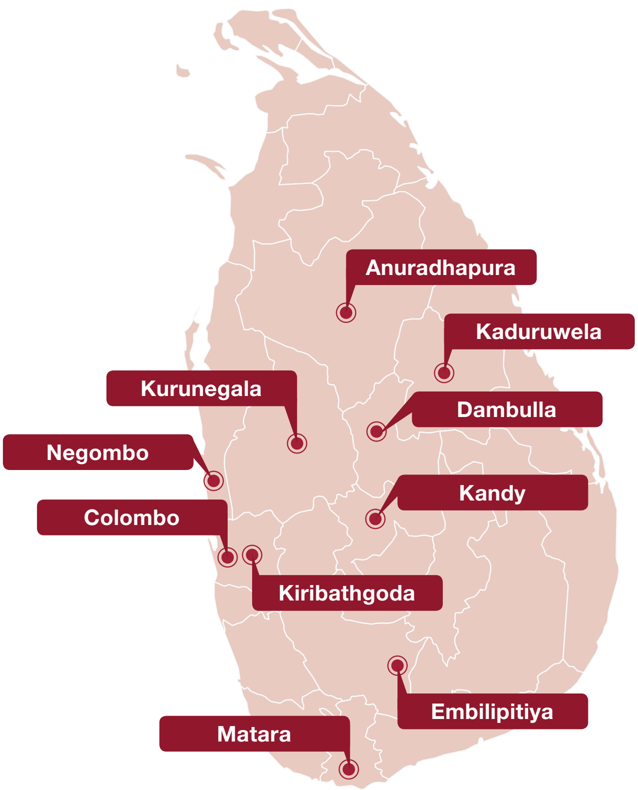
We also believe it is essential to break away from the conservative approach adopted when introducing and utilising these products. Therefore, in the years ahead, we plan to take certain bold decisions in this regard.

Product-wise growth

Product	2020/21 LKR Mn.	2019/20 LKR Mn.	Growth percentage
Savings Deposits	17.08	0.23	7,326.09%
Time Deposits	4,821.89	222.43	2,067.82%
Leases	1,339.25	1,876.24	(28.62%)
Other Loans	7,687.49	5,996.23	28.21%

Branch network

We have ten branches scattered across the island, which are strategically located. While continuing to grow organically, we are exploring opportunities for inorganic growth through an acquisition or merger with another financially robust institution which will help us expand our geographic reach and widen our product and service offering further.



please refer page 167 for more details

The Embilipitiya branch was shifted to a more customer-centric location

The Matara branch was relocated to provide easy access to our customers

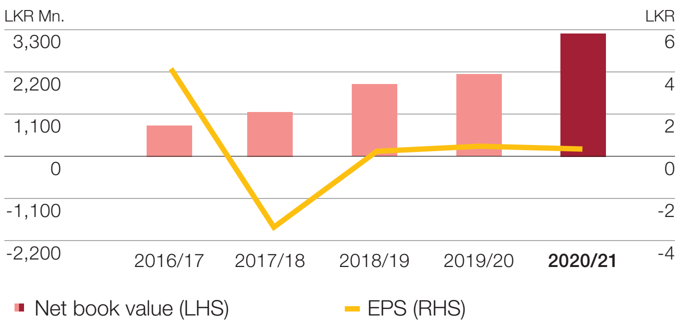
Creating value for our parent company

Our topmost priority is to create value for our sole shareholder, the Commercial Bank of Ceylon PLC (CBC). As a result, the Company managed to reverse the trend of making losses and generate positive results in the past three years, adding value to the Bank's bottom line at the Group level.

The Company ensures that it operates within the applicable regulatory framework, having incorporated the best governance practices as a subsidiary of one of the pioneering banking giants in the country.

During the year, we received a capital infusion of LKR 1 Bn. from the Commercial Bank. In addition, the Company was renamed and rebranded to closely resemble the fact that it is a fully owned subsidiary of the Bank. These are two significant achievements that mark the start of a new journey for the Company.

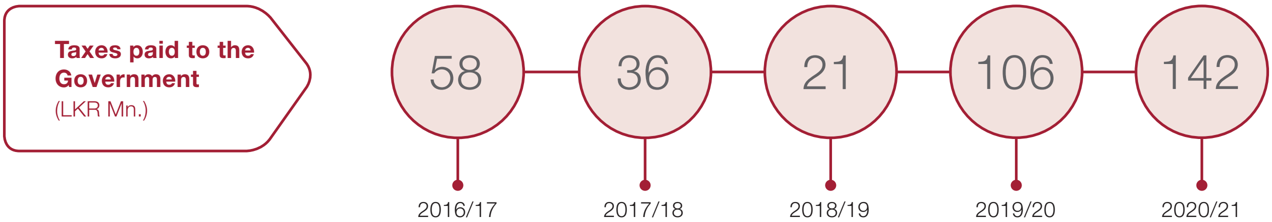
EPS vs Net book value



Meeting regulatory requirements

The Company maintains cordial relationships with all Government institutions, including legislators and regulators. We understand the importance of complying with the necessary directives and codes stipulated by regulatory bodies both in letter and in spirit. Accordingly, the Company complied with all statutory and regulatory requirements and stands with various institutions of the state as they strive to achieve prosperity for the Nation.

Regarding the financial year, the Company contributed LKR 142 Mn. in taxes to the Government.



Building a sustainable business entity

The Company believes that a solid base of capital is essential to remain sustainable and gain customer confidence while meeting regulatory requirements during this volatile economic situation. Our sole shareholder too has placed trust in the Company. Hence, strengthening capital is a priority for the Company and its strategy for the future.

The Company is optimistic about its prospects even during this challenging period. The Board is continuously adopting initiatives to further strengthen Group synergies with the Commercial Bank of Ceylon PLC. The Board and the Management strongly believe synergies with the Commercial Bank of Ceylon PLC will support the Company in many aspects, which include: capital strength, low-cost funding, cost advantages over supplier selections, knowledge sharing from industry experts, and better governance and risk management practices that enable it to venture into new territories.

To encourage socially responsible lending, the Company is planning to implement a Social and Environmental Management System (SEMS) to assess strategically and systematically the social and environmental risk in its future lending. The primary purpose of introducing SEMS is to ensure the Company's lending is in line with sustainable, socially acceptable and economically viable projects.

Demonstrating our focus on the well being of society by placing safety boards around Chandrika Lake, Embilipitiya

OUR STEWARDSHIP

BOARD OF DIRECTORS

Mr Dharma Dheerasinghe

Chairman

Mr Dheerasinghe was appointed as a Non-Independent, Non-Executive Director and also as the Chairman of the Board of Directors in September 2014. An eminent Economist with a distinguished career of over 45 years in the banking and finance industry, he has published widely and presented papers on many aspects of economics including debt capital markets and financial globalisation in Sri Lanka and overseas. He holds a B.Com and a B.Phil (Econ) with First Class Honours from the University of Colombo and an MA (Econ) from the University of Leeds, UK. Mr Dheerasinghe is a Honorary Fellow of the Institute of Bankers of Sri Lanka and Honorary ACI Diploma holder. He is a member of the Sri Lanka Institute of Directors since December 2015.

Mr Dheerasinghe started off as an Assistant Director, Bank Supervision at the Central Bank of Sri Lanka and retired as a Senior Deputy Governor of the Central Bank of Sri Lanka. He was also the Chairman of the Monetary Policy Committee and of the Sovereign Ratings Committee. Mr Dheerasinghe's previous appointments include Secretary to the Monetary Board, Alternate Executive Director for Bangladesh, Bhutan, India, and Sri Lanka at the International Monetary Fund. Chairman, Bartleet Finance PLC, Director, Fitch Ratings Lanka Limited, Council Member, University of Sri Jayewardenepura, Chairman, Commex S. R. L. (Italy), Chairman, Skills Development Fund Limited and Commissioner, Local Loans & Development Fund.

Mr Dheerasinghe joined the Board of Directors of Commercial Bank of Ceylon PLC in 2011 and retired as the Chairman on December 21, 2020. Mr Dheerasinghe continues as Chairman of CBC Myanmar Micro Finance Company Ltd, a fully owned subsidiary of Commercial Bank of Ceylon PLC.

Dr (Mrs) Janaki Kuruppu

Independent, Non-Executive Senior Director

Appointed to the Board of Directors in September, 2014, Dr Kuruppu brings with her almost 30 years of professional experience in a variety of industries including banking. Her specific experience in banking includes being the first Chairperson of the Regional Development Bank which she set up in 2010 by merging six provincial level banks with over 250 branches, and her experience as a member of the Steering Committee of AgriFin, a joint project of Bill and Melinda Gates Foundation and the World Bank for agriculture financing. She was also a former Director and the first female on the Board of Commercial Bank of Ceylon PLC.

Starting her career of over 25 years as an entrepreneur when she started a market research company that later became Nielsen Lanka and an illustrious career in the private sector, she also served the public sector in an advisory capacity. Dr Kuruppu was also an Adviser to the Government of Sri Lanka on Food Security and Cost of Living Management, a Director of the Presidential Secretariat, Director of the Co-operative Wholesale Establishment, Colombo Dockyard PLC and subsidiaries of the Cargills Group. Currently she is spearheading Mother Sri Lanka Trust, as its Chairperson, which is a non-profit organisation founded by her in 2008, while sitting on other corporate boards.

Dr Kuruppu holds a PhD from the University of Colombo, an MA in Statistics and a BSc in Mathematics from the University of Missouri, USA.

Mr Raja Senanayake

Non-Independent, Non-Executive Director

Appointed to the Board in October 2014, Mr Senanayake is a Non-Independent, Non-Executive Director. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and also holds a B.Com (Special) Degree from the University of Sri Jayewardenepura.

Mr Senanayake counts over 30 years of financial experience at Smart Media (Pvt.) Ltd. as Head of Process Development, at Nations Trust Bank PLC as Chief Financial Officer, at Commercial Bank of Ceylon PLC as Assistant General Manager (Finance & Planning), at Singer Industries (Ceylon) PLC as Financial Accountant, and at Ernst & Young as an Assistant Audit Manager. Mr Senanayake also serves as an Independent, Non-Executive Director of Commercial Bank of Ceylon PLC and Senkadagala Finance PLC.

Mr Sarath Jayasuriya

Independent, Non-Executive Director

Appointed to the Board in December 2017, Mr Jayasuriya is an Independent Non-Executive Director. An Associate Member of the Institute of Bankers of Sri Lanka, a Fellow Member of the Chartered Institute of Management Accountants (FCMA) (UK), a Member of the Chartered Global Management Accountants (CGMA) (UK) and also a Member of the Chartered Shipbrokers (MICS) (UK). Mr Jayasuriya holds a Bachelor of Science Degree from the University of Sri Jayewardenepura and counts over 30 years of service in banking, specialised in treasury, investment banking and international banking. He retired from the Bank of Ceylon as the Deputy General Manager (International, Treasury and Investment Banking). He has served as a Director on the Boards of Transnational Lanka Records Solutions (Private) Ltd., Ceybank Asset Management Ltd. and Property Development Ltd. (PDL).

Mr Jayasuriya also served as a member of the Assets and Liabilities Management Committee (ALCO), Credit Committee, and IT Steering Committee, while he was the Chairman of the Investment Committee of the Bank of Ceylon, Bank Pension Fund, Provident Fund and W&OP Fund.

Mr Dimuthu Senarath Bandara

Independent, Non-Executive Director

Appointed to the Board in December 2017, Mr Bandara is an Independent Non-Executive Director. He is a Senior Attorney at Law having enrolled in the profession in December 1996, and counts over 24 years as a law practitioner in the Private Bar. His practice spans over both original and appellate court work. He is a counsel and a resource person in the fields of criminal law and laws relating to finance leasing and hire purchase. He also serves as the present Chairman of the Criminal Law Committee of the Bar Association of Sri Lanka. Mr Bandara holds a Bachelor of Arts Degree from the University of Kelaniya.

Mr Upul Dissanayake

Managing Director/Chief Executive Officer

Appointed to the Board and as the Managing Director in October 2018. Mr Dissanayake is a senior banker by profession and counts over 27 years of experience at Commercial Bank of Ceylon PLC, holding several positions as a Senior Manager and Regional Manager, before being seconded to the Company.

Holds a Masters' Degree in Applied Finance from the University of Sri Jayewardenepura and is a member of the Institute of Directors of Sri Lanka.

Mr Hasrath Munasinghe

Non-Independent, Non-Executive Director

Appointed to the Board in September 2020, Mr Munasinghe is a Non-Independent, Non-Executive Director. He currently serves as the Deputy General Manager – Marketing of Commercial Bank of Ceylon PLC. He also serves as a Trustee of the Commercial Bank CSR Trust. He oversees the marketing function, cards business, digital banking, retail loans and deposits categories of the bank.

Mr Munasinghe possesses over 27 years of experience in marketing and sales including 10 years in banking. He is a recipient of multiple awards the most coveted being one of the "Ten Outstanding Young Persons in Sri Lanka" in 2013. He was listed amongst the "100 Most Talented Global Marketing Leaders" by Chief Marketing Officers, Asia Council in 2014.

Mr Munasinghe possesses ten academic and professional qualifications including an MSc in IT from the University of Moratuwa and an MBA from the University of Southern Queensland, Australia. He is a Fellow of the Chartered Institute of Marketing (CIM) UK, a Fellow of the Sri Lanka Institute of Marketing (SLIM), Fellow of Chartered Management Institute (CMI) UK, Fellow of the Institute of Bankers (FIB) Sri Lanka and ACMA, CGMA of The Chartered Institute of Management Accountants (CIMA) UK. He currently serves as a Council Member of the Association of Professional Bankers (APB), Sri Lanka.

Ms Oshadi Gunasekara

Company Secretary

Oshadi Gunasekara earned her Law Degree from Sri Lanka Law College, and she is licensed to practice as an Attorney-at-Law of the Supreme Court of Sri Lanka. While in the Chambers of Dr Harsha Cabraal, President's Counsel, she became well-versed in Commercial and Intellectual Property Law. She Joined CBCF in 2019 after serving as an Associate for M/S Paul Ratnayeke Associates. Her practice focused on complex Civil Law and White-Collar Criminal Cases attending both local and international lawsuits. Ms Gunasekara was appointed as the Company Secretary in September 2020.

CORPORATE MANAGEMENT

Mr Upul Dissanayake

Managing Director/Chief Executive Officer

MSc in Applied Finance (University of Sri Jayewardenepura, SL)/
Member of Sri Lanka Institute of Directors

27 years in Banking and Finance

Mr Shiran Yatagama

Chief Operating Officer

ACMA (UK)/CGMA/AIB (SL)/
Diploma in Bank Integrated Risk Management -IBSL

30 years in Banking and Finance

Mr Prabath Perera

Chief Financial Officer

ACMA (UK)/CGMA/CPA (Aust.)/
MSc in Strategic Business Management
(Manchester Metropolitan University, UK)

16 years in Banking and Finance

Mr Suhad Pannila

Head of HR and Operations

MBA in Finance (University of Colombo, SL)
BSc (University of Peradeniya, SL)

23 years in Banking and Finance

Mr Harsha Samarasekara

Head of Credit and Branch Administration

B.B.Mgt.(Accountancy) Special
(University of Kelaniya, SL)/AIB (SL)

15 years in Banking and Finance

Mr Mahasen Kamathewatte

Compliance Officer

MSc in Computer Science (University of Peradeniya, SL)
Postgraduate Diploma in IT (University of Peradeniya, SL)
BSc (Special) (Hons) in IT (SLIIT)

16 years of experience including 9 years in NBFI Sector

SENIOR MANAGEMENT

Mrs Yashikala Nawagamuwa
Head of Legal

Mr Nuwan Sardarathne
Senior Manager
Finance

Mr Ravindu Peiris
Cluster Manager
Colombo Cluster

Mr Danushka Ariyarathne
Senior Manager
Recoveries

Mr Iroshana Anushyan
Cluster Manager
Central Cluster

Mr Rukmal Kaldera
Senior Manager
Credit Risk Assurance

Mr Pradeep Rangana
Cluster Manager
North-central Cluster

Mr Chathuranga Suraweera
Senior Manager
Information Technology

Mr Chathura Weerasinghe
Cluster Manager
Southern Cluster

CORPORATE GOVERNANCE

CBC Finance Ltd. (CBCF) continued to maintain high standards of governance and ethical business conduct across all aspects of its operations and decision-making processes during the year under review. The Board of Directors bears ultimate responsibility for the affairs of the Company and has set in place an appropriate governance structure to facilitate the discharge of its duties. The Board subcommittees assist the Board in its oversight functions in specialised areas or areas requiring significant attention. Accordingly, the Board Audit Committee and the Board Integrated Risk Management Committee have been established in line with the business requirements and in compliance with the regulatory requirements. The other committees of the Board have been appointed in line with the business needs of the Company. It is essential to execute good corporate governance practices to ensure a sustainable business, create value for its shareholders, and maintain a healthy relationship between shareholders and the Management.

Our commitment and approach

The Board of Directors of CBC Finance Ltd. (the "Company") believes in good governance. Therefore, the policy and strategic framework that moves the Company towards stability and growth has ensured that environmental and social responsibilities in analysing risks, discovering opportunities and allocating capital in the best interests of its shareholder and the wider stakeholder community are effectively integrated.

On the other hand, the finance business sector is highly regulated. The tools used by the regulators are stringent and diverse. Therefore, the continued commitment towards best Corporate Governance practices by the Company with timely improvements is essential.

Accordingly, the Company emphasised mainly on the following aspects in assuring good governance during the year under review:

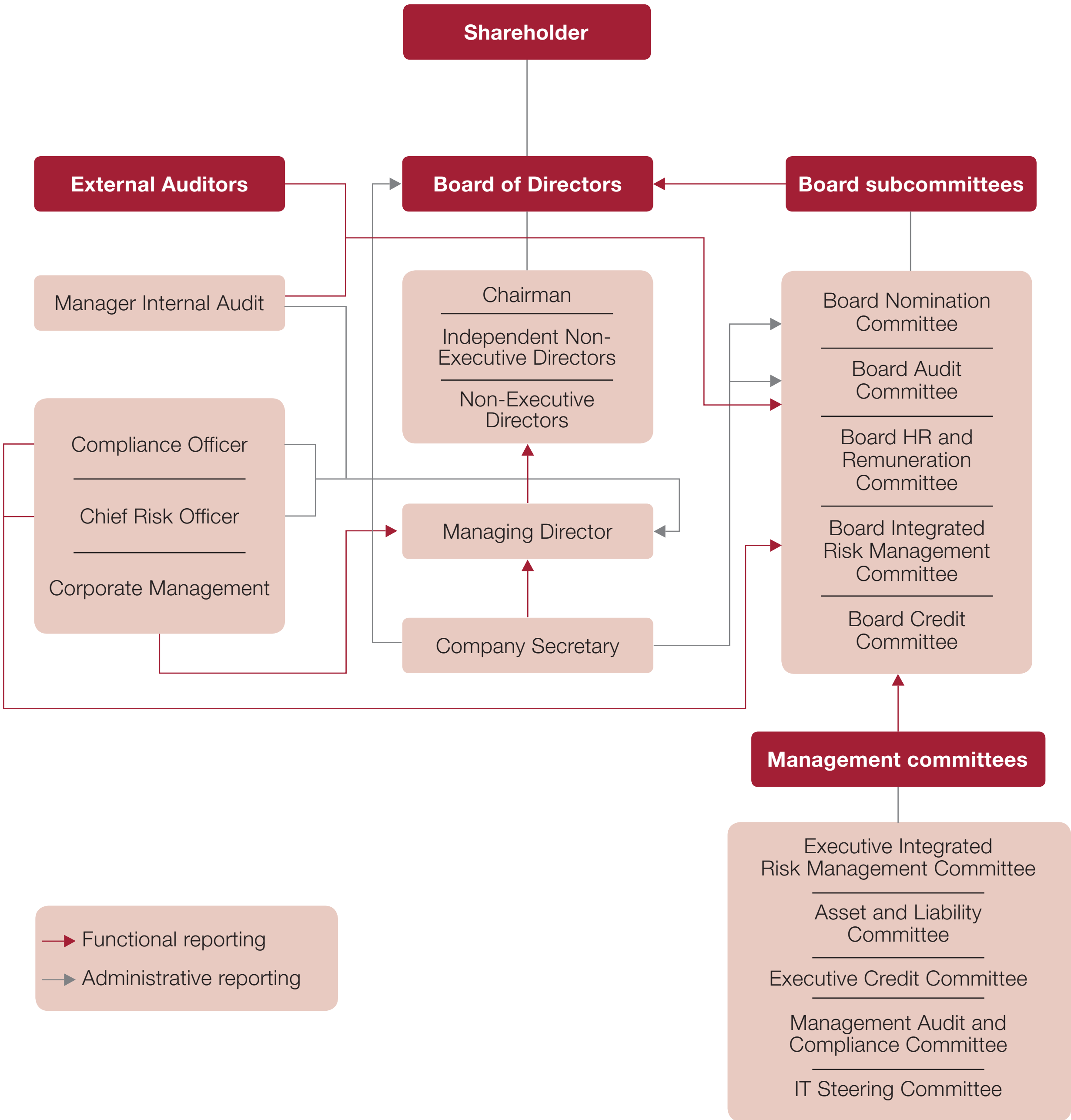
- In adherence to the highest standards of Corporate Governance, the Company applied the following Directions issued by the Central Bank of Sri Lanka (CBSL) under the Finance Business Act No. 42 of 2011. Accordingly, the level of compliance with the said Direction is presented below in this report:
    - o Finance Companies (Corporate Governance) Direction No. 3 of 2008.
    - o Finance Companies (Corporate Governance – Amendment) Direction No. 4 of 2008.
    - o Finance Companies (Corporate Governance – Amendment) Direction No. 5 of 2020.
    - o Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011.
    - o Finance Companies (Corporate Governance – Amendment) Direction No. 6 of 2013.
- The Company's Corporate Governance principles are set in accordance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). The Company has pursued most of these principles to ensure greater transparency, compliance, business integrity, and professionalism towards Good Corporate Governance practices.
- The Company believes that good ethical behaviour is a reflection of strong Corporate Governance practices. Accordingly, it has drafted its internal policies and procedures to ensure the same.
- Information Technology (IT) Governance is a subset discipline of Corporate Governance focused on Information Technology systems and their performance and risk management. This is facilitated by ensuring compliance with the Finance Companies (Information Systems Security Policy) Direction No. 4 of 2012. In addition, IT Governance is subject to administration by the Information Technology Steering Committee (ITSC).
- Effective risk management reflects solid Corporate Governance practices. The establishment of a risk governance structure encourages effective risk management, accountability and proper internal controls. The Risk Governance Structure and Risk Management are discussed in detail on page 78 of this Annual Report.
- The establishment of the Compliance Function is a crucial initiative to ensure Key Management Personnel's compliance with the regulatory directions, statutes, and internal policies and procedures.
- Ensuring that Corporate Governance principles are effectively adhered as a part of the overall business plan of the Company.

Governance structure

The governance structure of CBCF ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Subcommittees and the Management.

In this regard, the Company has promulgated a comprehensive set of policies in the area of Corporate Governance which provides a framework to guide the activities of its Board of Directors, the Chief Executive Officer (CEO), the Corporate Management Team, and the Senior Management Team, other levels of the Management and rest of the Employees. The Company's Governance Structure demonstrates the distinction of the functions between the Board and the Management while at the same time fostering accountability and effective coordination.

Governance structure



Instruments of governance

The Corporate Governance Framework of CBCF, encompassing external and internal governance instruments, enables the Board to assure the investor that they have discharged their duties responsibly. The Board of Directors of CBCF and staff at all levels consider their duty and responsibility is to act in the Company's best interests. The underlying values have contributed to building unhesitating trust among the stakeholders on the Company and its products and services.

Major external regulations addressing corporate governance	Major internal regulations
• Companies Act No. 07 of 2007 (as amended) • Finance Business Act No. 42 of 2011 (as amended) • Finance Leasing Act No. 56 of 2000 (as amended) • Finance Companies (Corporate Governance) Direction No. 3 of 2008 • Finance Companies (Corporate Governance – Amendment) Direction No. 4 of 2008 • Finance Companies (Corporate Governance – Amendment) Direction No. 5 of 2020 • Finance Companies (Corporate Governance – Amendment) Direction No. 6 of 2013 • Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011 • Directions, rules and guidelines issued by the Central Bank of Sri Lanka	• Articles of Association of the Company • Board-approved policies, procedures and processes • Internal procedure manuals • Integrated risk management procedure • Processes for internal controls • Company’s Code of Ethics • Whistleblowing Policy

Board of Directors

The Board is responsible for the stewardship of the Company, and the Directors ensure good governance at Board level and below based on sound principles that provide the framework of how the business is conducted.

The Board members consists of persons with multiple industrial/professional backgrounds in which they have achieved eminence, which contribute effectively to decisions made by the Board to guide CBCF towards achieving its objectives. Following best practices, the offices of the Chairman and the Chief Executive Officer are separate, and the Chairman is a Non-Executive Director. This ensures a balance of power and enhances accountability. In addition, to bring in a more significant element of independence, the Board appointed Dr (Ms) J P Kuruppu as the Senior Independent Director.

The appointment of Directors is subject to evaluation of the Board's skills, qualifications, and expertise with the recommendation of the Board Nomination Committee, Central Bank approval with subsequent approval taken from the shareholders to approve or reject such appointments. Resolutions on new appointments/re-appointments are communicated to the shareholders through the Notice of the Annual General Meeting.

Skills and performance of the Board

The updating of the skills and knowledge of all Directors is achieved by updates on proposed/new regulations, industry best practices, market trends and changes in the macro environment. It is also facilitated by providing them access to External and Internal Auditors, access to other external professional advisory services and the Company Secretaries, keeping them fully briefed on essential developments in the Company's business activities and by periodic reports on performance and opportunities to meet the Senior Management.

As required by the Finance Companies Corporate Governance Direction, CBCF has established a well-defined self-evaluation mechanism undertaken by each Director annually to evaluate the performance of the Board. These evaluations are subsequently tabled at a Board meeting for review and to address areas that require improvement. In addition, the Company Secretary maintain related records.

Engagement with the shareholder

The shareholder of CBCF has multiple ways of engaging with the Board: the Annual General Meetings, which are the main forum at which the Board maintains effective communication with its shareholder on matters which are relevant and of concern to the general membership, such as the performance and their return on investment of CBCF; access to the Board and the Company Secretary; written correspondence from the Company Secretary to inform shareholder of relevant matters; the website of CBCF which is accessible by all stakeholders and the general public; and disclosures disseminated through interim reporting.

Engagement with employees

CBCF recognises that employee involvement is a critical prerequisite towards ensuring the effectiveness of the Corporate Governance system and therefore attaches great importance to employee communications and employee awareness of key events and significant developments. The necessity of sincere and regular communication in gaining employee commitment to organisational goals and values are stressed extensively and intensively through various communique issued periodically by the Directors.

In terms of engaging with the employees, the key channels used by the Board include the Executive Director/CEO, who is an employee of the Company and the main link between the Board and the rest of the employees; and the Board members and Board subcommittees who conduct effective dialogue with the members of the Management on matters of strategic direction. In addition, the Board-approved Whistleblower Policy has ensured all employees are empowered to reach the higher authorities to maintain good governance across all levels of the operation.

Avoiding conflicts of interest

The Governance Structure at CBCF ensures that the Directors take all necessary steps to avoid conflicts of interest in their activities and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at Board meetings, where Independent Directors who have no material interest in the transaction are present.

External audit

M/s KPMG, Chartered Accountants were re-appointed as the Company's External Auditors by the shareholder at the Annual General Meeting held in September 2020.

Their services were also obtained in seeking:

a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and

b) the Company’s level of adherence to the internal controls on financial reporting.

The effectiveness of the Internal Control Mechanism of the Company is certified by the Company's External Auditors.

Internal audit

CBCF internal audit function, which focuses on providing independent risk-based oversight to the Board Audit Committee on the processes and controls within the Company and level of compliance with laws and regulations, plays a vital role in the Company's Governance Structure. The internal audit function is responsible for independent, objective assurance on internal control mechanisms to systematically evaluate and propose improvements for more effective internal control processes and governance. The internal audit also carries out independent reviews of compliance with risk policies and procedures to ensure the effectiveness of risk Management procedures at CBCF. The internal audit reports to the Board through the Board Audit Committee.

Internal control mechanisms

In compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended), the Board provided a report on the Company's internal control mechanism. This report confirms that the financial reporting system had been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements had been done following relevant accounting principles and regulatory requirements.

Further, the External Auditors’ assurance report on the Directors’ statement on internal control over financial reporting has also been obtained.

Board meetings

Meetings of the Board are held at monthly intervals enabling the Board to keep a closer tab on Company operations for effective Direction. Before conducting meetings, the monthly management accounts with the Management report containing key statistics are circulated to all members. In addition, the Company Secretary provides seven days of prior notice to the Directors enabling them to be prepared ahead for the meetings.

Directors are allowed to incorporate matters of importance and their proposals into the agenda. The Board discharges its obligations by mainly overseeing and directing the Company in both the short term and the longer horizon by looking into various matters that range from strategy setting to policy making and communicating Board decisions to the Corporate Management for their implementation and compliance. The meetings also involve the approval of Board papers, circulars, and the Board's recommendations concerning voting at general meetings.

Board meetings held during the financial year 2020/21, together with Directors' attendance at meetings, are given below:

Name of Director	Directorship status	Number of meetings*	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Non-Independent Non-Executive Director/Chairman (Appointed w.e.f. September 02, 2014)	12	12
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)	09	08
Dr (Ms) J P Kuruppu	Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 02, 2014)	12	12
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)	12	11
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	11
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	09
Mr D M U N Dissanayake	Managing Director/ Executive Director (Appointed w.e.f. August 16, 2018)	12	12
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 16, 2020)	07	07

**Meetings of the Board of Directors, scheduled for April 2020 and May 2020, were held on May 14, 2020 and June 15, 2020 respectively. This was due to the COVID-19 pandemic.*

The Relationships amongst the Board of Directors:

The Board consisted of eight Directors during the financial year. The relationships amongst the Board members are noted as follows:

1. The Company is a fully owned subsidiary of Commercial Bank of Ceylon PLC.
2. Mr K G D D Dheerasinghe, who is the Chairman of the Company, was also the Chairman of Commercial Bank of Ceylon PLC until his retirement from the Board of Commercial Bank of Ceylon PLC w.e.f. December 21, 2020.
3. Mr Raja Senanayake, a Non-Executive Director of the Company, is also an Independent, Non-Executive Director of Commercial Bank of Ceylon PLC since September 16, 2020.
4. Mr A N P Sooriyarachchi, a Non-Independent Non-Executive Director of the Company, was also an employee of Commercial Bank of Ceylon PLC and retired from the position on January 12, 2021.
5. Mr D M U N Dissanayake, the Managing Director/Chief Executive Officer (CEO), is also an employee of Commercial Bank of Ceylon PLC.
6. Mr L H Munasinghe, a Non-Executive Director of the Company, is also an employee of Commercial Bank of Ceylon PLC.

Accordingly, all transactions bearing on these relationships are disclosed morefully in Note No. 41 to the Financial Statements.

The Chairman, the CEO or other members of the Board do not have any financial, family or other material relationships among themselves.

Monitoring and evaluation by the Board

CBCF has in place several mandatory and voluntary Board subcommittees to fulfil regulatory requirements and for better governance of its activities. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference, and their recommendations are duly communicated to the Board.

The following mechanisms are in place for the Board to oversee the accomplishment of the targets in the business plan: review the performance of CBCF at monthly Board meetings; seeking recommendations through Board-appointed subcommittees on governance, including compliance with internal controls, human resources, risk management, credit and IT; review of statutory and other compliance through a monthly paper on compliance submitted to the Board covering the operations of the Company.

The Corporate Governance philosophy of CBCF is within a framework of compliance and conformance, which has been established at all levels through a robust set of corporate values and a written Code of Conduct. All employees are required to embrace this philosophy in their official duties and in other situations that could affect the Company's image.

Subcommittees of the Board

For effective governance, the Board has set up the following subcommittees that have a structure of having a minimum of three Directors in a committee (other than Board Nomination Committee, which has two members only), headed by a Director who fits the purpose of the Committee. The Board has considered each member's level of experience and expertise when selecting them to these committees.

The required delegated authority has been entrusted to the Management by the Board to effect policies and other strategic decisions to meet the objectives of the Company. The Management exercises its control within the framework stipulated by the Board. This is supported by Management's ethical, professional and statutory standards.

Board Audit Committee

The Audit Committee oversees a wide range of matters as explained in Section 8(2) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended by Direction No. 4 of 2008 and Direction No. 5 of 2020. The Committee also invites Internal Auditors to elaborate and discuss matters raised in their periodic reviews. The Committee further meets with External Auditors to obtain their feedback on their annual review.

Audit Committee meetings held for the year together with attendance of its members is shown below:

Name of member	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr Raja Senanayake	Chairman of the Committee – Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)	12	12
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)	10	09
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	02	02

Board Integrated Risk Management Committee

The Committee is chaired by a Non-Independent Non-Executive Director and comprises four other Board members. The Committee broadly focuses on avoiding or mitigating risks inherent to financial institutions. Accordingly, risks primarily related to interest rates, credit, operational and liquidity feature predominantly in its deliberations.

The Committee's role entails assessing overall risk to the Company in the described core risk categories. To overcome such risk, the Committee reviews the risk management policies in place and oversees the effectiveness of the Management's risk handling process.

Committee meetings held for the year and its members' attendance are given below:

Name of Director	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Chairman of the Committee – Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014)	12	12
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)	09	08
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)	12	11
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	09

Board Credit Committee

The Committee is chaired by a Non-Independent Non-Executive Director and comprises two other Board members. The Committee broadly focuses on credit risk management and approval of high-value credit facilities.

Committee meetings held for the year and its members' attendance are given below:

Name of Director	Designation and status	Number of meetings*	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Chairman of the Committee – Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014)	12	12
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)	09	08
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	12	12
Mr D M D S S Bandara*	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	03	03

** Mr D M D S S Bandara was re-appointed to the Board Credit Committee w.e.f January 12, 2021.*

Board Human Resources and Remuneration Committee

The Committee is chaired by an Independent Non-Executive Director who is also the Senior Director and comprises two other Board members. The Committee broadly focuses on strategic issues about human resources and remuneration matters of the Company along with approval and recommendation of remuneration payments and appointments of Corporate and Senior-Level Management Personnel.

Committee meetings held for the year and its members' attendance are given below:

Name of Director	Designation and status	Number of meetings	
		Eligible to attend	Attended
Dr (Ms) J P Kuruppu	Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 02, 2014)	02	02
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)	01	01
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	02	01
Mr L H Munasinghe*	Non-Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	01	01

** Mr L H Munasinghe was appointed as a member to the BHR&RC on January 12, 2021 consequent to the resignation of Mr A N P Sooriyarachchi.*

Board Nomination Committee

The Committee is chaired by a Non-Independent Non-Executive Director and comprises one other Board member. The Committee broadly focuses on ensuring the Board's oversight and control over the selection of Directors, Chief Executive Officer and Key Management Personnel.

Name of Director	Designation and status	Number of meetings	
		Eligible to attend	Attended
Mr K G D D Dheerasinghe	Chairman of the Committee – Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014)	02	02
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)	02	02

Compliance function of the Company

The BIRMC has established a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel carries out the compliance function, regulatory reporting and communication with the regulator and reports to the Committee periodically.

The Chief Financial Officer/Chief Risk Officer handles the risk management and executive-level matters related to compliance. The relevant parts to cover all business areas are delegated to the Key Management Personnel of each area to ensure compliance requirements are met.

The Internal Audit Manager assesses the Company's Compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls, and approved policies on all areas of business operations.

Compliance strategy on Corporate Governance

The Company is a subsidiary of a prestigious Group in the Financial Services Industry. Accordingly, it needs to co-exist with the reputation of the prestigious parent. Therefore, Corporate Governance and Compliance are essential core elements of the Company's operations to keep its reputation and is a concept going beyond matters of just regulatory importance.

The Company views the compliance strategy as a strategic value addition tool. It enables enhanced risk management directed towards sustainable lending business, resulting in better opportunities for consolidation and growth, which has to be aligned with the overall business strategy.

The primary compliance criteria that the Company has subscribed to so far is set as per the Finance Companies (Corporate Governance) Direction No. 3 of 2008 of the Central Bank of Sri Lanka.

Report on the Extent of Compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended by subsequent Direction No. 4 of 2008 and Direction No. 5 of 2020).

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
2.	**Responsibility of the Board of Directors**	
2 (1) (a)	The Board has strengthened the safety and soundness of the Company in the following manner: Approving and overseeing the Company’s strategic objectives and corporate values and ensuring that such goals and values are communicated throughout the Company.	It is complied with. Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. Overall business strategy and policies of the Company are addressed at the meetings of the Board of Directors, Corporate Management, Senior Management and other similar groups held every month.
(b)	Approving the Company's overall business strategy, including the comprehensive risk policy and risk management procedures and mechanisms with measurable goals, for at least for the immediate next three years.	It is complied with. The Board has established and approved the strategic objectives and corporate values and revised them for 2021 to 2022 on June 18, 2021. Budget for the year 2021/22 approved by the Board in the June 18, 2021 Board meeting. The said business strategy includes risk management policies, procedures, and mechanisms with measurable goals. The Board approved the Risk Management Policy of the Company on May 03, 2021.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
(c)	Identifying risk and ensuring implementation of appropriate systems to manage the risk prudently.	It is complied with. Board-approved risk management policies, procedures and mechanisms were considered when preparing the Business Plan 2021-2023. The Board Integrated Risk Management Committee is responsible for identifying principal risks, approving overall risk policy and risk management procedures. On September 30, 2014, the Company regularised identifying risks such as credit, market, liquidity, operational, and strategic risk through the Terms of Reference (TOR) of the Board Integrated Risk Management Committee. Also mentioned are the appropriate systems and mechanisms in the TOR to mitigate the risk prudently. This was revised on June 18, 2021, and the broader aspects of integrated risk management are addressed in the Risk Management Policy.
(d)	Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	It is complied with. The Board approved the Communication Policy on September 28, 2015 and latest reviewed on November 30, 2020.
(e)	Reviewing the adequacy and the integrity of the Company's internal control systems and Management information systems.	It is complied with. On behalf of the Board, the Company's Board Audit Committee (BAC) reviews internal control issues identified by the Internal Auditors, regulatory authorities. In addition, the Management evaluates the adequacy and effectiveness of risk management and internal control systems and Management information systems. The BAC reviewed reports from the Company's Internal Audit Department and Bank's Inspection Department in carrying out this function and reviewed Management responses during the year.
(f)	Identifying and designating Key Management Personnel who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	It is complied with. KMPs are defined in the Sri Lanka Accounting Standards as those who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. In addition to the Board of Directors, CEO, COO, CFO/CRO, Head of HR and Operations, Head of Credit and Branch Administration Compliance Officer Company Secretary and Head of Legal to have been designated as Key Management Personnel for Corporate Governance purposes.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
(g)	Defining the areas of authority and critical responsibilities for the Board and the Key Management Personnel.	It is complied with. Areas of authority and critical responsibilities for the CEO, COO, CFO/CRO, Head of HR and Operations, Head of Credit and Branch Administration Compliance Officer, Company Secretary and Head of Legal are stated in their respective Job Descriptions. The Company has adopted the Board Charter on August 01, 2017, defining the Board's authority and critical responsibilities and the Key Management Personnel in Section 3.3 therein.
(h)	It ensures that there is appropriate oversight of the affairs of the relevant establishment by Key Management Personnel that is consistent with the applicable establishment policy.	It is complied with. The Board has exercised oversight of the affairs of the Company during the Board meetings. KMPs within the Management are present at all critical oversight meetings and for the Board meetings by invitation. Such meetings are held regularly, ranging from monthly to quarterly.
(i)	Periodically assessing the effectiveness of its governance practices, including: (i) the selection nomination and election of Directors and appointment of Key Management Personnel; (ii) the Management of conflicts of interests; and (iii) the identification of weaknesses and implementation of changes where necessary.	It is complied with. The Board Nomination Committee was formed at the Board meeting held on July 30, 2015 to select and nominate Directors.
(j)	Ensuring that the relevant establishment has an appropriate succession plan for Key Management Personnel.	It is complied with. The Board approved the succession plan on March 29, 2021. The Board Nominations Committee and the Board Charter cover the succession planning of the Company's Board of Directors.
(k)	Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	It is complied with. The Board was provided with timely and appropriate information by the Management by way of Board papers and proposals. Key Management Personnel are called regularly when the need arises by the Board to explain matters relating to their areas of function. Such meetings are held regularly.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
(l)	Understanding the regulatory environment.	It is complied with. A dedicated Compliance Officer has been appointed from April 18, 2018 to handle the regulatory compliance function following the set guidelines. The Board appointed an Integrated Risk Management Committee on September 30, 2014 with an appropriate TOR to guide this matter, and meetings are held monthly. BIRMC TOR has been reviewed on June 18, 2021.
(m)	Exercising due diligence in the hiring and oversight of External Auditors.	It is complied with. The Audit Committee has the primary responsibility for recommending the appointment, re-appointment or removal of the External Auditors according to professional standards and regulatory requirements. The Audit Committee annually reviews the work carried out by the External Auditors through the Audit Committee meetings.
2(2)	The Board shall appoint the Chairman and Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and Chief Executive Officer in line with paragraph 07 of this Direction.	It is complied with. After the Commercial Bank of Ceylon PLC acquired the Company, the new Board has appointed the Chief Executive Officer and the Chairman at the Board meeting held on September 30, 2014. The succession of subsequent CEOs has continued, and the present CEO was appointed with effect from August 16, 2018
2(3)	The Board shall determine a procedure to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the relevant establishment's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) in discharging the duties to the appropriate establishment.	It is complied with. A procedure has been put in place for Directors to seek independent advice further to their duties at the Company’s expense. However, no outside consultancy was required by the Board of Directors during the year.
2(4)	A Director shall abstain from voting on any Board resolution concerning a matter in which he or any of the relatives or a concern in which he has a substantial interest is interested. He shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Not Applicable No such situations have arisen during the year.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for the decision to ensure that the Direction and control of the relevant establishment are firmly under its authority.	It is complied with. Pre-set agenda of Board meeting covering the areas reserved explicitly for decisions to ensure the Company’s Direction and control is firmly under the Board’s control and authority.
2(6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, immediately inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company before taking any decision or action.	Not applicable. Such a situation has not arisen during the year.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
2(7)	The Board shall include an annual corporate governance report setting out the compliance with this Direction in the finance company's annual report.	It is complied with. This report fulfils these compliance criteria.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	It is complied with. The self-assessment scheme was implemented in June 2015. Self-assessment forms for 2020/21 have been forwarded to the Directors, and the responses were summarised and tabled at the Board meeting.
3.	**Board meetings**	
3(1)	The Board shall meet at least 12 times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	It is complied with. The Board usually meets at monthly intervals. The meeting of the Board of Directors, which was scheduled for April 2020 and May 2020, was held on May 14, 2020 and June 15, 2020 due to the COVID-19 pandemic.
3(2)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such issues and suggestions related to the promotion of business and the management of risks of the finance company.	It is complied with. The agenda is circulated to the members of the Board. Suppose any further matters are to be discussed, the Company Secretary is informed via formal communication by the Directors, and those are included under “Any Other Business” in the agenda. Directors have the opportunity to include matters in the agenda before the circulation of the same.
3(3)	A notice of at least seven days shall be given of a regular Board meeting to provide all Directors with an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	It is complied with.
3(4)	A Director who has not attended at least two-thirds of the meetings in 12 months immediately preceding or has not participated at the immediately preceding three consecutive meetings held shall cease to be a Director. However, involvement in the Directors' meetings through an alternate Director shall be acceptable as attendance.	It is complied with.
3(5)	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	It is complied with.
3(6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for Board meetings, the Company Secretary shall be responsible for carrying out such operation.	It is complied with. The Company Secretary is responsible as delegated by the Chairman to prepare the agenda for the Board meetings and carry out such functions.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
3(7)	Whether all Directors shall have access to and services of the Company Secretary to ensure that Board procedures and all applicable laws, directions, rules and regulations are followed.	It is complied with. Directors have direct access to the Company Secretary at all working hours of the Company.
3(8)	Whether the Company Secretary has maintained the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	It is complied with. The Company Secretary maintains the minutes of Board meetings and such minutes are open for inspection at any reasonable time, on reasonable notice by any Director.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) The explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to applicable laws and regulations; e) The Board's knowledge and understanding of the risk to which the relevant establishment is exposed and overview of the risk management measures adopted; and (f) The decisions and Board resolutions.	It is complied with. Board minutes maintained by the Company Secretary cover the stated matters inclusive of the (a), (b), (c), (d), (e) and (f) and have been documented in detail to enable an understanding of the proceedings and decisions.
4.	**Composition of the Board**	
4(1)	Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.	It is complied with. There were seven Directors on the Board as of March 31, 2021.
4(2)	Subject to transitional provisions contained herein and subject to paragraph 5 (1) of the Direction, the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the entire total period of service served by such Director up to the date of this Direction.	It is complied with. Based on the dates of appointment, the service of any Non-Executive Director does not exceed nine years.
4(3)	Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (from now on referred to as an "Executive Director"). However, the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company	It is complied with. There is only one Executive Director in the Board since the appointment of the Managing Director on August 16, 2018.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
4(4)	Commencing January 01, 2012, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total number of Directions. A Non-Executive Director shall not be considered independent if such Director: (a) has shares exceeding 2% of the paid-up capital of the relevant establishment or 10% of the paid-up capital of another suitable establishment; (b) has or had during two years immediately preceding his appointment as Director any business transactions with the relevant establishment as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the suitable appropriate establishment as shown in its last audited balance sheet; (c) Has been employed by the relevant establishment during the two years immediately preceding the appointment as Director; (d) Has a relative a Director or Chief Executive Officer or Key Management Personnel or holds shares exceeding 10% of the paid-up capital of the relevant establishment or exceeding 12.5% of the paid-up capital of another appropriate establishment. (e) Represents a shareholder, debtor or such other similar stakeholder of the relevant establishment; (f) Is an employee or a Director or has a shareholding of 10% or more of the paid-up capital in a company or business organisation: (i) which has a transaction with the relevant establishment as defined in paragraph 9 aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the relevant establishment; or (ii) in which any of the other Directors of the relevant establishment is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the relevant establishment; or (iii) In which any of the other Directors of the relevant establishment has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the relevant establishment.	It is complied with. Following Directors were the Non-Executive Independent Directors during the year under review: 01. Dr (Ms) J P Kuruppu (From September 02, 2014) 02. Mr S M S C Jayasuriya (From December 05, 2017) 03. Mr D M D S S Bandara (From December 05, 2017) According to the self-declarations of Non-Executive Directors, they have complied with subsections (a), (b), (c), (d), (e) and (f) of this Section.
4(5)	If an alternate Director is appointed to represent an Independent Non-Executive Director, the person appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Not Applicable. No such situation has arisen during the year.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
4(6)	Non-Executive Directors shall have the necessary skills and experience to bring an objective Judgement to bear on issues of strategy, performance and resources.	It is complied with. According to the individual affidavits, Non-Executive Directors have the necessary skills to bring an objective Judgement to bear on strategy, performance and resources.
4(7)	Commencing January 01, 2012, a meeting of the Board shall not be duly constituted. However, the number of Directors required to form the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	It is complied with. More than half (1/2) of the Directors present at the Board meetings held during the year ended March 31, 2021 were Non-Executive Directors.
4(8)	The Independent Non-Executive Directors shall be expressly identified in all corporate communications that disclose the names of Directors of the relevant establishment. In addition, the finance company shall disclose the composition of the Board by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors, and Independent Non-Executive Directors in the annual corporate governance report shall be an integral part of its Annual Report.	It is complied with. The Company has disclosed the requirements in the Annual Report.
4(9)	There shall be a formal, considered and transparent procedure for appointing new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	It is complied with. The Board Nomination Committee was formed at the Board meeting held on July 30, 2015 to strengthen this aspect of governance.
4(10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Not Applicable. No such situation has arisen during the year.
4(11)	Suppose a Director resigns or is removed from office. In that case, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	It is complied with.
5.	**Criteria to assess the fitness and propriety of Directors**	
5(1)	Subject to the transitional provisions contained herein, a person over the age of 70 shall not serve as a Director of a relevant establishment without the monetary Board's prior approval.	It is complied with. There are no Directors who are over 70 years as per the records maintained by the Company Secretary.
5(2)	A Director of a relevant establishment shall not hold office as a Director or equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the relevant establishment. In addition, such a Director shall not hold office or any other equivalent position in more than ten companies classified as specified business entities in terms of the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.	It is complied with. No Director holds office as a Director in more than 20 companies based on their self-declarations.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
6.	**Delegation of functions**	
6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to the extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	It is complied with, as per Section 3.3 of the Board Charter.
6(2)	The Board shall review the delegation process in place periodically to ensure that they remain relevant to the needs of the finance company.	It is complied with. The Board has reviewed the delegated authorities during the year at the Board meetings upon consideration of memorandums presented by the MD/CEO. All such records are attached as part of such Board Minutes. The latest review was on June 15, 2020.
7.	**The Chairman and Chief Executive Officer**	
7(1)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same person after three years commencing from January 01, 2010.	It is complied with. The roles of the Chairman and the Chief Executive Officer are separated and performed by two independent individuals.
7(2)	The Chairman shall be a Non-Executive Director. However, suppose the Chairman is not an Independent Non-Executive Director. In that case, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a more significant, more excellent independent element. The designation of the Senior Director shall be disclosed in the relevant establishment's Annual Report.	It is complied with. The Chairman is a Non-Executive Non-Independent Director. Therefore, an Independent Non-Executive Director was appointed as the Senior Director from October 29, 2014.
7(3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its annual report, the name of the Chairman and the Chief Executive Officer. Further, the nature of any relationship (including financial, business, family or other material/relevant relationship(s)), if any, between the Chairman and the Chief Executive Officer and the relationships among the members of the Board.	It is complied with. The Board has disclosed the name of the Chairman and the Chief Executive Officer in the Corporate Governance Report, which is an integral part of the Annual Report of the Company.
7(4)	The Chairman shall: (a) Provide leadership to the Board; (b) Ensure that the Board works effectively and discharges its responsibilities; and (c) Ensure that critical the Board discusses all vital issues promptly.	It is complied with. The Chairman convenes the Board meetings. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings. The last month's board meeting minutes are always distributed to the Board members and tabled for approval at the next Board meeting. A self-evaluation process is in place whereby every Director completes the evaluation independently to ensure the Chairman effectively facilitates the effective discharge of Board functions.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. However, the Chairman may delegate the function of preparing the agenda to the Company Secretary.	It is complied with. Further, the Chairman has delegated the function of preparing the agenda to the Company Secretary. The Secretary is preparing the agenda, and the Chairman is responsible for reviewing and confirming the agenda before the Board meeting.
7(6)	The Chairman shall ensure that all Directors are informed adequately and promptly of the issues arising at each Board meeting.	It is complied with. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings. In addition, the minutes of previous month's board meeting are distributed to the Board members and tabled at the next board meeting for approval.
7(7)	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the relevant establishment.	It is complied with. The participation of the Directors is evident from the contributions towards the Company's governance and risk management structure. In addition, the Board minutes, Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) minutes contain evidence of their involvements.
7(8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	It is complied with. Currently, the Board consists of six Non-Executive Directors. The Company has implemented a self-evaluation process for the Directors. Each Director's self-assessments will be made concerning the Chairman's contribution to promoting each Director to make a full and active contribution. The above self-evaluation process for the Directors will be used as evidence for compliance with the above matter. Further, the Chairman has facilitated the effective contribution of Non-Executive Directors by appointing them as the Chairman and members of Board Audit Committee and as members of BIRMC, contributing towards the Company's governance and risk management structure. The Board minutes, BAC, and BIRMC minutes contain evidence of their involvements.
7(9)	Subject to the transitional provisions contained herein, the Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever,	It is complied with. Chairman is a Non-Executive Director. The Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
7(10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	It is complied with. Communication with shareholders is maintained at Annual and Extraordinary General Meetings with statutory due notice.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the finance company's operations and day-to-day business management.	It is complied with. As per the job description of the Chief Executive Officer, he is the apex executive-in-charge for both operations and procedures of the Company together with overall business strategy.
8.	**Board Appointed Committees**	
8(1)	Every finance company shall have at least the two Board committees set out in paragraphs 8 (2) and 8(3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out other secretarial functions under the Chairman of the Committee. The Board shall present a report on the performance, duties and tasks of each committee at the Company's annual general meeting.	It is complied with. The Board has appointed five subcommittees, namely Audit Committee, Integrated Risk Management Committee, Nomination Committee, Credit Committee and Human Resources and Remuneration Committee. Company Secretary is the Secretary to the Board Audit Committee and Board Nomination Committee, and CFO/CRO is the Secretary to the BIRMC. Head of Human Resources and Operations is the Secretary to the BCC and BHRRC. The Annual Report contains reports on the performance, duties and functions of such Committees.
8(2)	**Audit Committee**	
8(2)(a)	The Committee's Chairman shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	It is complied with. Mr. Raja Senanayake is the Chairman of the Audit Committee. He is a Non-Executive Non-Independent Director with qualifications and experience in accountancy and audit. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, holds B.Com (Special) Degree from the University of Sri Jayewardenepura and a Postgraduate Diploma in Business Administration from the University of Sri Jayewardenepura and possesses over 30 years of post-qualifying experience in Banking and Finance.
8(2)(b)	The Board members appointed to the Committee shall be Non-Executive Directors.	It is complied with. All members of the Audit Committee are Non-Executive Directors. Accordingly, the following members were appointed for the Committee: 01. Mr Raja Senanayake – Chairman 02. Mr S M S C Jayasuriya 03. Mr D M D S S Bandara

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
8(2)(c)	The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	It is complied with. All engagements are confirmed based on the recommendations of the Board Audit Committee. Before the appointment of External Auditors for audit services, necessary action is taken by the Audit Committee to ensure compliance with applicable legal and statutory requirements. Committee has discussed the engagement letter and fee proposal submitted by External Auditors for statutory audit for 2020-2021. The present audit partner's engagement is less than five years.
8(2)(d)	The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes following applicable standards and best practices.	It is complied with.
8(2)(e)	The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the external auditor's independence or impartiality concerning the provision of non-audit services. The Committee shall consider: (i) whether the skills and experience of the Auditor make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels, and the fee levels individually and in aggregate relative to the Auditor pose any threat to the External Auditor's objectivity and independence.	It is complied with. Following action is taken before the assignment of non-audit services to External Auditors. a) If the Management believes that the independence is likely to be impaired, such non-audit services are not awarded to External Auditors. b) Further, the relevant information is obtained from External Auditors to ensure that their independence is not impaired due to providing any non-audit services.
8(2)(f)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the relevant establishment compliance with Directions issued under the Act and the Management's internal controls over financial reporting; (ii) The preparation of Financial Statements in accordance with applicable accounting principles and reporting obligations; and (iii) The coordination between Auditors where more than one Auditor is involved.	It is complied with. The Auditors presented at the Board Audit Committee meeting with details of the proposed Audit Plan and the scope at the Audit Committee meeting held on February 01, 2021. Members of the Board Audit Committee obtain clarifications regarding the contents of the presentation if deemed necessary. Since there is only one Auditor, any coordination between Auditors was not required.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
8(2)(g)	The Committee shall review the financial information of the relevant establishment to monitor the integrity of the Financial Statements of the relevant establishment, its Annual Report, accounts and periodical reports prepared for disclosures, and the significant financial reporting judgements contained therein. In reviewing the relevant establishment's annual report and accounts and periodical reports before submission to the Board, the Committee shall focus mainly on: (i) Major Judgemental areas; (ii) Any changes in accounting policies and practices; (iii) Significant adjustments arising from the audit; (iv) The going concern assumption; and (v) The Compliance with relevant accounting standards and other legal requirements.	It is complied with.
8(2)(h)	Arising from the interim and final audits, any matters the Auditor may wish to discuss, including those that may need to be addressed in the absence of Key Management Personnel, if necessary.	It is complied with. A meeting was held on February 01, 2021 without the presence of the Management.
8(2)(i)	The Committee shall review the External Auditors' management letter and the Management's response to that.	It is complied with.
8(2)(j)	The Committee shall take the following steps concerning the internal audit function of the relevant establishment: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the Committee is apprised of resignations of senior staff members of the internal audit department, including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities, it audits and that it is performed with impartiality, proficiency and due professional care;	It is complied with. The internal audit scope was reviewed during the financial year 2020/21, and the Risk-Based Internal Audit Manual was adopted by the Board Audit Committee on December 30, 2020 and approved by the Board on December 30, 2020.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
8(2)(k)	The Committee shall consider the significant findings of internal investigations and Management's responses to that.	No such situation has arisen during the year for any consideration by the Committee.
8(2)(l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may typically attend meetings. Other Board members and the Chief Executive Officer may also participate in the meetings upon the invitation of the Committee. However, the Committee shall meet with the External Auditors at least once in six months without the Executive Directors present.	It is complied with. The Chief Financial Officer and the Manager – Internal Audit, usually attend BAC meetings. Upon invitation, the CEO, representatives of parent company Internal Audit Department and the Group Compliance Officer also attend the BAC meetings.
8(2)(m)	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	It is complied with. The Audit Committee is guided by the Terms of Reference and the Audit Charter, which set out the authority and responsibility of the said Committee. Terms of Reference has been reviewed and approved on January 29, 2015 by the Audit Committee. In contrast, the Board approved the Audit Charter on April 24, 2017, along with the subsequent review by the Committee on June 30, 2020.
8(2)(n)	The Committee shall meet regularly with due notice of issues to be discussed and record its conclusions in discharging its duties and responsibilities.	It is complied with. The Audit Committee has met 12 times during the year and maintained the minutes of those meetings.
8(2)(o)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each member at such meetings.	It is complied with. Such details are provided in the Board Audit Committee Report.
8(2)(p)	The Secretary to the Committee, who may be the Company Secretary or the head of the internal audit function, shall record and keep detailed minutes of the Committee meetings.	It is complied with. The Company Secretary records and keeps detailed minutes of the Committee meetings.
8(2)(q)	The Committee shall review arrangements by which employees of the relevant establishment may engage in confidence raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such issues-up action and appropriate follow-up action, and act as the critical essential representative body for overseeing the relevant establishment's relations with the External Auditor.	It is complied with. Whistle blowing Policy is introduced by the Code of Ethics of the Company, which the Board approved on March 29, 2016.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
8(3)	**Integrated Risk Management Committee**	
8(3)(a)	The Committee shall consist of at least one Non-Executive Director. Chief Executive Officer and Key Management Personnel supervising broad risk categories. (i.e., credit, market, liquidity, operational and strategic risk) The Committee shall work with crucial management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	It is complied with. The Committee was appointed on September 30, 2014 and comprised four Non-Executive Directors, including two Independent Non-Executive Directors as at March 31, 2021. 1. Mr K G D D Dheerasinghe – Chairman 2. Mr Raja Senanayake 3. Mr S M S C Jayasuriya 4. Mr D M D S S Bandara The Company has obtained a confirmation from the CBSL dated December 29, 2015 under reference Number 24/03/005/0062/002 to the effect that the IRMC structure in place complies with the applicable CBSL Direction.
8(3)(b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks, to the relevant establishment every month through appropriate risk indicators and Management information. In the case of subsidiary companies and associate companies, risk management shall be done on the relevant establishment and group.	It is complied with. The documentation process for the risk management process has been streamlined after April 2015. Therefore, with effect from May 2015, these risks are analysed and presented in a report to the BIRMC.
8(3)(c)	The Committee shall review the adequacy and effectiveness of all Management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and manage those risks with quantitative and qualitative risk limits specified by the Committee.	It is complied with. The Company has formed an Executive Credit Committee and Asset and Liability Committee on March 24, 2015. The copies of respective meeting minutes are presented to the BIRMC every month, starting from May 2015, to enable reviews per the Direction. Based on the contents of such minutes of Management level committees, the BIRMC reviews and advise on risk management aspects.
8(3)(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks if such chances are at levels beyond the prudent levels decided by the Committee based on the relevant establishment's policies and regulatory and supervisory requirements.	It is complied with. With the introduction of the risk management report in May 2015, submitted to the BIRMC every month, the Committee advises on specific measures to mitigate the effects of such risks when observed beyond prudent levels.
8(3)(e)	The Committee shall at least quarterly assess all aspects of risk management, including updated business continuity plans.	It is complied with. The BIRMC met 12 times during the year covering all four quarters.
8(3)(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Not applicable. There were no such incidents that have taken place.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
8(3)(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's view, concurrence and/specific directions.	It is complied with. The minutes of the BIRMC are submitted to the Board starting from September 2015. In addition, the Risk Management Report tabled at the BIRMC is also concurrently tabled at the Board meeting on the same date.
8(3)(h)	The Committee shall establish a compliance function to assess the relevant establishment's compliance with laws, regulations, directions rules, regulatory guidelines, internal controls, and approved policies on all areas of business operations. A dedicated compliance officer selected from crucial management personnel shall carry out the compliance function and report to the Committee periodically.	It is complied with. The Company has established the Compliance Function by adopting the Group Compliance Policy, which was reviewed on March 25, 2019 and the appointment of a dedicated Compliance Officer on April 18, 2018. In addition, a Compliance Action Plan has been approved by the Board on July 23, 2019. The Key Management Personnel are assigned to ensure compliance in each of their areas of responsibility by way of a distribution list approved by the Board.
9.	**Related party transactions**	
9(2)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment with any person, particularly with the following categories of the persons who shall be considered "related parties" for this Direction: (a) A subsidiary of the relevant establishment. (b) Any associate company of the relevant establishment. (c) A Director of the relevant establishment. (d) A Key Management Personnel of the relevant establishment. (e) A relative of a Director or Key Management Personnel of the relevant establishment. (f) A shareholder who owns shares exceeding 10% of the paid-up capital of the relevant establishment. (g) A concern in which a Director of the relevant establishment or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid-up capital of the relevant establishment has a substantial interest.	It is complied with. The Company's Credit Policy adopted by the Board on November 26, 2015 sets out the guidelines and reviewed on July 30, 2020 to prevent conflicts of interest in lending and allow preferential treatment to certain parties in lending operations. The Directors must submit annual declarations to the effect of their engagements that may significantly bear the Company. The Company has obtained affidavits and declarations from Directors and Officers performing executive functions as required per the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011 to ensure adherence to this section. The Board has also reserved the exclusive approving authority for credit facilities over LKR Ten Million whilst setting up the delegated authority limits to ensure compliance with this section.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
9(3)	The transactions with a related party that are covered in this Direction shall be the following: (a) Granting accommodation. (b) Creating liabilities to the relevant establishment in the form of borrowings and investments. (c) Providing financial or non-financial services to the relevant establishment or obtaining those services from the relevant establishment. Creating or maintaining reporting lines and information flows between the relevant establishment and any related party may lead to sharing proprietary, confidential or otherwise sensitive information that may benefit such affiliated party.	It is complied with. Transactions carried out with related parties as defined by LKAS 24 on "Related Party Disclosures" in the ordinary course of business are disclosed in the Financial Statements 2020/21, reconciled upon obtaining independent third-party confirmations.
9(4)	The Board shall ensure that the relevant establishment does not engage in transactions with a related party that would grant such party more favourable treatment than that accorded to an unrelated company or counterparty. For the purpose of the paragraph, more favourable treatment shall mean: (a) Granting total net accommodation to a related party, exceeding a prudent percentage of the relevant establishment regulatory capital as determined by the Board. The total net accommodation shall be computed by deducting from the total accommodation the cash collateral and investments made by such related party in the relevant establishment's share capital and debt instruments with a remaining maturity of five years or more. (b) Charging an interest rate lower than the relevant establishment's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. (c) Providing preferential treatment such as favourable terms, covering trade losses and/or waiving fees/commissions that extends beyond the term granted in the ordinary course of business with unrelated parties. (d) Providing or obtaining services to or from a related party without a proper evaluation procedure. (e) Maintaining reporting lines and information flows between the relevant establishment, and any related party may lead to sharing proprietary confidential or otherwise sensitive information that may benefit such a related party, except as recruited to perform legitimate duties and functions.	It is complied with. The Company's Credit Policy adopted by the Board on November 26, 2015 sets out the guidelines to prevent conflicts of interest in lending and allow preferential treatment to certain parties in lending operations. In addition to that, the policy has been amended on July 30, 2020 with the approval of the Board. However, no transactions were carried out with related parties beyond the term granted in the ordinary course of business with unrelated parties.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
10.	**Disclosures**	
10(1)	The Board shall ensure that: (a) annual audited Financial Statements and periodic financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards; and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	It is complied with. The Financial Statements are prepared in accordance with the SLFRS and the formats prescribed by the regulators and supervisory authorities. Annual audited Financial Statements and periodic Financial Statements are published in newspapers in all three languages.
10(2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	It is complied with.
10(2)(a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	It is complied with. In the Statement of Directors Responsibility for the Financial Reporting, the Company disclosed that the Financial Statements are prepared following Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, Finance Leasing Act No. 56 of 2000 and other applicable standards and statutes.
10(2)(b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done following relevant accounting principles and regulatory requirements.	It is complied with. The Directors' Statement on Internal Control stated that the Board is of the view that the systems of internal controls in place is Board believes that the systems of internal controls in place are sound and adequate to provide reasonable assurance regarding the reliability of financial reporting.
10(2)(c)	The External Auditor's certification on the effectiveness of the internal control mechanism is referred to in subparagraph (2) (b) above, in respect of any statements prepared or published after March 31, 2010.	It is complied with. The Independence Assurance Report from External Auditors has been obtained, and extraction of the opinion of such report included in the Directors' Statement on Internal Controls over Financial Reporting.
10(2)(d)	Details of Directors, including names, transactions with the Company.	It is complied with. Details of Directors are disclosed in the Report of the Board of Directors on the Company's State of Affairs, Directors' interest in contracts with the Company and Notes to the Financial Statements in the Annual Report.
10(2)(e)	Fees/remuneration paid by the company to the Directors in aggregate, in the Annual Reports published after January 01, 2010.	It is complied with. This is stated in the audited Financial Statements under the related party transactions.

Reference to the relevant statute/rule	Corporate governance principle	Compliance level
10(2)(f)	Total net accommodation as defined in paragraph 9(4) is outstanding for each category of related parties. The net accommodation is exceptional regarding each type of related party as a percentage of the company's capital funds.	Not applicable. No accommodation has been granted to related parties during the year.
10(2)(g)	The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the Company's transactions with its Key Management Personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the company.	It is complied with. These are stated in the Annual Report under the related party transactions.
10(2)(h)	A report sets out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	It is complied with.
10(2)(i)	A statement of the regulatory and supervisory concerns on lapses in the Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the company to address such concerns.	Not applicable. There were no significant supervisory concerns on lapses in the Company's risk management or non-compliance with this Direction that have been pointed out by the Director of Non-Bank Supervision of the Central Bank of Sri Lanka and requested by the Monetary Board to be disclosed to the public.
10(2)(j)	The External Auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance reports published after January 01, 2011.	It is complied with. The Factual Findings Report from External Auditors' has been obtained to comply with the requirements of these Directions.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

In line with Section 8(3) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, the Board established a Board Integrated Risk Management Committee (BIRMC). The scope and functions of the Committee conform with the provisions of Section 8(3)(a) to (h) of the Direction above.

Composition of the committee

The Board Integrated Risk Management Committee is appointed by the Board of Directors and comprised of the following members:

Mr K G D D Dheerasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014)
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)

Brief profiles of the members are given on page 40 of the Annual Report.

The BIRMC assists the Board of Directors in fulfilling its oversight responsibilities concerning the Company's risk management function. Accordingly, BIRMC assists the Board to decide the Company's risk appetite and ensure the significant risks are appropriately managed.

The Committee held 12 meetings during the financial year under review. The attendance of each member at meetings is given on page 52 of the Annual Report.

The Committee has delegated the executive-level risk management function to the Executive Integrated Risk Management Committee (EIRMC) by engaging the right blend of members. All of them represent core Divisions of the Company that include Credit, Recoveries, Operational and Finance. The Chief Executive Officer chairs the EIRMC.

All Key Management Personnel of the Company report to the EIRMC about the risk management issues related to their areas of operation. This reporting is facilitated by three other management level committees, the Executive Credit Committee (ECC), Asset and Liability Committee (ALCO) and the Information Technology Steering Committee (ITSC), which meet regularly to address all risk management issues and decision-making. In addition, the Chief Financial Officer of the Company is also assigned with the responsibilities of the Chief Risk Officer to oversee these functions. The EIRMC, with the advice of BIRMC and the guidance of the Integrated Risk Management Department of the Commercial Bank, is planning to appoint a dedicated senior officer who is currently being trained to take up the responsibilities of the position, as the Chief Risk Officer shortly.

Critical functions performed during the year under review:

- Continued with the integrated risk management function and reporting framework within the Company with clearly identified responsibility for each broader category of risk;
- Deliberated on enhancing the Corporate Governance Framework and compliance with the applicable statutory requirements of the Company;
- Assessed liquidity, credit, market, strategy, and operations risks by making references to reports and other risk indicators tabled at meetings;
- Ensured that the risks assumed by the Company are within the risk appetite and prudent levels acceptable to the Committee and when necessary, the Committee deliberated corrective courses of action to manage risk at prudent levels;
- Concentrated on the high NPA ratio and measures that need to be taken to improve the ratio to an acceptable level;
- Communicated with the Senior Management representing the ECC, ALCO, ITSC and EIRMC on the needed course of action to improve the overall effectiveness of risk management;
- Continued with reviewing the Policies and Procedure Manuals of the Company to ensure that they fall in line with the parent company's standards;
- Reviewed the Business Continuity Plan of the Company;
- Promoted risk management culture amongst the Company Management along with continued training on risk management-related subjects;
- Oversaw the IT governance function and IT development projects through the Information Technology Steering Committee;
- Reviewed the loans under Covid-19 moratorium and potential impact on the Company’s cashflows;
- Reviewed Risk Management Policy of the Company and recommended timely changes to be incorporated to the Board;

In addition to the above, the Committee performed other functions necessary to discharge its duties, and the Committee plans to gradually expand the review process further to strengthen its prudent and effective risk management parameters.

K G D D Dheerasinghe
Chairman
Board Integrated Risk Management Committee
September 22, 2021

BOARD AUDIT COMMITTEE REPORT

Composition of the committee

The Board Audit Committee is appointed by the Board of Directors and comprised of the following members:

Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)
Mr A N P Sooriyarachchi	Non-independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)

Brief profiles of the members are given on page 40 of the Annual Report.

The Chairman of the Committee, Mr Raja Senanayake, an Independent Non-Executive Director (up to September 16, 2020 until his appointment to the Board of Directors of Commercial Bank of Ceylon PLC), is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA) with over 30 years of experience in the fields of Accounting, Finance and Auditing. The Company Secretary functions as the Secretary of the Committee.

Conduct of meetings

The Committee held 12 meetings during the year ended March 31, 2021. The proceedings of these meetings, with adequate details of matters discussed, were minuted and regularly reported to the Board of Directors. The Managing Director/ Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer/Chief Risk Officer attended the Committee meetings by invitation. Representatives of the Company's External Auditors, M/s KPMG also participated in one meeting during the period by invitation. The Committee invited other members of the Senior Management of the Company to participate in the meetings from time to time on a need basis.

Charter of the committee

The Terms of Reference of the Committee are spelt out in the Charter of the Board Audit Committee, which is approved by the Board of Directors. It is annually reviewed to ensure that new developments relating to the functions of the Committee are addressed. The Charter of the Committee was last reviewed and approved in June 2020.

The Committee assists the Board in discharging its responsibilities and exercising oversight function of the following:

- The integrity of the Company's Financial Statements;
- The Company's compliance with legal and regulatory requirements;
- The External Auditor's engagement, qualifications and independence;
- The establishment of a sound system of internal control
- The performance of the Company's internal audit function and the Company's external audit.

Internal audit function

Internal audit is an independent, objective assurance and consulting activity managed within the Company as an integral part of its control procedures concerning governance, risk management, compliance, information systems, and financial reporting. It assists the Management in accomplishing its corporate objectives by bringing a systematic, disciplined approach to assess and improve internal controls. In that regard, internal audit:

- Ensures that the internal controls are in place and functioning effectively;
- Evaluates the adequacy of measures and controls to ensure compliance with policies, plans, procedures and business objectives and that they are sufficiently robust and in place to minimise the risk of frauds, errors and other irregularities;
- Provides reliable, valued and timely assurance to the Board and the Corporate Management over the effectiveness of controls mitigating current and evolving high risks and in so doing enhance the control culture within the Company;
- Reviews/identifies and recommends changes where necessary to the business processes and procedures and internal control mechanism in place that add value;
- Provides an independent and objective assurance that risk management measures recommended by the Risk Management Department are in place and they are reviewed from time to time;
- In a consultative capacity, advises on the efficiency of controls and effectiveness of structure on new initiatives and during change Management processes and carry out the best post-implementation audits.

The Committee ensured the internal audit function is independent and performed with impartiality, proficiency, and professional care. As a result, the Board-approved Audit Charter defines the purpose, scope, level of authority and the output expected of the function. The Audit Charter is periodically reviewed and revised as necessary with the concurrence of the Board Audit Committee. The Audit Charter was last reviewed and approved in June 2020.

Commencing from January 2020, the internal audit function was instituted jointly by the Company's Internal Audit Unit and the Inspection Department of Commercial Bank of Ceylon PLC consequent to migrating the Core Operating System to ICBS. This enabled online monitoring of Company operations by the Bank's Inspection Department, thereby enhancing the scope to mostly near the time and real-time auditing onset frequency and providing an opportunity to the Company to address audit observations proactively on a near-time basis.

During the period, the Committee initiated the following actions regarding the internal audit function:

- The Committee approved the Programme of Internal Audits for 2020/21 formulated jointly by the Internal Audit Unit and Commercial Bank's Inspection Department and reviewed its progress of implementation regularly:
- The scope of work was enhanced to include quarterly credit audits, including credit administration at Branches and the Credit Administration Department at Head Office.
- Onsite and Online inspection reports of the Company Operations conducted by the Internal Audit Unit and Inspection Department of the Commercial Bank which highlighted the operational deficiencies, risks and recommendations received the attention of the Committee.
- The Committee received the attention of significant findings and recommendations related to IT Governance, Network Security, Physical and logical access management and IT system Administration made in the reports on Information Systems carried out by the Information Systems Audit Unit of Commercial Bank.
- The Committee reviewed the risk-based internal audit operational manual and evaluated the internal audit function covering key areas such as scope, quality of internal audits, independence and available resources;
- Reviewed the job description for the Internal Auditor;
- In 2020, the documented Code of Conduct for Internal Audit was implemented to promote the ethical culture expected of Internal Auditors.

In addition, the Committee initiated the following actions to enhance the effectiveness of internal control systems of the Company:

- Reviewed the Impairment Policy of the Company;
- Reviewed the Management Letter of the External Auditors for the year ended March 31, 2020, and instructed the Management to initiate necessary action to rectify the issues highlighted;
- Monitored the progress on implementing the recommendations made in the Statutory Examination Report of the Central Bank of Sri Lanka through regular follow up;

External audit

The Committee, having reviewed their resource availability and independence from the Company and the Board of Directors, recommended that KPMG, Chartered Accountants be re-appointed as the External Auditor for the financial year ended March 31, 2021.

During the period, the Committee met the Partner of KPMG, who is in charge of the audit of the Company and reviewed the Company's Impairment Provision Model and its outcomes and impact for the year ended March 31, 2021.

Further, the Committee engaged KPMG to attend to the Company's Corporate Governance reporting and Internal Control reporting as required by Section 3 of the Finance Companies (Corporate Governance – Amendment) Direction No. 6 of 2013 of the Central Bank of Sri Lanka.

The Committee met the Partner and the audit team of KPMG to review their significant observations during the audit for the year ended March 31, 2020 and to audit plan for the year ended March 31, 2021.

The Auditors were provided with the opportunity of meeting Non-Executive Directors separately, without any Executive Directors being present, to ensure that the Auditors had the opportunity to discuss and express their opinions openly on any matter.

Reporting of financial position and performance

The Board Audit Committee assisted the Board of Directors in its oversight on the preparation of Financial Statements that evidence an accurate and fair view on financial position and performance, based on the Company's accounting records and following the stipulated requirements of the Sri Lanka Accounting Standards. Accordingly, the Committee reviewed the following:

- Adequacy and effectiveness of the internal controls, systems and procedures to provide reasonable assurance that all transactions are accurately and entirely recorded in the books of accounts;
- Effectiveness of the financial reporting systems to ensure the reliability of the information provided to the stakeholders.
- Selection of most appropriate accounting policies after considering the alternatives available.
- Processes by which compliance with Sri Lanka Accounting Standards (SLFRSs/LKASs) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- Financial Statements in the Annual Report and Interim Financial Statements prepared for publication before submission to the Board.

Oversight on regulatory compliance

The Committee continuously monitored the extent of compliance with statutory and other compliance requirements and ensured that the systems and procedures are in place to ensure compliance with such requirements. In addition, the internal audit function conducts independent test checks to verify the extent of compliance by the Company and reports any exceptions to the Committee.

Raja Senanayake
Chairman
Board Audit Committee
September 22, 2021

BOARD CREDIT COMMITTEE REPORT

The Board Credit Committee is appointed by and is responsible to the Board of Directors (The Board). The Committee assists the Board of Directors in effectively fulfilling its responsibilities relating to credit strategies and oversight of credit risk, credit policy and lending guidelines of the Company in order to inculcate healthy lending standards and practices and ensure relevant regulations are complied with. This Committee's composition may be determined by the Board from time to time.

Meetings of the Committee are held on a month basis with the quorum of two members at a minimum, at a time and a place as determined by the Committee. The Committee met twelve times during the year under review. The attendance of the members at these meetings is given on page 52.

The Committee has delegated the executive level credit management function to the Executive Credit Committee (ECC) which is chaired by the Managing Director.

The Committee comprised the following members during the year:

Mr K G D D Dheerasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014)
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)

Scope and responsibilities of the Committee

The Board Credit Committee shall assist the Board of Directors in effectively fulfilling its responsibilities relating to credit direction, credit policy and lending guidelines of the Company in order to inculcate healthy lending standards and practices and ensure relevant regulations are complied with.

The responsibilities of the Committee shall be:

- Oversight of the credit and lending strategies and objectives of the Company.
- Oversight of the credit risk management of the Company, including reviewing of internal credit policies and establishing portfolio limits within the credit risk appetite of the Company.

Functions of the Committee

- Review and consider changes proposed from time to time to the credit policy and the lending guidelines of the Company.
- Analyse and review the credit risk control measures in the lending areas, the pricing of lending proposals and also ensure that credit proposals are within the relevant regulatory framework.
- Evaluate, assess and make recommendations on credit proposals submitted to the Board of Directors.
- Evaluate and recommend sector exposures.
- Monitor and evaluate reports called for by the Board of Directors.
- Set lending directions based on the prevailing economic climate.

Delegated authority levels

The Delegated Authority (DA) levels of the Board Credit Committee have been decided by the Board of Directors and any change of such limits are subject to the approval/ratification of the Board members.

Reporting to the Board

The Committee reports to the Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities and makes whatever recommendations to the Board of Directors it deems appropriate on any area within its limits where action or improvement is needed.

Key functions performed during the year

The Committee approved the credit proposals within its DA levels in line with the Board-approved credit policies and guidelines and within the risk appetite of the Company. Proposals beyond its DA levels were recommended for approval of the Board after review at the Committee level. Approving of interest and fees waivers for customers and monitoring of performing and non-performing portfolios and impact of debt moratoriums extended to customers were some of the additional functions undertaken by the Committee during the year.

In addition to the above, the Committee plans to further improve the system of internal controls relating to credit management function and proactive credit risk management practices of the Company specially given the volatile economic situation.

K G D D Dheerasinghe
Chairman
Board Credit Committee
September 22, 2021

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

The Human Resource and Remuneration Committee is appointed by the Board of Directors of the Company to evaluate, assess, decide, and recommend to the Board of Directors on any matter that affects the Human Resource Management of the Company and provide guidance and policy directions for relevant issues connected to general areas of Human Resource Management of the Company.

The Committee met twice during the year under review. The attendance of the members at these meetings are given on page 53.

The Committee comprised the following members during the year.

Dr (Ms) J P Kuruppu	Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 02, 2014)
Mr A N P Sooriyarachchi	Non-Independent Non-Executive Director (Appointed w.e.f. September 02, 2014 and retired w.e.f. January 12, 2021)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)

Functions of the Committee

- Make recommendations to the Board on the Company's framework of remuneration and its cost, and to determine on behalf of the Board, specific remuneration packages for all staff including the Chief Executive Officer and/or equivalent position thereof, and Key Management Personnel (KMP) of the Company.
- Review information relating to staff salaries from time to time to ensure that the same is on par with market/industry rates, and aim to motivate and retain experienced staff.
- Determine the compensation and benefits of the KMP and establish their individual performance goals and targets.
- Evaluate the performance of the KMP against the pre-agreed targets and goals.
- Assess and recommend to the Board of Directors the promotions of KMP, address succession planning and issues connected to organisational structure.
- Make recommendations to the Board from time to time of the additions/new expertise required by the Company.
- Determine the terms of any compensation package in the event of early termination of the contract of any Executive Director or any KMP of the Company.
- Make recommendations to the Board regarding the content included in the Annual Report on the Directors' remuneration.
- Consider whether the Executive Directors and KMP should be eligible for annual bonuses or any other benefits.
- Make recommendations to the Board on performance reviews of staff members for payment of annual bonuses, increments, promotions and changes in positions.
- Approving annual increments, bonuses, changes in perquisites and incentives ensuring it is linked to performance.
- Setting guidelines and policies to ensure that the Company adheres to laws of the Land, all Central Bank Directions and Guidelines issued and in force, IFRS, Code of Best Practice on Corporate Governance issued by CA Sri Lanka, and all other applicable criteria of best practice on governance and regulations of the Company.
- Make recommendations/decisions directions pertaining to the statutory payments made by the Company on behalf of the employees (EPF, ETF, terminal benefits etc.).
- Recommend/decide/give directions on disciplinary matters relating to incidents of significant losses to the Company caused by or due to actions of KMP.
- Conduct final interviews for shortlisted candidates for positions of Heads of Departments and KMP.

The Committee recognises the importance of attractive reward schemes to retain and motivate the Company employees. Therefore, the performance of the executive staff is directly linked with the variable bonus scheme and the Committee assesses the performance of KMP on an annual basis.

The Committee continuously assesses the adequacy of the expertise available at the Senior Management level. It ensures that the Company maintains a succession plan for the Key Management Positions of the Company.

Activities during the period

- The Committee determined the bonus payable for 2020/21, taking into account the satisfactory annual performance of the Company.
- The Committee reviewed the HR Policy and advised the Management improvements to be made in other staff benefits.
- The Committee reviewed the precautionary measures taken by the Company to prevent spread of COVID-19 within the Company premises and ensure a safe work environment for the staff.

J P Kuruppu
Chairperson
Board Human Resources and Remuneration Committee
September 22, 2021

MANAGING RISK

Risk management overview

The financial services industry in Sri Lanka has turned highly challenging and yet exciting at the same time with the changing macroeconomic dynamics both domestically and globally, coupled with the changing regulatory landscape and technological advancements taking effect across the globe. As a result, the importance of Risk Management has been felt more than ever before, requiring the "Risk's Function" to prepare the organisations to be more proactive to take control of the unexpected challenges that may crop up due to the volatile and uncertain environment arising from ongoing changes taking place in economic integration, geopolitical frictions, technological advancements, high customer expectations and ever-changing regulatory requirements.

The finance business in Sri Lanka is an essential element in the country's financial system as it facilitates the supply of credit and liquidity to the market by way of financial solutions. In the given process, the Microfinance and Non-Banking Finance Institutions (NBFIs) mainly cater to the lower and middle layers of the market, accounting for the largest segment of the Sri Lankan population.

Sri Lanka, though it is generally considered as an emerging market and a developing economy, was substantially strained in 2020 due to the factors such as COVID-19 pandemic situation across the globe, sluggish economic growth due to Easter bomb attacks, unsettled political environment, disturbances to industrial peace, inclement weather conditions and setbacks witnessed in the tourism and agricultural sectors contributing to slow economic growth. Nevertheless, the contributions from the finance business stood tall towards the fulfilment of the country's growth objectives and the economy. Moving to improve efficiency, most institutions have deployed modern technology in their day-to-day operations. However, in the backdrop of the continuously changing landscape of risk factors both internationally and internally, the importance of having an effective Risk Management Framework in financial institutions cannot be underestimated. In this context, it is essential that the financial institutions prioritise risk management by creating dynamic and better risk management tools and techniques, broad-basing the risk reporting and building a solid risk culture within the finance business sector.

Risk management framework

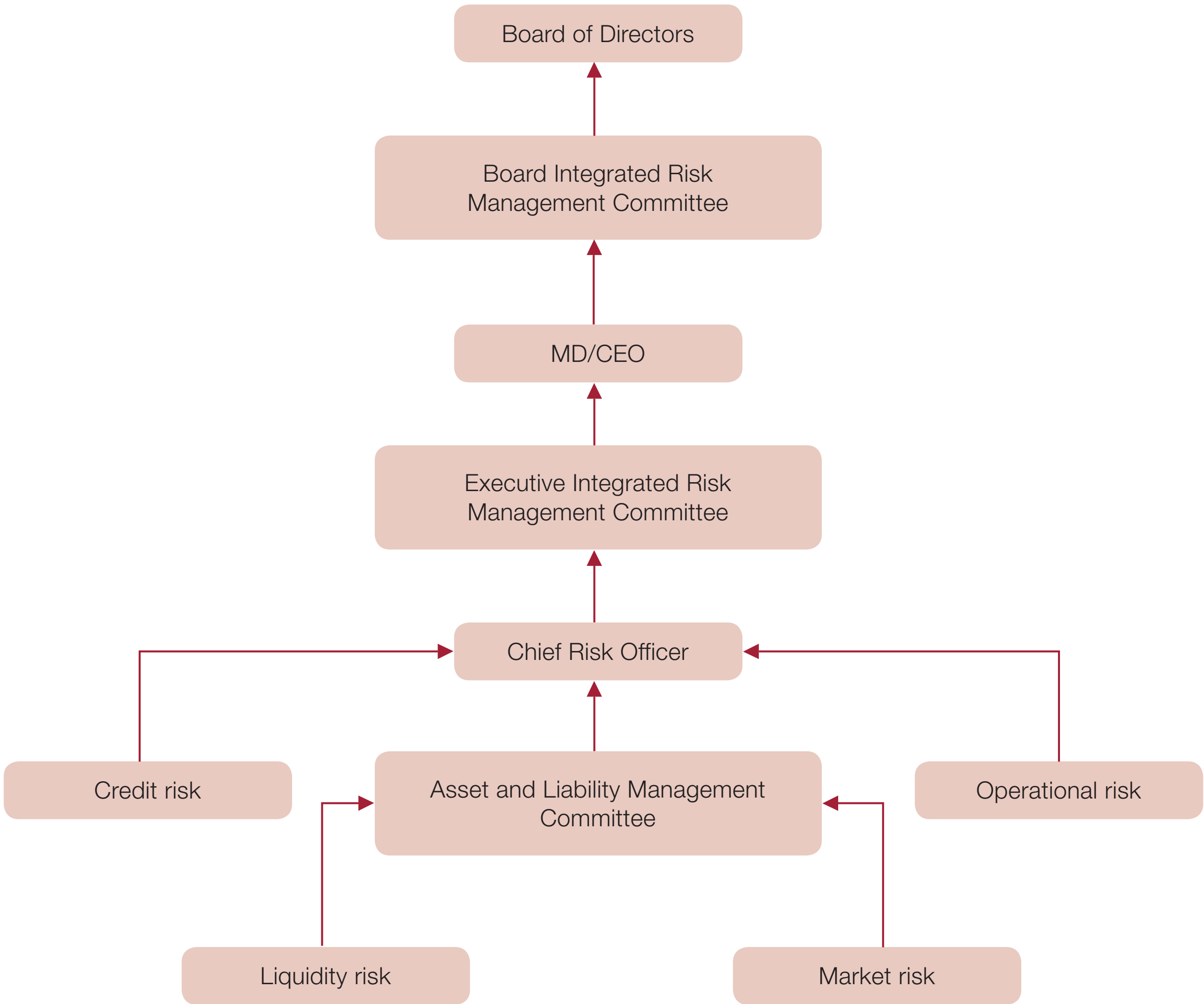
Risk is an inherent element in the finance business. Accordingly, as a player in the financial services industry, risk management is an integral part of our operations. CBC Finance has implemented risk management strategies to effectively manage and mitigate the risks arising out of its business operations and ensure our stakeholders' sustainable growth while maximising the returns through the effective management of our risks. Hence, we have adopted a company-wide Risk Management Framework that helps identify, manage, and report all the risks likely to impact our operations.

The Company continuously strengthens its risk management function and empowers the appropriate staff members to effectively and efficiently handle the risk management function. The management team consists of well-experienced individuals who would ultimately be responsible for all aspects of this process, including identification and maintenance of the Company's risk register, assessment, prioritisation, treatment of risks, and establishment of controls to manage these risks. In addition, the team would lead the Company in developing a risk management strategy and act in an advisory capacity supporting all business areas.

CBC Finance has embarked on establishing an Integrated Risk Management Framework to ensure adequate identification and monitoring of all types of broad risk categories that could impact the Company.

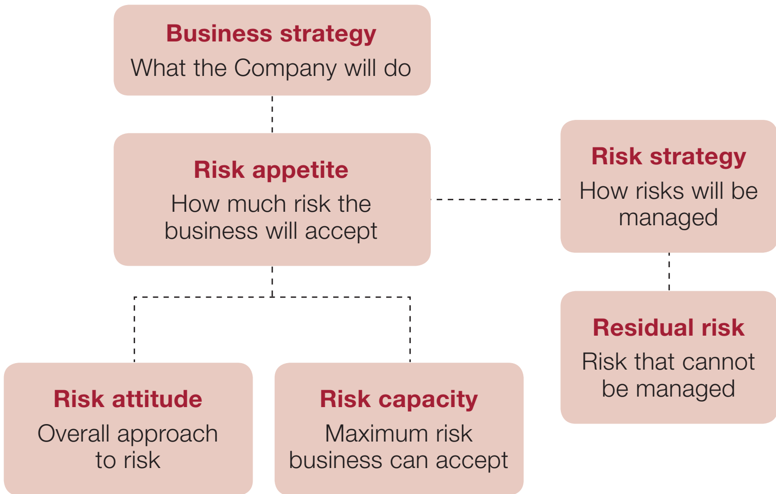
In discharging its oversight responsibilities, the Board is supported by the Board Integrated Risk Management Committee (BIRMC) which ensures that the Company's risk profile covering broad risk categories such as Credit Risk, Market Risk, Operational Risk, Liquidity Risk and Financial Risk are identified, reviewed, monitored, controlled and mitigated to avoid possible surprises and sudden shocks. The Risk and Compliance Divisions of the Company assists the Corporate Management and the BIRMC in driving the above initiatives. In addition, the Company's Corporate Management, with the functioning of the Executive Integrated Risk Management Committee (EIRMC), supports such initiatives by conducting the Company's business keeping in line with the Board-approved Risk Management Policy of the Company.

Reporting structure for risk management within the organisational structure



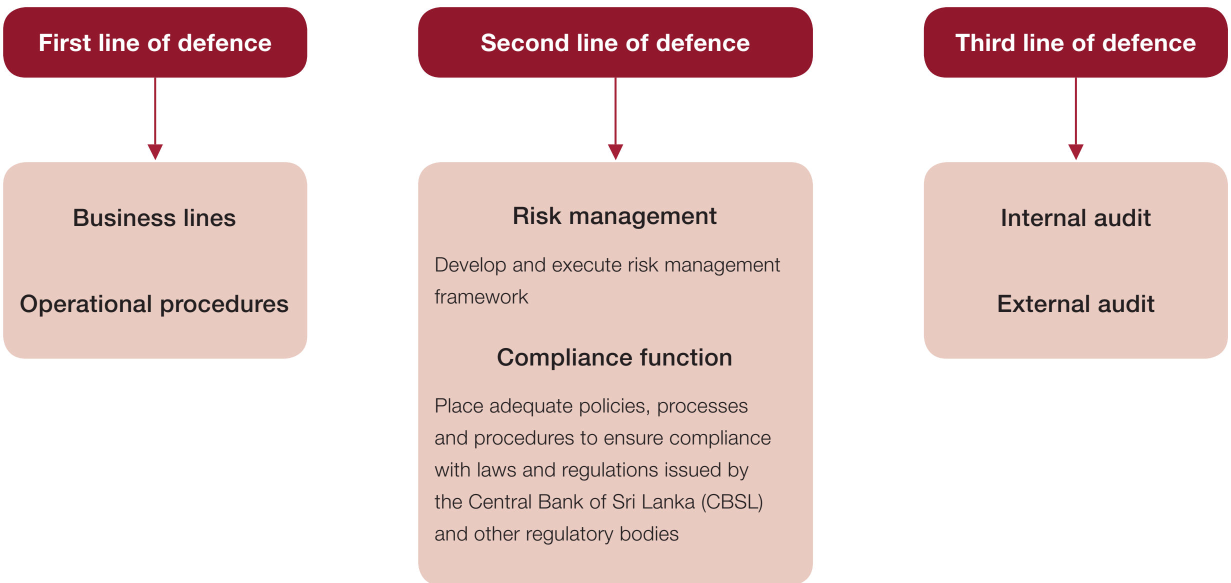
Risk management strategy

Our risk management strategy is formulated to ensure that the Organisation's risk exposures are aligned with our risk appetite. The risk management capability within the CBC Finance is sufficient to cover the internal control system and its adequacy, ensure the controls are appropriately implemented and monitor the implementation and effectiveness of the controls.



The Board of Directors, in principle, is responsible for the maintenance of prudent risk management strategies and orderly implementation of the Risk Management Framework in the Company. The Board approves the policies, procedures and systems, and operational approach to risk management. The practical implementation of the risk management function is carried out through the Board Integrated Risk Management Committee and the Company's Corporate Management.

Risk management model



First line of defence

The first line of defence is made up of business units assisted by centralised support functions, whose activities will give rise to different risk exposures, which are managed by well-established and Board-approved procedures, internal controls, and limits.

The front office and back office staff members engaged in business operations perform their tasks in accordance with the regulatory guidelines, approved internal policies, procedures, and controls. They contribute invaluable input to update the potential risk factors, which will eventually enhance the Company's risk awareness and culture.

Second line of defence

The second line of defence is made up of the Executive Integrated Risk Management Committee (EIRMC) and the Compliance division, responsible for effective Management and ensuring that risks are undertaken within the defined risk appetite level. EIRMC ensures that principal and emergent risks and events and outcomes that may significantly impact profitability and reputation are identified, assessed, and responded to through appropriate controls whilst apprising the Board in this regard.

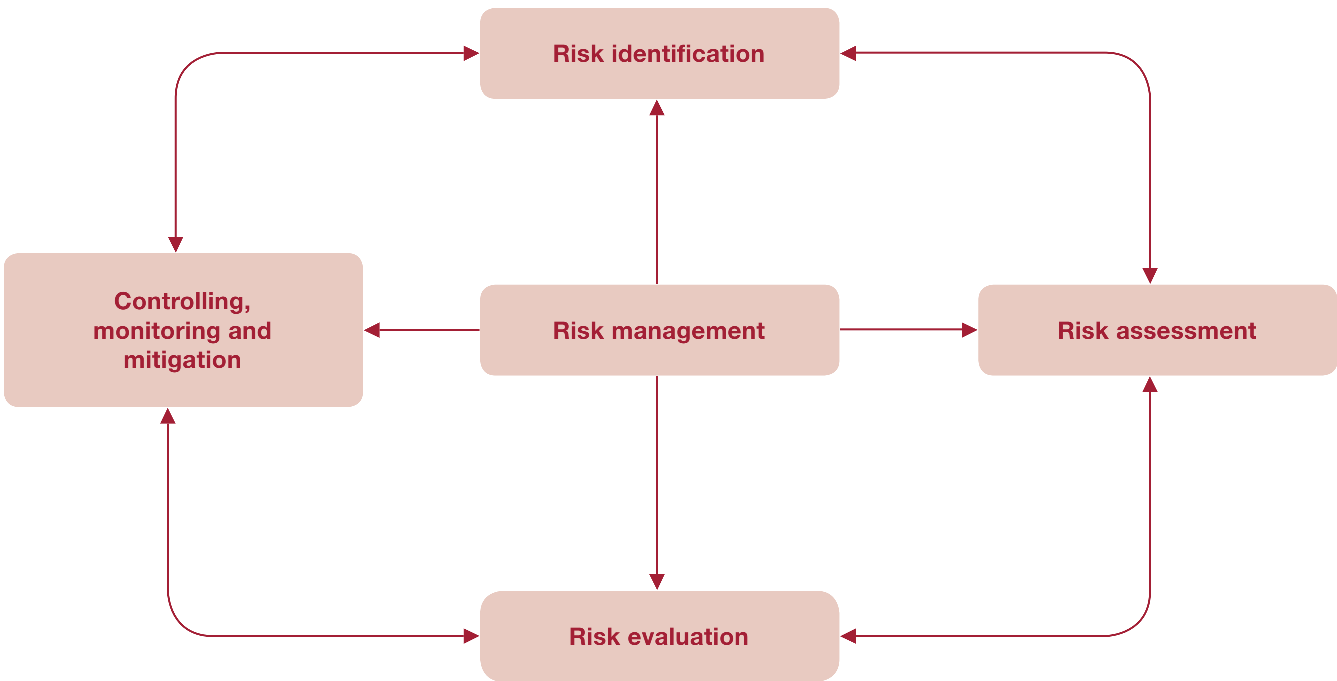
The Risk Division coordinates the risk management processes across the Company to ensure that risk management and internal control systems are ingrained in the Company culture. The Compliance Division is responsible for assuring the EIRMC and the Board Audit Committee on regulatory compliance and risk tolerance and establishing adequate policies, processes, and procedures to ensure compliance with laws and regulations issued by the Central Bank of Sri Lanka (CBSL) and other regulatory bodies.

Third line of defence

The internal and external audits are the last layer of control that assures effective implementation of processes and controls. Internal Auditors convey confidence through their review reports to the Board Audit Committee every month. The Committee reviews the financial reporting and audit process, the systems of internal control and the Company's procedures for monitoring statutory and regulatory compliance alongside the code of conduct in effect. Residing outside the Company, External Auditors play an important role in the risk management function by undertaking an independent and objective assessment of and providing assurances on the system of internal control and also the effectiveness of the first and second lines of defence as well as that of the internal audit.

Risk management process

The Risk Management Process in the Company can be broadly defined as follows:



Risk identification

Risk identification is the process of potential risks that may arise when transacting the business of the Company. The primary tool used in risk identification and assessment at the Company is the constant discussions between risk owners and monitoring units to ensure that the potential risks are identified before commencement of each new activity, product or process.

Risk assessment

This includes analysis of the Company's exposures to identified risks, assessing the impact of such risks on the Company and estimating the extent of possible losses and damages in the event such identified risks do materialise and occur.
Risk assessment includes:

- Collating information relating to external and internal frauds and analysing it to identify underlying reasons and integrity levels of the staff.
- Regular review of operational processes to identify operational gaps.
- Analysing and reviewing IT system failures, power outages, CCTV and alarm system failures.
- Assessment of ever-changing market conditions that might have an impact on the Company.
- Ensuring the reliability of the IT system by evaluating physical controls, access controls and network vulnerabilities.

Risk evaluation

This involves comparison of the perceived risks against the risk criteria that the Company has already established. The Company uses both qualitative and quantitative parameters to measure the risk appetite of the Company. These parameters are from time to time evaluated and adjusted to reflect the vulnerabilities in the market and the macroeconomic sentiments the Company is confronted with.

Controlling, monitoring and mitigation

This process refers to the implementation of policies and procedures that help avoid or minimise risks, which could be further extended towards risk transfer and risk financing. In addition, risk acceptance processes enable consideration of the risk-reward tradeoffs and the cost of other risk management options such as avoidance or limitation before assuming certain types of risk such as credit risk. Credit approval procedures and pre-disbursement processes are examples of the risk acceptance processes in place, while approvals for borrowings is another example.

Risk management levels

Strategic level

At the Strategic Level, risk management function is overseen by the Board of Directors and the Board Integrated Risk Management Committee (BIRMC).

Tasks include defining risks, ascertaining risk appetite, formulating strategies and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within the risk appetite.

Management level

At the Management Level, risk management within business areas or across business lines ensure that strategies, policies and directives approved at the strategic level are operationalised.

Development and implementation of underlying procedures, processes and controls are ensured at the Management level. Assuring compliance with laid down policies, procedures and controls, and reviewing the outcome of operations and measuring and analysing risk-related information are also performed at this level.

Operational level

At the Operational Level, risk management activities are performed by individuals who take risks on the Company’s behalf, which includes front, middle and back office personnel.

They are required to comply with approved policies, procedures and controls. Operational Level personnel provide valuable inputs to continuously improve risk-related activities undertaken in day-to-day operations.

Identifying and categorising the types of risks

The use of broader risk categories helps the Company in risk identification and assessment. Accordingly, CBC Finance has categorised its risk exposures as follows:

Credit risk

Credit risk is the possibility of losses due to non-payment by borrower or counterparties to meet their financial obligations to the Company. The CBCF's credit portfolio remains diversified in terms of customers, products types, geographical location, business segments etc. The exposure of the Company to credit risks depends on following factors:

- Credit policy;
- Credit terms offered (credit limits for individual customers and the time allowed to pay);
- The “quality” of customers in terms of creditworthiness: some types of customers are of higher credit risk than others;
- Credit vetting and assessment procedures;
- Extent of post sanction monitoring;
- Debt collection procedures.

The Credit Policy and Lending Guidelines play a central role in managing daily business activities, providing guidelines for optimising risk and return. Company's credit approval process plays the most vital role in credit risk management on a day-to-day basis. The method defines the principles on delegation of lending authority, client selection and due diligence in line with the Company's risk appetite.

At present, in CBCF, all leasing facilities above LKR 10 Mn. and for all other loans above LKR 1 Mn. are subject to the Chief Risk Officer's review. Therefore, proposals above those thresholds submitted for respective approvals always carry the comments of the Chief Risk Officer.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the CBC Finance’s income or the value of its holdings of financial instruments. Since the Company's operations involve granting of accommodation, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most critical market risk for the Company. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various standard and non-standard interest rate scenarios. Interest rate risk is managed principally through minimising the gaps in interest rate sensitive assets and liabilities. To mitigate the interest rate risk, exposures to movements in interest rates are closely monitored. The Company focuses on maintaining an adequate Net Interest Margin so that increases in interest expenses can be absorbed to a certain extent. Assets and Liabilities Committee (ALCO) closely monitors the interest rate movements and issues directions to lending and borrowing units on interest rate strategies.

Liquidity risk

Liquidity risk is the risk that CBC Finance will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity ensures that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

Effective liquidity management is considered of utmost importance to ensure the smooth functioning of the Company's operations. Therefore, the Company monitors several liquidity risk indicators to assess the efficacy of the comfort provided by its liquid assets. The key focus is given to liquid asset ratio, maturity gap analysis and funding concentration. In addition, liquidity risk is a standing agenda item at the Company's monthly ALCO meetings. ALCO is the responsible monitoring body that oversees our liquidity management policies, mainly through attracting deposits at competitive pricing and borrowing of low-cost funds from the market, which is done to manage the maturity mismatches between our lending and borrowing portfolios.

Considering the prevailing pandemic situation, the Company accords the highest priority to maintaining liquidity at comfortable levels. In addition, cash flows are continuously forecast at different stress levels in monthly ALCO meetings to closely monitor the cash flow positions.

Operational risk

Operational risk refers to potential losses that might arise in business operations. It has been considered as the risk of losses resulting from inadequate or failed internal processes, people and systems, or external events. Operational risks include fraud or employee malfeasance, which are managed through a consistent set of management processes that drive risk identification, assessment, control, and monitoring.

The Company seeks to minimise exposure to operational risk, subject to cost tradeoffs. Possible losses to the Company's assets due to unforeseen events have been covered with comprehensive insurance policies. Board Integrated Risk Management Committee and the Executive Integrated Risk Management Committee oversee operational risks at the strategic level. In addition, the Board Audit Committee also receives and reviews the Management Letter of the External Auditor and information for continuous monitoring through Internal Auditors. This formal governance structure provides the Board with confidence that operational risks are being proactively identified and effectively managed. Further, awareness building and comprehensive training sessions are undertaken to educate staff on the significance of compliance with operational policies, processes and controls.

Strategic risk

Strategic risks are risks arising from the possible consequences of strategic decisions taken by the Organisation. Business strategies are adopted after evaluating the overall risks associated with such strategies. Strategic risks identified and assessed at Senior Management and Board of Directors level in CBC Finance. The Board-approved strategic plan for the next year is in place with quantitative targets.

As the Company is operating in a challenging and dynamic market, the Company's strategic plan is monitored regularly to assess the possible obstacles that could arise in achieving the strategic objectives. The on-set of the COVID-19 pandemic required modifications to the Business Continuity Plan (BCP) to suit the risks emerging from the situation. Since the country was in a lock-down condition, the Corporate Management Team swiftly implemented the revised BCP. Work-from-home arrangements were provided for all key staff members, and remote working was implemented with the Management making use of technology for day-to-day work and conducting meetings.

Cyber risk

Cyber risk is the risk of financial loss, disruption, or damage to an organisation caused by issues with the information technology systems it uses. While cyber risks can have significant consequences for an organisation, they most often arise from operational lapses. For example, unauthorised breach of information systems is a cyber risk, and it could manifest itself in the increase of dependency on automated systems and processes.

CBC Finance has identified information as a vital business resource and a key asset to organisational sustainability. Hence, CBC Finance has prioritised addressing IT risk, focusing on cyber security strategies and continually investing in improving cyber security capabilities. The CBC Finance cyber security strategy focuses on securely enabling new technology and business initiatives while maintaining a persistent focus on protecting the Company and its customers from cyber threats.

Capital management

The Company maintains its capital adequacy ratios well above the minimum statutory requirements prescribed by the Central Bank of Sri Lanka.

Capital requirement	Minimum requirement	**Actual ratio as at March 31, 2021**	Actual ratio as at March 31, 2020
Tier I Capital (%)	6.50	**26.57**	21.82
Total Capital (%)	10.50	**26.57**	21.82

The Company's risk appetite is aligned with the Company's capital, and maintaining an adequate level of capital is one of the Company's topmost priorities. The minimum capital requirement to be maintained as per the statutory requirements of the CBSL is LKR 2 Bn. However, the capital stood at LKR 3.1 Bn. as of March 31, 2021 which is well above the proposed minimum capital requirement for NBFIs of LKR 2.5 Bn. to be maintained as of January 01, 2022.

Further initiatives taken during the year to enhance the overall effectiveness of the risk management process of the Company

- Assessment of all lease facilities above LKR 10 Mn. and all other facilities irrespective of value and provide recommendations for risk mitigation and/or clearance.
- Carrying out a risk assessment for new products/modification of the existing products and contributing towards appropriate value additions.
- Risk identification, assessment and measurement to cover credit, operational, strategic, financial and liquidity risks, including the risks related to IT operations.
- Ensuring the Business Continuity Management (BCM) Framework is effectively executed across the Company.
- Introduction of Credit Risk Rating Models for leasing and SME loans (mortgage and business loans).

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

The details set out herein provide the information required by the Section 168 (1) of the Companies Act No. 07 of 2007 and recommended best accounting practice.

1. General

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements and the Audit Report thereon of CBC Finance Ltd. (CBCF) (formerly Serendib Finance Limited and Indra Finance Limited), a limited liability company incorporated in Sri Lanka under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007 and operating as a Licensed Finance Company under the Finance Business Act No. 42 of 2011.

The Financial Statements were authorised for issue by the Directors on June 28, 2021.

2. Review of business

2.1 Principal activities

The Company has obtained the license to carry on finance business as per the Finance Business Act No. 42 of 2011. The principal activities of the Company comprise finance leasing, hire purchase financing, other credit financing, trading of leased assets, and accepting public deposits.

Company changed its name to CBC Finance Ltd. from Serendib Finance Limited on December 23, 2020.

Other than the above, there have been no significant changes in the nature of the principal activities of the Company during the financial year under review.

2.2 Financial Statements

The Financial Statements of the Company have been duly certified by the Chief Financial Officer and approved by two Directors in compliance with the requirements of the Sections 151, 152, and 168 (1) (b) of the Companies Act No. 07 of 2007.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes thereto have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs) and Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka, and the provisions in the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

2.3 Auditors' report

Company's Auditors, Messrs KPMG performed the audit on the Financial Statements for the year ended March 31, 2021 and the Auditors' Report on the Financial Statements is attached hereto which forms an integral part of this Report as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

2.4 Significant accounting policies and changes during the year

The significant accounting policies adopted in the preparation of Financial Statements are presented in the Notes to the Financial Statements as required by Section 168 (1) (d) of the Companies Act No. 07 of 2007. The changes in these accounting policies during the year under review are also disclosed therein. All other policies are consistent with those adopted in the previous financial year as required by Sri Lanka Accounting Standards.

2.5 Interests register

An interests register is maintained by the Company, as per the requirements of the Companies Act No. 07 of 2007. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interests Register during the year under review. Entries were made in the Interests Register on share disposal, Directors' interest in contracts and remuneration paid to the Directors etc. The Interests Register is available for inspection as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.

2.6 Directors' remuneration and other benefits

Directors' remuneration and other benefits, in respect of the Company for the financial year ended March 31, 2021 is given in Notes to the Financial Statements as required by section 168 (1) (f) of the Companies Act No. 07 of 2007.

2.7 Information on Directorate:

List of Directors

The Board of Directors of the Company as at March 31, 2021 was as follows:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Dr Janaki Padma Kuruppu
- Mr Senanayakege Raja Pushpakumara
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
- Mr Lasantha Hasrath Munasinghe

Names of the Directors, who were the Directors at any time during the year ended March 31, 2021 of the Company as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Dr Janaki Padma Kuruppu
- Mr Senanayakege Raja Pushpakumara
- Mr Anthony Naveendra Perera Sooriyarachchi
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
- Mr Lasantha Hasrath Munasinghe

New appointments and resignations:

- Mr Lasantha Hasrath Munasinghe
  (Appointed to the Board with effect from September 16, 2020)
- Mr Anthony Naveendra Perera Sooriyarachchi
  (Resigned from the Board with effect from January 12, 2021)

Apart from the above changes, there were no other changes to the Board during the financial year.

2.8 Gross income:

The income of the Company for the year ended March 31, 2021 was LKR 1,058 Mn. (year ended March 31, 2020 – LKR 1,211 Mn.). An analysis of the income is given in Notes to the Financial Statements attached hereto.

3. Dividends and reserves:

3.1 Profit and appropriations

The details of profit of the Company are given below:

For the year ended March 31,	**2021 LKR '000**	2020 LKR '000	2019 LKR '000
Profit/(Loss) before tax	**129,443**	128,045	20,080
Taxation	**(64,952)**	(59,069)	(378)
Net other comprehensive income	**(699)**	(915)	295
Total comprehensive income after tax	**63,792**	68,061	19,997
Unappropriated profit brought forward	**(229,780)**	(294,392)	(23,047)
Adjustment on initial application of SLFRS 9	**–**	–	(290,357)
Profit/(Loss) available for appropriation	**(165,988)**	(226,331)	(293,407)
(Transfers)/reversals to/from reserves	**(3,225)**	(3,449)	(985)
Final dividend paid	**–**	–	–
Unappropriated Profit/(Loss) carried forward	**(169,213)**	(229,780)	(294,392)

4. Dividends on ordinary shares

The Board has not declared any dividends for the financial years 2020/21, 2019/20 and 2018/19.

4.1 Provision for taxation

Income tax for the financial year 2020/21 has been provided at 24% (Income tax rate for the financial year 2019/20 was 28%) for on taxable income arising from the operations of the Company and has been disclosed in accordance with Sri Lanka Accounting Standards.

Information on income tax expenses and deferred taxes is given in respective notes to the Financial Statements attached hereto.

4.2 Reserves

The Company's total reserves as at March 31, 2021 amounted to LKR (32) Mn. (2020 – LKR (101) Mn.). The movement of the reserves is given in the Statement of Changes in Equity and Notes to the Financial Statements attached hereto.

5. Property, plant and equipment, leasehold property and intangible assets

Cumulative capital expenditure on property, plant and equipment net of accumulated depreciation is as follows;

Year	**2020/21 LKR Mn.**	2019/20 LKR Mn.	2018/19 LKR Mn.
Property, plant and equipment	**249**	235	196

Details are given in relevant Notes to the Financial Statements.

6. Market value of freehold properties

The value of freehold properties owned by the Company as at March 31, 2021 is included in the Financial Statements at LKR 193.3 Mn. (March 31, 2020 – LKR 195.9 Mn.). Latest revaluation of the Company's freehold properties was carried out as of March 31, 2020, and Directors are of the opinion that the carrying value of properties is more fully in line with the current market values.

Details of these are given in relevant Notes to the Financial Statements attached hereto.

7. Stated capital

The stated capital of the Company as at March 31, 2021 was LKR 3,255 Mn. comprising 221.7 million ordinary shares (March 31, 2020 – LKR 2,255 Mn.). The details of the stated capital are given in relevant notes to the Financial Statements attached hereto.

8. Share information

Details of share-related information are given in relevant notes and information relating to earnings and dividends per share is given in respective notes to the Financial Statements attached hereto.

8.1 Issue of shares

70,323,488 new ordinary shares were issued by the Company during the year ended March 31, 2021.

9. Substantial shareholding

All the shares of the Company are owned by Commercial Bank of Ceylon PLC.

9.1 Equitable treatment to all stakeholders

We value the patronage of all our stakeholders and the Company has made all endeavours to ensure equitable treatment to all of them.

10. Directors

10.1 Information on Directors

The names of the persons who were Directors at any time during the financial year of the Company are given in Section 2.7 of this Report.

10.2 Board subcommittees

Information with regard to Board Subcommittees is as follows.

Board Audit Committee:

- Mr Senanayakege Raja Pushpakumara (Chairman)
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara

Board Integrated Risk Management Committee:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Mr Senanayakege Raja Pushpakumara
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara

Board Credit Committee:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara

Board Nomination Committee:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Mr Senanayakege Raja Pushpakumara

Board Human Resource and Remuneration Committee:

- Dr (Ms) Janaki Padma Kuruppu (Chairperson)
- Mr Danapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara
- Mr Lasantha Hasrath Munasinghe

11. Disclosures of Directors' dealings in shares

11.1 Directors' interest in ordinary shares

Directors did not hold any shares of the Company as at March 31, 2021 or as at March 31, 2020.

12. Directors' interest in contracts or proposed contracts

Directors have no direct or indirect interest in any contract or proposed contract with the Company for the year ended March 31, 2021 other than those disclosed in relevant notes to the Financial Statements attached hereto.

13. Environmental protection

The Directors to the best of their knowledge and belief are satisfied that the Company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

14. Statutory payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and employees have been made/provided for up to date.

15. Events after the reporting date

There have been no material events that occurred after the reporting date that would require adjustments to or disclosure in the Financial Statements other than those disclosed, if any, in relevant notes to the Financial Statements attached hereto.

16. Going concern

The Board of Directors reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company have been prepared based on the going concern concept.

17. Appointment of External Auditors

The Financial Statements for the year have been audited by Messrs KPMG, Chartered Accountants, who offer themselves for reappointment. A resolution to reappoint them as Auditors and authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

18. Auditors' remuneration and interest in contracts with the Company

The Auditors, Messrs KPMG was paid LKR 2.02 Mn. (2020 – LKR 1.90 Mn.) as audit and related fees by the Company. Apart from this, the Company has engaged External Auditors for several other permitted non-audit services.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company.

19. Risk management and system of internal controls

19.1 Risk management

Specific steps that have been taken by the Company in managing both business risk and financial risk are detailed in relevant disclosure notes to the Financial Statements attached to this report.

19.2 System of internal controls

The Board of Directors has established an effective and comprehensive system of internal controls to ensure that proper controls are in place to safeguard the assets of the Company, to detect and prevent frauds and irregularities, to ensure that proper records are maintained and Financial Statements presented are reliable. Monthly management accounts are prepared, providing management with relevant, reliable and up to date Financial Statements and key performance indicators.

The Audit Committee reviews on a regular basis, the reports, policies and procedures to ensure that a comprehensive internal control framework is in place.

19.3 Audit committee

The composition of the Audit Committee is given above in Note 10.2 of this Report.

20. Corporate governance

The Company is committed to high standards of corporate governance. The main corporate governance practices of the Company are in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

21. Human resources

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance.

22. Compliance with applicable laws and regulations

To the best of our knowledge there has been no violation or possible violation of laws or regulations in any jurisdiction whose effect should be disclosed. There have been no irregularities involving management or employees that could have a material financial effect or otherwise.

23. Outstanding litigation

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

24. Notice of Meeting

The details of the Annual General Meeting are given in the Notice of Meeting.

25. Acknowledgement of the contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of the Report.

For and on behalf of the Board

K G D D Dheerasinghe
Chairman

D M U N Dissanayake
Managing Director

H D U O Gunasekara
Company Secretary
June 28, 2021

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

This report has been presented in accordance with Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Finance Companies (Corporate Governance – Amendment) Direction No. 6 of 2013.

As per the Sections 148 (1) and 151 (1) of the Companies Act No. 07 of 2007, the Company has to ensure that it keeps proper books of account of all the transactions and prepare Financial Statements that give an accurate and fair view of the state of affairs and the profits/losses for the year.

Accordingly, the Directors have caused the Company to maintain proper books of account and reviewed the financial reporting system at their regular meetings and through the Board Audit Committee. The Board Audit Committee report is given on page 74 of this report. The Financial Statements for the year ended March 31, 2021 prepared and presented in this report are consistent with the underlying books of account. They conform with the requirements of the Companies Act, Sri Lanka Accounting Standards, the Finance Leasing Act No. 56 of 2000, and the Finance Business Act No. 42 of 2011. In preparing the Financial Statements exhibited on page 98 onwards, the Directors believe that they have adopted accounting policies consistently and supported by reasonable and prudent judgements and estimates.

The Directors also have the responsibility to ensure that the Company maintains adequate general supervision, control and administration of the affairs, and business of the Company.

The Directors are of the opinion that the Internal Control System in place is capable of safeguarding the assets, preventing and detecting frauds and errors, ensures accuracy and completeness of the accounting records and timely preparation of reliable financial information.

The Directors confirm that to the best of their knowledge, all taxes, dues to or on behalf of employees, statutory dues and levies payable by the Company as at the Balance Sheet Date have been paid or, where relevant, provided for.

The Company's External Auditors, Messrs KPMG, carry out audit verification on a sample basis on the internal controls over financial reporting system. They consider it appropriate and necessary for expressing their opinion on the Financial Statements. The Directors have the discretion to engage the Auditors on further agreed-upon procedures when additional assurance as to the accuracy of the financial information is required.

Messrs KPMG, the External Auditors of the Company, have examined the Financial Statements made available by the Board of Directors together with all the financial records, related data, and minutes of shareholder's and Directors' meetings. They have expressed their opinion, which appears as reported by them on page 96 of this Report.

Accordingly, the Directors view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,

H D U O Gunasekara
Company Secretary
September 22, 2021.

DIRECTORS’ STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board’s responsibility

This Report on Internal Control has been presented under Section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 6 of 2013 of the Central Bank of Sri Lanka.

The Board of Directors is responsible for the adequacy and effectiveness of the CBC Finance Ltd.’s internal control system on financial reporting. However, the internal control system has been designed to manage the Company's key risk areas within an acceptable risk profile rather than to eliminate the risk of failure to achieve the Company's policies and objectives. Hence, Company’s internal control system can only provide reasonable but not absolute assurance against material misstatements of Management and financial information and records or financial losses.

The Board has established an ongoing process for identifying, evaluating and managing material risks. This process includes enhancing the system of internal control when needed in line with changes in the business environment or regulations. The Management of the Company assists the Board in implementing the policies and procedures on risk and control by identifying and assessing the risks faced and in the design, operation and monitoring of appropriate internal controls to control risks.

The process adopted by the Board in applying and reviewing the design and effectiveness of the internal control mechanism on financial reporting

The key processes that have been established for reviewing the adequacy and integrity of the system of internal controls of financial reporting are as follows:

- Relevant Heads of Departments have been delegated the task of applying controls to capture their related transactions onto a defined and structured information recording system supporting financial reporting. At the same time, the Finance Department headed by the Chief Financial Officer has been delegated to prepare the Accounts and Annual Financial Statements in line with applicable Sri Lanka Accounting Standards, other applicable regulations and industry best practices.
- The Company has reorganised and strengthened the Internal Audit Department, which is entrusted with the task of carrying out the Company's internal audit function periodically to verify compliance with policies and procedures and the effectiveness of the internal control systems and providing feedback of such reviews to the Audit Committee on any non-compliance and recommendations for improvements.
- The Internal Audit Department has sought confirmations from the Management on internal controls adopted in the respective processes handled by them and confirmed to the Board upon testing such controls.
- Being a 100%-owned subsidiary of Commercial Bank of Ceylon PLC, the Company is subjected to audit and review by the Inspection Department of the Bank. It is entrusted with carrying out inspections of the Company's operations periodically to verify compliance with policies and procedures and the effectiveness of the internal control systems and providing feedback of such reviews to the Board Audit Committee on any non-compliance together with recommendations for improvements. Apart from onsite inspections, the Inspection Department commenced an online monitoring system on CBCF’s day-to-day operations after implementation of the ICBS system. Similarly, oversight functions are carried out by the Information Systems Audit Department and the Integrated Risk Management Department of the Bank, engaged on the same basis mentioned herein.
- The Board Audit Committee of the Company, which is set up on Terms of Reference approved by the Board of Directors, meets regularly to review internal control issues identified by Internal Auditors in their periodic reviews, queries raised by the External Auditors consequent to their statutory reviews and other matters brought up by the Management. In addition, the Committee evaluates the adequacy and effectiveness of the Company's internal control systems.
- The Board Audit Committee further reviews the work of Internal Auditors on their scope and quality of audits. The Committee follows up matters with the Management and, in turn, provides feedback to the Board on any matters of concern for their deliberation and resolution.
- Other subcommittees appointed by the Board assist the Board in reviewing the effectiveness of areas relevant to such committees. This includes ensuring that related operations are following corporate objectives, policies and established procedures and would help provide feedback to the Board on any shortcomings.
- The matters highlighted by the External Auditors relating to the internal controls in 2019/20 were attended, and corrective measures were initiated to rectify such concerns.
- The recommendations made by the External Auditor in the financial year ended March 31, 2021 in connection with the internal control system will be addressed in future.

Since adopting the Sri Lanka Accounting Standard - SLFRS 09 on "Financial Instruments" from April 01, 2018, processes required to comply with the latest requirements of recognition, measurement, presentation and disclosures were introduced and implemented as necessary. Continuous monitoring is in progress, and steps are being taken to improve the processes and enhance effectiveness and efficiency.

The existing models to calculate Expected Credit Losses (ECL) are inherently complex, and judgement is applied to determine correct construction of the models. There are also several critical assumptions used in the models, including selection and input of forward-looking information. These models were reviewed independently by external consultants, and their opinions were also considered for model improvements. This year too, the impairment computation of the Company was developed with collective models and has not set a threshold for individually significant customers. The Company has documented the relevant processes relating to SLFRS 09 in the procedure manual whilst necessary changes are being done with the BAC and the Board's approval.

In addition, the Company is closely monitoring the impact of Covid-19 on its customers and incorporating separate management overlays to the ECL model and stressing the qualitative factors used to assess forward-looking macroeconomic indicators.

Confirmation by the Board

The Board believes that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting. Accordingly, based on the established internal control mechanism explained above, the Board confirms that the financial reporting system of the Company has been designed and continuously upgraded to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is done in line with Sri Lanka Accounting Standards and as per the requirements of the industry regulator.

During the year, Company tested the adequacy of internal controls with the help of the Internal Auditor, who has accordingly tested the essential internal controls and confirmed the same to the Board of Directors.

The Company is continuously reviewing policies/procedures manuals for the key processes and the recommendations made by the Auditors on the internal controls of the Company, and these are continually dealt with.

External Auditor's review of the statement

The External Auditors have reviewed the above Directors' Statement on Internal control for the year ended March 31, 2021. They reported to the Board that nothing has come to the attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company over financial reporting.

By Order of the Board

K G D D Dheerasinghe
Chairman

D M U N Dissanayake
Managing Director

Raja Senanayake
Chairman
Audit Committee

September 22, 2021

AUDITOR'S ASSURANCE REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL

KPMG
(Chartered Accountants)
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The Board of Directors of CBC Finance Ltd.

Report on the Directors' Statement on internal control over Financial Reporting

We were engaged by the Board of Directors of CBC Finance Ltd. ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the Annual Report for the year ended March 31, 2021.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Licensed Finance Company/Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008/Section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our independence and quality control

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

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

Auditor's responsibilities

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

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

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

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

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Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakcon ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA, W.A.A. Weerasekara CFA, ACMA, MRICS

KPMG

Summary of work performed

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

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

(a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

(b) Reviewed the documentation prepared by the Management to support their Statement made.

(c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board committees.

(e) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

(f) Obtained written representations from Directors on matters material to the Statement of Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

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

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

Auditor's conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control of the Company.

Chartered Accountants

Colombo

September 22, 2021

FINANCIAL REPORTS

INDEPENDENT AUDITORS' REPORT

KPMG
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**TO THE SHAREHOLDERS OF CBC FINANCE LTD.
(FORMERLY KNOWN AS SERENDIB FINANCE LIMITED)**

Report on the audit of the Financial Statements

Opinion

We have audited the Financial Statements of CBC Finance Ltd. (formerly known as Serendib Finance Limited), ("the Company"), which comprise the Statement of Financial Position as at March 31, 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 March 31, 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 Auditors' 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.

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Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA, W.A.A. Weerasekara CFA, ACMA, MRICS

KPMG

Auditors' responsibilities for the audit of the Financial Statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgement 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 Auditors' Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditors' Report. However, future events or conditions may cause the Company 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

June 28, 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended March 31,	Notes	2021 LKR	2020 LKR
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 amortisation		(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 re-classified 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 re-classified 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.

STATEMENT OF FINANCIAL POSITION

As at March 31,	Notes	2021 LKR	2020 LKR
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 amortised 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

Raja Senanayake
Director

Kandy
June 28, 2021

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2021	Stated capital	Other reserves					Retained earnings/ (Accumulated losses)	Total equity
		Capital reserve	Revaluation reserve	Statutory reserve fund	Fair value reserve	General reserve		
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at April 01, 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 recognised 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 March 31, 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 April 01, 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 recognised 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 March 31, 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.

STATEMENT OF CASH FLOWS

For the year ended March 31,	Notes	2021 LKR	2020 LKR
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
Amortisation		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 amortised 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

1.1 General

CBC Finance Ltd. (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. 07 of 2007 under the Company Registration No. PB 276.

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 Ltd. on December 23, 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 March 31, 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 March 31, 2021 were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on June 28, 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 recognised 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the 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 judgements and estimates

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgements, 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 judgement may not change, the impact of COVID-19 resulted in the application of further judgement 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 recognised over time or at a point in time;

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at March 31, 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 utilised 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 April 01, 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 judgement 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 and 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 De-recognition of investment property

Investment properties are de-recognised 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 de-recognition. In determining the amount of consideration from the de-recognition 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 de-recognised.

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 Note 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 de-recognition 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 de-recognition 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 de-recognition, 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 de-recognised 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 de-recognition.

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 de-recognition 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 de-recognition of the financial asset, then the Company first re-calculates 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 de-recognises 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 de-recognised 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 de-recognition, 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 No.t 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 relief 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 judgements 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 macroeconomic indicators. In addition, Management overlay adjustment on the ECL computation, based on the qualitative indicators on forward looking macroeconomic 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.

Re-structured 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 de-recognised and ECL are measured as follows:

- If the expected re-structuring will not result in de-recognition 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 re-structuring will result in de-recognition 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 de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition 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 re-structuring 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 for 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 includes:

- 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 de-recognised, 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 re-classified 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 judgement 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 and 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 De-recognition of investment property

Investment properties are de-recognised 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 de-recognition. In determining the amount of consideration from the de-recognition 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 and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

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 De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised 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 de-recognised.

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 de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is de-recognised.

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 de-recognised. 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 and 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 re-assessed 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 De-recognition of intangible assets

The carrying amount of an item of intangible asset is de-recognised 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 de-recognised.

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 re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company'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 de-recognition 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 recognised 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. 07 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 five 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 Employees’ 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 recognised 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 realised.

Unrecognised 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 April 08, 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 March 26, 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 recognised 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 January 01, 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 December 01, 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 November 01, 2018 and has been retrospectively imposed from October 01, 2018 till December 31, 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 January 01, 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 recognised 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

8.1 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.

8.2 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;

- quoted market prices in active markets for similar instruments,
- quoted prices for identical or similar instruments in markets that are considered to be less active, or
- 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 de-recognition 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 April 01, 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 April 01, 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 March 31, 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 April 01, 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.

10. Gross income

	Notes	2021 LKR	2020 LKR
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

	2021 LKR	2020 LKR
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

	2021 LKR	2020 LKR
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 LKR	2020 LKR
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 LKR	2020 LKR
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 LKR 61.6 Mn. (2020: LKR 60.0 Mn.) and expense of LKR 1.3 Mn. (2020: LKR 1.3 Mn.) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

12.2 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.

13. Other operating income

For the year ended March 31,	2021 LKR	2020 LKR
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

	Notes	2021 LKR	2020 LKR
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

	Notes	2021 LKR	2020 LKR
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

	2021 LKR	2020 LKR
Directors' emoluments	4,130,000	3,996,000
Auditors' remuneration – Audit and 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 recognised in profit or loss

	Notes	2021 LKR	2020 LKR
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

17.2 Amount recognised in OCI

	Notes	2021 LKR	2020 LKR
Income that will not be re-classified to profit or loss			
Revaluation surplus of capital asset		–	(6,401,709)
Re-measurement 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 re-classified 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 March 31,	%	2021 LKR	%	2020 LKR
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 recognised directly in equity

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

17.5 Tax losses carried forward

For the year ended March 31,	2021 LKR	2020 LKR
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 March 31,	2021	2020
Profit attributable to ordinary shareholders for basic earnings per share (LKR)	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 (LKR)	0.35	0.48

18.1 Weighted average number of ordinary shares in issue

For the year ended March 31,	2021	2020
Issued ordinary shares as at April 01,	151,469,986	138,978,909
Effect of shares issued on October 02, 2020 (70,323,488 ordinary shares)	34,872,743	–
Effect of shares issued on December 26, 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 March 31, 2021	At amortised cost	Fair value through OCI	Other financial liabilities at amortised cost	Total
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 March 31, 2020	At amortised cost	Fair value through OCI	Other financial liabilities at amortised cost	Total
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

20. Cash and cash equivalents

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	Notes	2021 LKR	2020 LKR
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

	March 31, 2021			March 31, 2020		
	Number of shares	Cost LKR	Carrying value/fair value LKR	Number of shares	Cost LKR	Carrying value/fair value LKR
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.

22. Financial investments at amortised cost

As at March 31,	2021 LKR	2020 LKR
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

23. Loans and advances

As at March 31,	Notes	2021 LKR	2020 LKR
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

As at March 31,	Notes	2021 LKR	2020 LKR
Collective impairment			
As at April 01,		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 March 31,		956,605,747	1,061,840,749

23.1.1 Analysis of allowance for impairment losses by product

As at March 31,	Notes	2021 LKR	2020 LKR
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

As at March 31,	Notes	2021 LKR	2020 LKR
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

As at March 31,	Notes	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	Notes	2021 LKR	2020 LKR
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

23.2.2 (a) Gross hire purchase receivable within one year

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
Total hire purchase rentals receivable	–	311,198
Less: Unearned income	–	–
	–	311,198

23.2.3 Mortgage loans

As at March 31,	Notes	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	Notes	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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

As at March 31,	2021 LKR	2020 LKR
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.

24. Investment properties

As at March 31,	2021 LKR
Cost/Valuation	
Additions during the year	32,861,634
Removal during the year	–
Fair value losses	(7,711,634)
As at March 31,	25,150,000

24.1 Details of investment properties

Location	Date of valuation	Extent (Perches)	Price per perch LKR	Fair value of the investment property	Carrying value of investment property before fair valuation	Fair value gain/(losses) recognised in income statement
Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	April 11, 2021	18.70	310,000	5,800,000	3,865,382	1,934,618
Lot 01, plan No: 1366, Boyagama, Pilimathalawa	April 11, 2021	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 categorised 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	Lot 04, plan No: 1652, Bulumulla, Kiribathkumbura	Market comparable method – price per perch (Note – 24.2.1)	LKR 310,000 p.p.	The estimated fair value would increase/(decrease) if price per perch would higher/(lesser)
B. Sc. (E.M.V.) Sp. (Sri Lanka) A.I.V. (Sri Lanka) – R/No : A 359	Lot 01, plan No: 1366, Boyagama, Pilimathalawa		LKR 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.

25. Property, plant and equipment

For the year ended March 31, 2021	Land LKR	Buildings LKR	Furniture and fittings LKR	Office equipment LKR
At cost/valuation				
Balance as at April 01,	83,730,000	112,220,000	8,323,796	11,739,656
Additions	–	–	1,690,789	1,969,307
Disposals	–	–	–	–
Balance as at March 31,	83,730,000	112,220,000	10,014,585	13,708,963
Depreciation				
Balance as at April 01,	–	–	5,732,034	7,101,469
Charge for the year	–	2,609,767	942,872	1,396,501
Disposals	–	–	–	–
Balance as at March 31,	–	2,609,767	6,674,906	8,497,970
Building work-in-progress (Note 25.12)				
Carrying value as at March 31, 2021	83,730,000	109,610,233	3,339,679	5,210,993

For the year ended March 31, 2020	Land LKR	Buildings LKR	Furniture and fittings LKR	Office equipment LKR
At cost/ valuation				
Balance as at April 01,	76,062,500	103,800,000	7,636,053	10,516,715
Additions	–	–	876,341	1,274,291
Revaluation surplus	7,667,500	15,195,747	–	–
Disposals	–	–	(188,598)	(51,350)
Transfers	–	(6,775,747)	–	–
Balance as at March 31,	83,730,000	112,220,000	8,323,796	11,739,656
Depreciation				
Balance as at April 01,	–	4,513,044	5,121,560	5,946,485
Charge for the year	–	2,262,703	764,060	1,206,334
Disposals	–	–	(153,586)	(51,350)
Transfers	–	(6,775,747)	–	–
Balance as at March 31,	–	–	5,732,034	7,101,469
Building work-in-progress (Note 25.12)				
Carrying value as at March 31, 2020	83,730,000	112,220,000	2,591,762	4,638,187

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

	Computers and accessories LKR	Sign boards LKR	Telephone system LKR	Electrical equipment LKR	Motor vehicles LKR	Fixtures and fittings LKR	Total 2021 LKR
	34,857,064	2,016,278	837,387	3,515,615	21,530,501	3,564,399	282,334,696
	11,540,129	1,732,303	397,283	3,565,998	237,372	3,453,375	24,586,556
	(2,180,262)	–	–	–	–	–	(2,180,262)
	44,216,931	3,748,581	1,234,670	7,081,613	21,767,873	7,017,774	304,740,990
	17,862,344	700,719	566,631	2,096,377	12,981,270	1,137,364	48,178,208
	6,136,845	307,600	179,377	584,215	1,856,490	629,030	14,642,697
	(2,151,151)	–	–	–	–	–	(2,151,151)
	21,848,038	1,008,319	746,008	2,680,592	14,837,760	1,766,394	60,669,754
							4,869,889
	22,368,893	2,740,262	488,662	4,401,021	6,930,113	5,251,380	248,941,125

	Computers and accessories LKR	Sign boards LKR	Telephone system LKR	Electrical equipment LKR	Motor vehicles LKR	Fixtures and fittings LKR	Total 2020 LKR
	22,396,371	1,796,316	800,104	3,009,080	12,535,501	2,598,268	241,150,908
	12,702,430	227,000	223,545	506,535	8,995,000	966,131	25,771,273
	–	–	–	–	–	–	22,863,247
	(241,737)	(7,038)	(186,262)	–	–	–	(674,985)
	–	–	–	–	–	–	(6,775,747)
	34,857,064	2,016,278	837,387	3,515,615	21,530,501	3,564,399	282,334,696
	13,700,765	468,019	652,520	1,709,930	11,675,991	779,981	44,568,295
	4,355,027	236,689	91,413	386,447	1,305,279	357,383	10,965,335
	(193,448)	(3,989)	(177,302)	–	–	–	(579,675)
	–	–	–	–	–	–	(6,775,747)
	17,862,344	700,719	566,631	2,096,377	12,981,270	1,137,364	48,178,208
							454,815
	16,994,720	1,315,559	270,756	1,419,238	8,549,231	2,427,035	234,611,303

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 LKR 29,001,630/- (2020 – LKR 25,771,273/-).

Also, there is a cash payment amounting to LKR 29,001,630/- (2020 – LKR 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 March 31, 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: LKR 770,440/-)

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

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 in every three years.

The fair value measurement of all of the land and buildings has been categorised 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: March 30, 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 Recognised on	
					Land LKR	Buildings LKR	Land LKR	Buildings LKR	Land LKR	Buildings LKR
K.M.U Dissanayake A.I.V. Incorporated Valuer	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 LKR 5,500,000/- • Price per sq.foot LKR 9,000/-	59,662,500	73,656,176	65,630,000	85,320,000	5,967,500	11,663,824
Rambukpitiya, Sri Lanka	No. 182, Katugastota Road, Kandy.	3.29		• Useful life period of the Building is 27 years • Price per perch LKR 5,500,000/- • Price per sq.foot LKR 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 March 31,	2021			2020		
	Cost	Accumulated depreciation LKR	Carrying value LKR	Cost	Accumulated depreciation LKR	Carrying value LKR
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 March 31, 2021 especially 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 assets 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 March 31,	2021 LKR	2020 LKR
As at April 01,	454,815	–
Additions during the year	4,415,074	454,815
As at March 31,	4,869,889	454,815

26. Intangible assets

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

27. Right-of-use assets

As at March 31,	2021 LKR	2020 LKR
As at April 01,	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)	–
Amortisation for the year	(12,085,391)	(7,974,422)
As at March 31,	40,590,614	16,460,800

28. Other assets

As at March 31,	Notes	2021 LKR	2020 LKR
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 and 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

As at March 31,	2021 LKR	2020 LKR
Debtors	(1,783,178)	(1,783,178)
Insurance premium receivable	(2,711,397)	–
	(4,494,575)	(1,783,178)

29. Deposit liabilities

As at March 31,	2021 LKR	2020 LKR
Savings deposits	17,080,296	225,560
Fixed deposits	4,821,898,876	222,433,012
	4,838,979,172	222,658,572

30. Due to banks

As at March 31,	Notes	2021 LKR	2020 LKR
Bank overdrafts		77,135,388	61,642,486
Securitised borrowings	30.1	610,607,345	2,597,697,183
Unsecuritised borrowings	30.2	723,380,947	2,426,072,529
Total		1,411,123,680	5,085,412,198

30.1 Securitised borrowings

For the year ended March 31, 2021	As at April 01, 2020 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at March 31, 2021 LKR
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 March 31, 2020	As at April 01, 2019 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at March 31, 2020 LKR
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 Unsecuritised borrowings

For the year ended March 31, 2021	As at April 01, 2020 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at March 31, 2021 LKR
Direct bank borrowings					
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 March 31, 2020	As at April 01, 2019 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments during the year LKR	As at March 31, 2020 LKR
Direct bank borrowings					
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

30.3 Institutional borrowings

For the year ended March 31, 2021

Institution	As at April 01, 2020 LKR	Loans obtained during the year LKR	Interest expense for the year LKR	Repayments Capital LKR	Repayments Interest LKR	As at March 31, 2021 LKR	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 LKR	2020 LKR
Lease and loan receivable	Commercial Bank of Ceylon PLC – loans and bank overdraft	3,964,766,458	3,132,091,215
Property at No. 182 & 187, Katugastota Road, Kandy	Commercial Bank of Ceylon PLC – loan and bank overdraft	75,000,000	75,000,000
		4,039,766,458	3,207,091,215

31. Employee benefits

31.1 Defined benefit plans

For the year ended March 31,	Notes	2021 LKR	2020 LKR
Movement in the present value of the defined benefit obligations			
As at April 01,		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	31.1.1	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 March 31,		11,430,854	8,777,241

31.1.1 Expense recognised in profit or loss

For the year ended March 31,	2021 LKR	2020 LKR
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 recognised for defined benefit obligation in other comprehensive income

For the year ended March 31,	2021 LKR	2020 LKR
Cumulative losses as at April 01,	2,041,924	771,070
Actuarial losses recognised during the year	838,044	1,270,854
Cumulative losses as at March 31,	2,879,968	2,041,924

31.1.3 Actuarial assumptions

For the year ended March 31,		2021 %	2020 %
Discount rate (p.a.)		8.0	10.0
Salary increment rate (p.a.)		10	10
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 March 31, 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.

31.1.4 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 March 31, 2021		As at March 31, 2020	
	Increase LKR	Decrease LKR	Increase LKR	Decrease LKR
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)

32. Lease liabilities

As at March 31,	2021 LKR	2020 LKR
As at April 01,	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 March 31,	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

As at March 31,	2021 LKR	2020 LKR
Interest on lease liabilities	3,926,960	2,150,953
Right-of-use asset amortisation	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

As at March 31,	2021 LKR	2020 LKR
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:

As at March 31,	2021 LKR	2020 LKR
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

33. Deferred tax assets

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

33.1 Summary of net deferred tax

	As at March 31, 2021		As at March 31, 2020	
	Temporary difference LKR	Tax effect LKR	Temporary difference LKR	Tax effect LKR
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
Amortisation of right-of-use assets	43,830,248	10,519,260	17,680,960	4,950,669
Unrealised 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 March 31,	(817,095,802)	(195,023,364)	(525,628,953)	(146,687,202)

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

	Recognised in Profit or Loss		Recognised in Other Comprehensive Income		Statement of Financial Position	
	2021 LKR	2020 LKR	2021 LKR	2020 LKR	2021 LKR	2020 LKR
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
Amortisation 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
Amortisation of right-of-use assets	(5,568,591)	(4,950,669)	–	–	10,519,260	4,950,669
Unrealised 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 March 31,					(195,023,364)	(146,687,202)

33.3 As per the Inland Revenue Act No. 24 of 2017, which is effective from April 01, 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 April 01, 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 April 01, 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 March 31, 2021 which were entered into prior to April 01, 2018.

34. Current tax liabilities

As at March 31,	2021 LKR	2020 LKR
As at April 01,	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 March 31,	101,505,099	34,154,410

35. Other liabilities

For the year ended March 31,	2021 LKR	2020 LKR
Accrued expenses	69,880,687	51,977,176
Stamp duty payable	1,195,120	653,980
Total	71,075,807	52,631,156

36. Stated capital

	2021		2020	
	Number of shares	Value of shares LKR	Number of shares	Value of shares LKR
Fully paid ordinary shares				
As at April 01,	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 March 31,	221,793,474	3,254,999,963	151,469,986	2,254,999,964

36.1 Shareholders as at March 31,

	2021 Holding %	2021 Number of shares	2020 Number 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 LKR 999,999,999/- with the issue of 70,323,488 new ordinary shares at Rs.14.22 each, during the year.

37. Accumulated losses

As at March 31,	Notes	2021 LKR	2020 LKR
As at April 01,		(229,779,653)	(294,391,823)
Profit for the year		64,490,579	68,975,984
Actuarial losses on defined benefit plans, after tax		(699,029)	(915,015)
Transferred to statutory reserve fund	38.1	(3,224,529)	(3,448,799)
As at March 31,		(169,212,632)	(229,779,653)

38. Other reserves

As at March 31,	Notes	2021 LKR	2020 LKR
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

	2021 LKR	2020 LKR
As at April 01,	26,462,750	23,013,951
Transferred from retained earnings	3,224,529	3,448,799
As at March 31,	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.

38.2 Revaluation reserve

As at March 31,	2021 LKR	2020 LKR
As at April 01,	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 March 31,	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 de-recognised 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.

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:

March 31, 2021	Classification	Carrying amount LKR	Fair value Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
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	Amortised 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	Amortised cost	4,838,979,172	–	–	–	–
Due to banks		1,411,123,680	–	–	–	–
Lease liabilities		43,830,248	–	–	–	–
		6,293,933,100				

March 31, 2020	Classification	Carrying amount LKR	Fair value Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
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	Amortised 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	Amortised cost	222,658,572	–	–	–	–
Due to banks		5,085,412,198	–	–	–	–
Lease liabilities		17,680,960	–	–	–	–
		5,325,751,730				

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 categorised 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 LKR
Balance as at April 01, 2019	1,869,800
– Net change in fair value (unrealised)	111,582
Balance as at March 31, 2020	1,981,382
Balance as at April 01, 2020	1,981,382
– Net change in fair value (unrealised)	116,884
Balance as at March 31, 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 March 31, 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 LKR	After 12 Months LKR	Total as at March 31, 2021 LKR	Within 12 Months LKR	After 12 Months LKR	Total as at March 31, 2020 LKR
Assets						
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 – Amortised 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%

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 September 01, 2014, Commercial Bank of Ceylon PLC fully acquired the CBC Finance Ltd. (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 Ltd. from September 01, 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

For the year ended March 31,	2021 LKR	2020 LKR
Short-term employee benefits	6,189,000	5,796,000

41.2.2 Transactions with KMP

41.2.2.1 Statement of financial position

For the year ended March 31,	2021 LKR	2020 LKR
Deposit Liabilities	41,789,692	–

41.2.2.2 Statement of profit or loss and other comprehensive income

For the year ended March 31,	2021 LKR	2020 LKR
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

For the year ended March 31,	2021 LKR	2020 LKR
Deposit Liabilities	6,127,115	–

41.2.3.2 Statement of profit or loss and other comprehensive income

For the year ended March 31,	2021 LKR	2020 LKR
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		Balance as at March 31,	
		2021 LKR	2020 LKR	2021 LKR	2020 LKR
Commercial Bank of Ceylon PLC (Parent from September 01, 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 LKR 3.3 Bn., LKR 1.5 Bn., LKR 0.6 Bn., and LKR 0.5 Bn. respectively.

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 and 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 and 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 and 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.

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 categorised 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:
  - o initial approval, regular validation and back-testing of the models used;
  - o determining and monitoring significant increase in credit risk; and
  - o 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.

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 March 31,	2021				2020
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	Total LKR
(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

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 March 31,	2021 LKR	2020 LKR	2021 LKR	2020 LKR	
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 – amortised 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 March 31,	2021 LKR	2020 LKR
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

Credit-impaired loans

For the year ended March 31,	2021 LKR	2020 LKR
LTV Ratio		
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.

For the year ended March 31,	2021 LKR	2020 LKR
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 macroeconomics factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macroeconomic 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.

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.

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 and 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.

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 March 31,	2021				2020
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	Total LKR
Balance as at April 01,	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 re-measurement 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 de-recognised	(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 March 31,	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 LKR 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 macroeconomic indicators on ECL amounting to LKR 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 LKR 3,939,256,069/-. Net modification loss of LKR 38,296,401/- recognised for such assets at the time of modification.

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:

March 31, 2021	Cash and bank balances LKR	Financial investments – FVOCI LKR	Financial investments – Amortised cost LKR	Loans and advances LKR	Other assets LKR	Total financial assets LKR
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

March 31, 2020	Cash and bank balances LKR	Financial investments – FVOCI LKR	Financial investments – Amortised cost LKR	Loans and advances LKR	Other assets LKR	Total financial assets LKR
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:

For the year ended March 31,	2021 LKR	2020 LKR
Province		
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

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 March 31, 2021	On demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Financial Assets						
Cash and cash equivalents	324,309,571	–	–	–	–	324,309,571
Financial investments – FVOCI	–	509,901,120	–	–	2,098,266	511,999,386
Financial investments – Amortised 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 March 31, 2020	On demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Financial Assets						
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 – Amortised 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

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:

For the year ended March 31,	2021 LKR	2020 LKR
Financial assets		
Cash and cash equivalents	324,309,571	56,383,446
Financial investments – FVOCI	509,901,120	242,874,209
Financial investments – amortised 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:

For the year ended March 31,	2021 LKR	2020 LKR
Financial assets		
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 LKR	Fair value LKR	Carrying value LKR	Fair value LKR
Cash and cash equivalents	324,309,571	324,309,571	56,383,446	56,383,446
Unencumbered debt securities issued by sovereigns				
Financial investments – amortised 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.

March 31, 2021	Encumbered		Unencumbered		
	Pledged as collateral LKR	Other * LKR	Available as collateral LKR	Other ** LKR	Total LKR
Cash and cash equivalents	–	–	324,309,571	–	324,309,571
Financial investments – FVOCI	–	–	509,901,120	2,098,266	511,999,386
Financial investments – Amortised 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

March 31, 2020	Encumbered		Unencumbered		
	Pledged as collateral LKR	Other * LKR	Available as collateral LKR	Other ** LKR	Total LKR
Cash and cash equivalents	–	–	56,383,446	–	56,383,446
Financial investments – FVOCI	–	–	242,874,209	1,981,382	244,855,591
Financial investments – amortised 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:

- Re-pricing risk arising from a fixed rate borrowing portfolio where re-pricing 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	
	Increase in 100 bp LKR	Decrease in 100 bp LKR	Increase in 100 bp LKR	Decrease in 100 bp LKR
Net Interest Income				
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)

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 categorised by the earlier of contractual repricing or maturity dates:

As at March 31, 2021	Up to 03 months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 Years LKR	Non-interest bearing LKR	Total as at March 31, 2021 LKR
Financial assets							
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 – amortised 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 March 31, 2020	Up to 03 months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 Years LKR	Non-interest bearing LKR	Total as at March 31, 2020 LKR
Financial assets							
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 – amortised 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%

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 maximise 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 July 01, 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%

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	
	2021 LKR	2020 LKR	2021 LKR	2020 LKR
External Revenue				
Interest	198,684,906	353,838,146	481,091,428	431,690,924
Fees and commissions	33,844,527	33,561,922	7,463,292	12,478,270
Dividends	–	–	–	–
Other income	–	–	–	–
Total external revenue	232,529,433	387,400,068	488,554,720	444,169,194
Inter-segment revenue	–	–	–	–
Total revenue before impairment	232,529,433	387,400,068	488,554,720	444,169,194
Impairment (charges)/reversal	17,531,886	(71,645,381)	(238,639,218)	11,194,590
Net revenue	250,061,319	315,754,687	249,915,502	455,363,784
Profit before tax				
Income tax expenses				
Profit after tax				
Segment assets	2,293,032,299	2,495,789,755	4,479,988,184	1,628,014,937
Segment liabilities	1,423,858,008	1,757,695,247	2,991,589,244	1,146,552,554

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

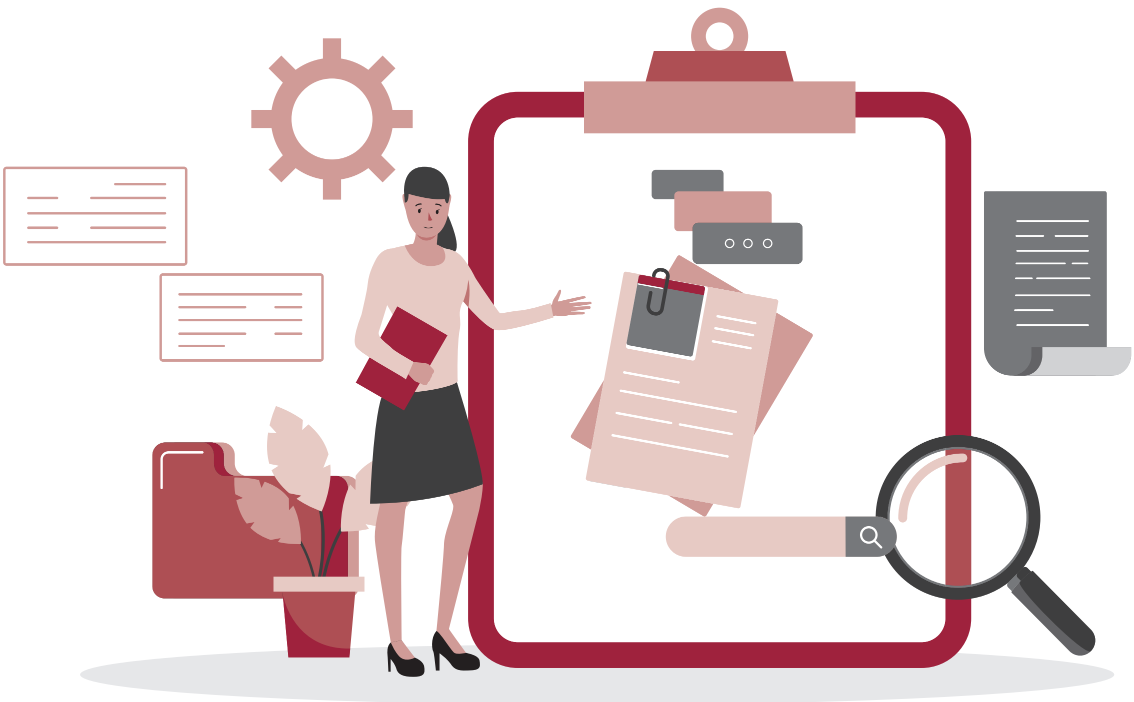
Comparative information has been reclassified where necessary to conform to current year's presentation.

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.

Other loans		Investments and others		Total	
2021 LKR	2020 LKR	2021 LKR	2020 LKR	2021 LKR	2020 LKR
253,148,678	312,110,040	30,079,064	33,466,632	963,004,076	1,131,105,742
19,871,231	14,009,432	411,005	–	61,590,055	60,049,624
–	–	320,000	280,000	320,000	280,000
–	–	32,995,321	19,313,963	32,995,321	19,313,963
273,019,909	326,119,472	63,805,390	53,060,595	1,057,909,452	1,210,749,329
–	–	–	–	–	–
273,019,909	326,119,472	63,805,390	53,060,595	1,057,909,452	1,210,749,329
27,339,108	(215,910,009)	(2,711,397)	–	(196,479,621)	(276,360,800)
300,359,017	110,209,463	61,093,993	53,060,595	861,429,831	934,388,529
				129,442,883	128,044,747
				(64,952,304)	(59,068,763)
				64,490,579	68,975,984
2,503,559,819	1,871,315,649	585,087,773	410,485,609	9,700,902,787	7,575,523,350
1,671,795,174	1,317,900,522	390,702,434	289,090,298	6,477,944,860	5,421,314,537

SUPPLEMENTARY INFORMATION



BRANCH NETWORK

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SEVEN YEAR SUMMARY

Results for the year	2014/15 (LKR Mn.)	2015/16 (LKR Mn.)	2016/17 (LKR Mn.)	2017/18 (LKR Mn.)	2018/19 (LKR Mn.)	2019/20 (LKR Mn.)	**2020/21 (LKR Mn.)**
Income	400.04	428.06	811.29	981.65	871.80	1,211.00	**1,058.00**
Interest income	345.93	388.57	748.51	911.21	816.79	1,131.11	**963.00**
Interest expenses	124.57	172.79	438.87	572.63	470.46	572.37	**480.98**
Net interest income	221.36	215.79	309.64	338.58	346.33	558.74	**482.02**
Non-interest income	54.11	39.48	62.78	70.44	55.01	78.30	**93.56**
Total operating income	275.47	255.27	372.42	409.02	401.33	637.04	**575.59**
Personal cost	59.45	58.82	72.11	73.69	74.83	92.16	**104.42**
Administrative and other cost	55.17	71.18	60.44	76.68	75.74	69.99	**82.34**
Depreciation	8.78	9.94	10.29	11.34	10.34	20.72	**29.80**
Total operational expenses	123.41	139.94	142.84	161.71	160.91	182.86	**216.57**
Provision for bad debts/impairment	131.07	190.41	17.45	403.07	205.71	276.36	**196.48**
VAT on financial services	2.47	–	28.06	–	14.63	49.77	**33.10**
Profit/(Loss) before tax	18.52	(75.08)	184.06	(155.76)	20.08	128.04	**129.44**
Taxation	16.46	8.68	56.62	(33.85)	0.38	59.07	**64.95**
Profit/(Loss) after tax	2.06	(83.76)	127.45	(121.91)	19.70	68.98	**64.49**

Position as at March 31,	2014/15 (LKR Mn.)	2015/16 (LKR Mn.)	2016/17 (LKR Mn.)	2017/18 (LKR Mn.)	2018/19 (LKR Mn.)	2019/20 (LKR Mn.)	**2020/21 (LKR Mn.)**
Cash and cash equivalents	11.41	4.56	19.29	227.00	60.92	56.38	**324.31**
Investments	23.40	96.57	154.02	275.92	332.08	274.84	**739.31**
Loan and advances (Net)	1,761.22	2,989.21	5,431.04	4,204.78	5,626.46	6,810.62	**8,070.14**
PPE and intangible assets	210.29	207.03	212.20	206.16	207.03	246.23	**280.14**
Other assets	11.68	22.97	9.62	18.04	179.11	187.45	**287.00**
Total assets	2,018.00	3,320.34	5,826.17	4,931.89	6,405.61	7,575.52	**9,700.90**
Deposit liability	–	–	–	–	–	222.66	**4,838.98**
Due to banks	1,064.98	2,464.66	4,863.28	3,668.03	4,426.03	5,085.41	**1,411.12**
Other liabilities	401.40	184.07	151.03	100.11	85.21	113.24	**227.84**
Total liabilities	1,466.38	2,648.73	5,014.31	3,768.14	4,511.24	5,421.31	**6,477.94**
Total equity	551.63	671.61	811.87	1,163.76	1,894.37	2,154.21	**3,222.96**
Total liabilities and equity	2,018.00	3,320.34	5,826.17	4,931.89	6,405.61	7,575.52	**9,700.90**

Ratio	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Regulatory capital adequacy							
Core capital (Tier 1 capital) (LKR Mn.)	487.81	603.79	736.77	1,099.13	1,661.32	2,071.83	**3,135.62**
Total capital base (LKR Mn.)	487.81	603.79	736.77	1,099.13	1,661.32	2,071.83	**3,135.62**
Core capital adequacy ratio; core capital as percentage of risk weighted assets (%)	24.50	18.77	13.03	24.48	23.34	21.82	**26.57**
Total capital adequacy ratio; total capital as percentage of risk weighted assets (%)	24.50	18.77	13.03	24.48	23.34	21.82	**26.57**
Capital funds to total deposit liabilities ratio (%)	N/A	N/A	N/A	N/A	N/A	967.49	**66.60**
Assets quality (Quality of loan portfolio)							
Gross non-performing accommodation ratio (%)	23.59	13.13	7.72	26.86	22.33	22.56	**14.08**
Net non-performing accommodation ratio (%)	6.30	0.00	0.00	7.46	3.71	9.07	**3.48**
Profitability (%)							
Return on assets (Before tax) (%)	0.10	-3.14	4.01	-2.94	0.35	1.83	**1.50**
Return on equity (After tax) (%)	0.39	-13.69	17.96	-13.41	1.29	3.41	**2.40**
Earning per share (LKR)	0.10	(3.88)	4.15	(3.36)	0.24	0.48	**0.35**
Net Assets per Share (LKR)	25.54	21.86	26.42	21.81	13.63	14.22	**14.53**
Memorandum Information							
Number of employees	98	102	114	111	120	131	**145**
Number of branches	5	5	5	5	4	10	**10**
Number of service centres	6	6	6	6	6	–	**–**
Fitch rating	N/A	N/A	N/A	N/A	A+(lka)/ Stable	A+(lka)/ Negative	**A(lka)/ Stable**

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of CBC Finance Ltd., will be held at the Boardroom of CBC Finance Ltd., No. 200/01, Dr N M Perera Mawatha, Colombo 08 on Thursday, September 30, 2021, immediately after the conclusion of the Meeting of the Board of Directors which is scheduled to be held at 10.30am, for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Audited Financial Statements of the Company for the year ended March 31, 2021 together with the Report of the Auditors thereon.
2. To re-appoint the retiring Auditors Messrs KPMG, Chartered Accountants, to hold office as the Company's External Auditors for the financial year ending March 31, 2022.

By Order of the Board

H D U O Gunasekara
Company Secretary

Colombo
September 22, 2021

Note:

(1) A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend in his/her stead and to vote on a poll. A Form of Proxy accompanies this Notice.

(2) A proxy holder need not be a shareholder of the Company.

(3) A proxy holder (who is not a shareholder) may vote on a show of hands.

(4) The completed Form of Proxy must be deposited at the Company's registered office at No. 187, Katugastota Road, Kandy, not less than 48 hours before the time fixed for the meeting.

FORM OF PROXY

I/We .... of ……………………………………………. being the Shareholder of

CBC Finance Ltd., hereby appoint .... (NIC No. ....)

of .... whom failing:

Mr Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Dr (Ms) Janaki Padma Kuruppu	whom failing
Mr Senanayakege Raja Pushpakumara	whom failing
Mr Subasinghe Mudiyanselage Sarath Chandralal Jayasuriya	whom failing
Mr Dhanapala Mudiyanselage Dimuthu Sanjeewa Senarath Bandara	whom failing
Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake	whom failing
Mr Lasantha Hasrath Munasinghe	

as my/our proxy holder to represent me/us and to speak at the meeting and to vote on a show of hands or a poll on my/our behalf as indicated below at the ANNUAL GENERAL MEETING of the Company to be held on Thursday, September 30, 2021 and at any adjournment thereof and at every poll which may be taken in consequence thereof (Please indicate your preference with an "X" in the relevant box).

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the statement of Compliance and the Audited Financial Statements of the Company for the year ended March 31, 2021 together with the Report of the Auditors thereon.		
2. To re-appoint the retiring Auditors, Messrs KPMG, Chartered Accountants, to hold office as the Company's External Auditors for the financial year ending March 31, 2022.		

Signed on this...day of.................................Two Thousand and Twenty-One.

....

Signature of Shareholder

Notes:

1. Please indicate with an "X" in the space provided how your Proxy is to vote. If there is in the view of the proxy holder doubt (by reason of how the instructions contained in the Proxy have been completed) as to how the proxy holder should vote, the proxy holder shall vote as he thinks fit.
2. A proxy holder need not be a member of the Company.
3. Instructions as to completion appear on the reverse hereof.

INSTRUCTIONS AS TO COMPLETION

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company at No. 187, Katugastota Road, Kandy, not less than 48 hours before the time appointed for the holding of the meeting.

2. The instrument appointing a proxy shall be signed by the appointor or by his Attorney in the case of an individual. In the case of a company/corporation, the Proxy Form must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.

3. If the Form of Proxy is signed under a Power of Attorney, the original Power of Attorney or a notarially certified copy thereof should also accompany the completed Form of Proxy if it has not already been registered with the Company.

4. The full name and address of the proxy holder and the shareholder appointing the proxy holder should be entered legibly in the Form of Proxy.

CORPORATE INFORMATION

Name of Company

CBC Finance Ltd.

Company registration number

PB276

Legal form

A limited liability company incorporated in Sri Lanka on February 18, 1987 under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.

CBC Finance Limited is licensed under the Finance Business Act No. 42 of 2011 and registered under the Finance Leasing Act No. 56 of 2000.

Fully owned subsidiary of the "Commercial Bank of Ceylon PLC".

Credit rating

"A(lka)/Stable" by Fitch Ratings Lanka Limited

Registered office

No. 187, Katugastota Road, Kandy.

Head office

No. 187, Katugastota Road, Kandy.

Contact details

Telephone (General)	: +94 81 221 3498
Fax	: +94 81 222 4521
Email	: info@cbcfinance.lk
Web	: www.cbcfinance.lk

Financial year

March 31

Tax Payer Identification Number (TIN)

114032611

Auditors

Messrs KPMG (Chartered Accountants),
No.32A, Sir Mohamed Macan Markar Mawatha, P. O. Box 186, Colombo 03,
Sri Lanka.

Tax consultants

Messrs Ernst & Young
(Chartered Accountants),
No.839/2, Peradeniya Road, Kandy,
Sri Lanka.

Board of Directors

Mr K G D D Dheerasinghe – Chairman
(Non-Independent/Non-Executive Director)

Dr (Ms) J P Kuruppu
(Independent/Non-Executive Senior Director)

Mr Raja Senanayake
(Non-Independent/Non-Executive Director)

Mr S M S C Jayasuriya
(Independent/Non-Executive Director)

Mr D M D S S Bandara
(Independent/Non-Executive Director)

Mr D M U N Dissanayake
(Managing Director/Chief Executive Officer)

Mr L H Munasinghe
(Non-Independent/Non-Executive Director)

Board subcommittees

Board Credit Committee
Mr K G D D Dheerasinghe – Chairman
Mr S M S C Jayasuriya
Mr D M D S S Bandara

Board Integrated Risk Management Committee
Mr K G D D Dheerasinghe – Chairman
Mr Raja Senanayake
Mr S M S C Jayasuriya
Mr D M D S S Bandara

Board Audit Committee
Mr Raja Senanayake – Chairman
Mr S M S C Jayasuriya
Mr D M D S S Bandara

Board Nomination Committee
Mr K G D D Dheerasinghe – Chairman
Mr Raja Senanayake

Board Human Resources and Remuneration Committee
Dr (Ms) J P Kuruppu – Chairperson
Mr D M D S S Bandara
Mr L H Munasinghe

Company Secretary

Mrs H D U O Gunasekara

Compliance Officer

Mr K W M S B Kamathewatte

Bankers

Commercial Bank of Ceylon PLC
Bank of Ceylon
People's Bank
Sampath Bank PLC
Seylan Bank PLC
DFCC Bank PLC

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