CBC Finance Ltd.

Annual Report

2021

Growth Insight

CBC FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

Growth
Insight

Both examples of the "word play" we've used are valid in the case of CBC Finance. Whichever way you look at it, the Company has leveraged its insight on growth to keep growth always in its sights. This year, we've grown our asset base, and plans are afoot to substantially grow our reach. Through an exploration of the acquisition/merger pathway, we're looking to grow even further in the coming years.

CONTENTS

This Report covers the performance of CBC Finance Ltd. during the nine months from April 01, 2021 to December 31, 2021. We aim to provide a balanced review of our performance by communicating relevant material information in a concise but comprehensive manner. This Report also contains information about our strategy under which we manage our business, strategic corporate sustainability considerations, and steps taken to address and meet the needs of our stakeholders. It also includes our risk management, governance practices and our performance inclusive of prospects with regard to the surrounding economic, social, and environmental context for the period under review.

REPORT BOUNDARY

The Report covers the operations of CBC Finance Ltd. (CBCF), also referred to as the "Company", with disclosure encompassing both financial and non-financial aspects in the context of the Company. This Report covers 9 months from April 01, 2021 to December 31, 2021, in line with a change to calendar-year reporting, made in concurrence with the Department of Inland Revenue, to match the reporting of its parent company, Commercial Bank of Ceylon PLC.

While financial performance and related disclosure follow the stipulated 9-month period (unless otherwise mentioned), some non-financial data will correspond to the calendar year (2021) and be clearly labelled as such. These steps are taken to improve consistency and comparability in reporting going forward.

Where relevant, when making forward-looking statements, and considering potential implications for the Company's future performance, the report refers to, considers, and is driven by the operating environment as of publishing the Report.

COMPLIANCE

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

REPORTING FRAMEWORK

Although this is not an integrated report, it draws on the concepts and principles mentioned in the following guides to communicate the financial and non-financial aspects and value of the Company, and the material factors that impact the performance of the Company:

- The International Integrated Reporting Framework https://www.integratedreporting.org/
- 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

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

About Us

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

Initially incorporated as Indra Finance Ltd. in 1987, a fully owned subsidiary of Indra Traders (Pvt) Ltd., the Company focused primarily on the growing vehicle leasing market. Commercial Bank acquired Indra Finance Ltd. in 2014 as per the then Financial Sector Consolidation Plan.

The Company was renamed Serendib Finance Ltd. in 2015 and then rebranded as CBC Finance Ltd. in December 2020 to reflect an identity closer to that of our parent company. The alignment has allowed CBC Finance to benefit from Commercial Bank's expertise, systems, and processes.

Our portfolio covers a range of financial products that cater to a diverse clientele. As part of our growth strategy, we will continue to expand our product offering, branch network and client base in the coming years. As a responsible financial institution, we hope to keep adding value not just to our parent company but to the financial system and economy which are cornerstones in the development of our country.

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

MORTGAGE LOANS

BUSINESS LOANS

LEASING

Ownership Structure

THE COMMERCIAL BANK OF CEYLON PLC

100%

CBC FINANCE LTD.

Our Journey

2010

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

2008

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

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.

2002

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

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.

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

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

Mr Dharma Dheerasinghe, the 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.

2021

The Company's Total Assets under management exceeded LKR 10 Bn. while recently commenced deposit-taking provided the Company a strong deposit base of over LKR 5 Bn.

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."

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.

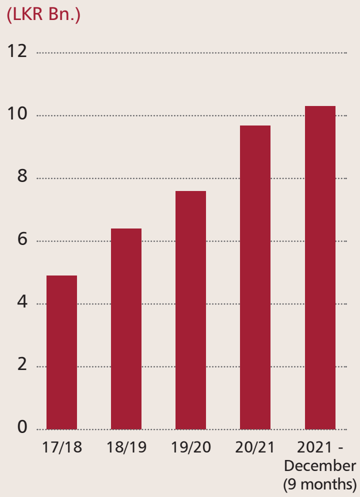
7 YEAR IN REVIEW

Highlights

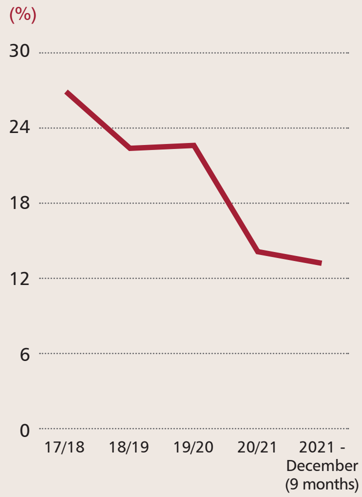
	9 months ended December 31, 2021* LKR Mn.	2020/21 LKR Mn.	Variance %
→ Financial performance			
Income	**944.67**	1,057.91	(10.70)
Net interest income	**532.89**	482.02	10.55
Net operating income	**298.70**	379.11	(21.21)
Profit before tax	**88.11**	129.44	(31.93)
Profit after tax	**33.24**	64.49	(48.46)
→ Position as at the year-end			
Loans and receivables	**8,712.64**	8,070.14	7.96
Total assets	**10,313.05**	9,700.90	6.31
Total equity	**3,255.01**	3,222.96	0.99
Deposit liability	**5,068.85**	4,838.98	4.75
Due to banks	**1,769.50**	1,411.12	25.40
→ Profitability ratios			
Net interest margin (%)	**6.23**	6.21	0.32
Return on assets (PBT) (%)	**0.88**	1.50	(41.33)
Return on equity (PAT) (%)	**1.03**	2.40	(57.08)
Cost to income ratio (%)	**30.49**	38.34	(20.47)
→ Capital adequacy and liquidity			
Capital adequacy ratio (%)	**25.49**	26.57	(4.06)
Liquid assets ratio (Times)	**1.81**	2.63	(31.18)
Advances to deposits ratio (%)	**171.89**	166.75	3.08
→ Other ratios			
NPA ratio (Gross) (%)	**13.14**	14.08	(6.68)
NPA ratio (Net) (%)	**1.30**	3.48	(62.64)
Provision cover ratio (%)	**90.14**	75.30	19.71
→ Manufactured capital			
Number of branches	**10**	10	–
→ Human capital			
Total workforce	**145**	145	–

** Due to the contracted reporting period, as a result of changing the financial year end to December 31 from March 31, performance and results are not readily comparable with those of the previous year.*

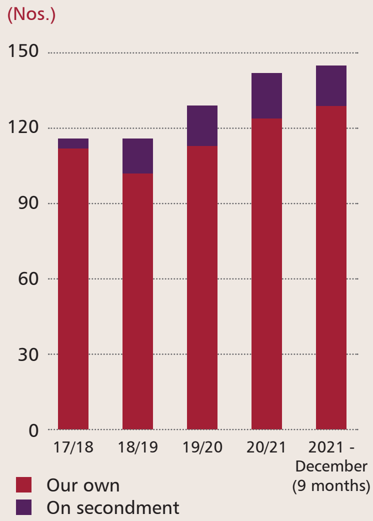
TOTAL ASSETS



GROSS NPA RATIO



STAFF STRENGTH



Total assets over
LKR 10 Bn.

Deposit base reached
LKR 5.07 Bn.

Fin-FD launched via Commercial Bank's "Flash" Digital Banking application

Contributed
LKR 79 Mn.
in taxes to the Government

43%
female workforce

Debt moratoria extended to
269 customers,
adversely affected by the pandemic

Branch Leasing Competition netted
LKR 593 Mn.
worth of leasing facilities

Established new Sales and Marketing Department to drive sales

Repaired and upgraded
a primary school in Anuradhapura

16 new recruits joined the CBCF Family

3,500+
person-hours of training provided

As a fully owned subsidiary of Commercial Bank, I would like to place on record that we have taken steps to leverage synergies and maximise opportunities before us, allowing us to grow the Company's contribution to the bottom line of the Group in the years to come.

Dear Shareholders,

I am pleased to present to you the Annual Report of CBC Finance Ltd. (CBCFL) for the period ended December 31, 2021. It may be noted that CBCFL changed its reporting period, in concurrence with the Department of Inland Revenue, to match the calendar-year reporting of its parent company, Commercial Bank of Ceylon PLC. Accordingly, this review covers only the nine-month period from April 01, 2021 to December 31, 2021.

It is with great pleasure that I wish to place on record that the Company has been able to post a profitable bottom line for the fourth consecutive year. As such, profit before tax and profit after tax for the nine months ended December 31, 2021 amounted to LKR 88.113 Mn. and LKR 33.243 Mn. respectively as compared to LKR 129.443 Mn. and LKR 64.491 Mn. for the previous year.

I wish to commend our MD/CEO, Mr Upul Dissanayake, a seasoned professional from Commercial Bank, for leading the staff as a cohesive team down to the branch level and turning around the Company's fortunes by overcoming the legacy issues he inherited. Despite repeated setbacks suffered by the country, CBCFL increased its total assets from LKR 6 Bn. to LKR 10 Bn. in three years. Deposit-taking commenced just two years ago, and today the Company's deposit base stands at over LKR 5 Bn. The Company reduced its gross NPA ratio to 13.14% from 14.08% at the end of the previous year. I am pleased to note that the Central Bank of Sri Lanka has listed CBCFL under Category-A in its classification of Finance and Leasing companies.

By 2021, we remained resilient in the face of challenges brought about by the COVID-19 pandemic. The recent rebranding to "CBC Finance Ltd.", which closely aligned us with our parent company, continued to give us great strength for growth, as we receive tremendous support and guidance in many ways. The committees previously formed at Board and Management levels, together with the Senior Management team seconded from Commercial Bank, continued to steer the ship forward. Furthermore, CBCFL was able to benefit from management systems and the backing of the parent company to help build the capacity of our staff.

The Financial Sector Consolidation Master Plan of Central Bank of Sri Lanka launched in 2020 requires Non-Bank Financial Institutions (NBFIs) to increase their total asset value up to LKR 20 Bn. We are working towards this target by focusing on our business growth both organically and inorganically. As part of our business expansion plan, I am happy to announce the opening of three new branches in Vavuniya, Trincomalee, and Batticaloa in the first quarter of 2022. We have received approval from the Central Bank to open seven more branches during the year. In addition, we look forward to expand our reach by opening a further ten more branches in the year 2023, should economic conditions prove conducive. In keeping with the Central Bank mandate to consolidate NBFIs, our expansion plans also include the possibility of merging with or acquiring a strategically well-placed NBFI. To-date, we have complied with all requirements stipulated by the regulators. You may agree with me that the financial system is the backbone of our economy and strengthening the NBFI sector will contribute to ensuring Sri Lanka has a robust financial system and greater economic stability. Therefore, as a financial intermediary, our responsibility is to meet these standards and uphold the system.

Our staff is the life blood of the Company and has been the most valuable resource during these turbulent times in particular. Unlike a conventional bank, we require our staff to build closer relationships with customers, individuals or businesses. Our strategy is to work with our customers on a one-on-one basis to deliver personalised solutions, the importance of which is even more relevant in the current financial climate. As a result, we have placed greater significance and redoubled our efforts to gain a better understanding of the challenges faced by each customer in order to structure repayment plans that satisfy the needs of both the client and the Company.

Our approach has also allowed us to work with customers to recover loans that had previously been written off; in turn, these loan recoveries have improved our bottom line. This strategy will enable us to have a larger lending capacity, earning us more interest, and at the same time reducing our NPLs, the total of which currently stand at LKR 1.3 Bn. Given our substantial deposit base, we have been able to significantly ramp-up deposit mobilisation as a strategy for lending and investment. There is a strong focus on maintaining the cost of borrowing and returns from lending while continuously driving down the NPLs.

In our way forward, we are exploring opportunities and the potential of digitalisation, from launching a digital platform to leveraging Group synergies, cross-selling, and improving ease-of-use for customers. We believe these steps will increase efficiency and allow our customers greater flexibility and access to our services. 2021 saw the expansion of our product-lines and introduction of new products grew our portfolio and allowed the Company to capitalise on reaching clients with higher creditworthiness. Likewise, as a company, we continue to innovate and are looking at opportunities and unconventional lines of business that would boost our bottom line while meeting the needs of our customers.

As of publishing this report, Sri Lanka is in the midst of an unprecedented economic, social and political upheaval. Amidst a global slowdown in growth and continued pressure on multiple fronts, these economic headwinds present new and severe challenges for the country and the financial sector.

Like all Sri Lankans, I hope to see our country recover from these crises and set out on a renewed path of growth, with an environment that will stimulate business activity and national development. This will give us a sound springboard for expansion in keeping with the Financial Sector Master Plan of the Central Bank of Sri Lanka. In the short term, our aim is to improve efficiency, cost-effectiveness and profitability as we grow our business. However, our focus is also on longer-term growth as we leverage strategies and explore organic and inorganic growth avenues to become a large, stable and well-respected financial institution in keeping with the pedigree of our parent company.

I would like to thank our parent company, Commercial Bank for taking the bold decision of keeping CBCFL as a fully owned subsidiary and continuing to invest in our success. I would also like to extend my most profound appreciation to the Board of Directors whose guidance has been invaluable in navigating a challenging business environment. Special thanks are also owed to our MD/CEO, Management, and Staff, whose determination and tireless efforts at a time of unprecedented challenge have enabled us to overcome many obstacles and deliver outstanding performance. Finally, I also wish to express my gratitude to our loyal customers and industry partners. As we set out to navigate yet another challenging year, I have the utmost confidence in the resilience and sustainability of our Company and our growth potential.

K G D D Dheerasinghe
Chairman

Colombo
June 1, 2022

Managing Director/ Chief Executive Officer's Review

At the end of 2021, CBC Finance Ltd. posted a profitable bottom line for the fourth year running, a significant and hard-earned achievement for our Company.

In the nine months under review, from April 01, 2021 to December 31, 2021, Sri Lanka continued to face a host of challenges arising from the COVID-19 pandemic. At the same time, mounting pressure on the country's economy impacted growth in the NBFI sector. However, despite numerous difficulties, CBC Finance Ltd. delivered a profitable bottom line. Throughout, we have been privileged to receive backing from our parent company, Commercial Bank of Ceylon PLC.

REACHING A MILESTONE

Despite a very challenging economic environment in the country, the Company achieved stable growth in both the net loans and advances portfolio and the deposits base, which grew by LKR 642.50 Mn. and LKR 229.87 Mn. respectively during the period under review. This aided the Company in growing its total assets by LKR 612.15 Mn. (6.31%) and cross the milestone of LKR 10 Bn. to reach LKR 10.31 Bn. as of December 31, 2021.

Both Tier I and total capital increased by LKR 31.90 Mn., with Tier I and total capital ratios standing at 25.49% as of December 31, 2021. In addition to exceeding the current minimum capital adequacy requirements set by the Central Bank of Sri Lanka, CBC Finance is well positioned to continue comfortably exceeding the same when the minimum ratio of Tier I and total capital will be increased to 8.5% and 12.5% respectively with effect from July 01, 2022.

Doubling our recovery efforts enabled the Company to improve both gross NPA ratio and net NPA ratio to 13.14% and 1.30% during the period from 14.08% and 3.48% respectively, recorded in the previous year. Impairment provision coverage also increased to 90.14% during the period, compared to the 75.30% recorded in the last year.

Due to the contracted reporting period, as a result of changing the financial year-end to December 31, from March 31, the Company profit before tax for the current period stood at LKR 88.11 Mn. down by 31.93% from the previous financial year. Profit after tax for the period under review was LKR 33.24 Mn. compared to LKR 64.49 Mn. in the previous year, a decline of 48.46%.

Interest income for the nine months ended December 31, 2021 was LKR 867.33 Mn., which translates to a 20.09% growth on an annualised basis. Interest expense decreased to LKR 334.44 Mn. for the same period, which translates to a 7.29% drop on an annualised basis. Steady growth in customer deposits, which facilitated settlement of certain high-cost borrowings, coupled with lower borrowing rates during the period, contributed to this reduced interest expense.

This contributed to recording a considerable growth on an annualised basis in net interest income (NII) by 47.40% during the period to LKR 532.89 Mn. from LKR 482.02 Mn., representing 56.41% of gross income for the period and recording a 10.85% increase when compared to the previous year.

BUILDING LASTING RELATIONSHIPS

In 2020 and 2021, the COVID-19 pandemic presented us with a unique opportunity to work very closely with our customers. Our staff members were diligent in visiting the homes and businesses of clients to gain better insights and grow our understanding of their individual needs. This comes when 39% of our portfolio is under moratorium, given the current economic conditions and directives from regulators. Several of our customers are facing completely unforeseen difficulties, yet it is in such a period that financial institutions need to respond with greater understanding and flexibility. We have successfully employed our "doorstep service" when working with customers, and have been able to work with them to leverage unconventional options such as exploring new business avenues or disposing of under-utilised assets that would allow them to resume repayments. With the end of the moratorium on March 31, 2022, we could restructure a majority of the customer facilities and introduce additional restructuring programmes. As a company committed to the long-term success of our stakeholders, we consider this approach a success only when we reach a solution that benefits both the client and the Company.

The sustainability of our business depends on cordial relationships. At the end of the day, our objective is to create a loyal customer base by strengthening existing client relationships and creating new ones. CBC Finance Ltd. is facing challenges evolving daily, but we remain optimistic about obtaining collections and repayments when the economy returns to normalcy.

There have been some setbacks in launching a digital app for CBC Finance Ltd. In the interim, we have been provided with a window through the Commercial Bank Flash app, to allow the opening of fixed deposits. Bringing a digital platform to our clientele remains a priority that we hope to accomplish within 2022.

CREATING A RESILIENT TEAM

Employee engagement and motivation have always been a priority for us at CBC Finance Ltd. Despite the economic pressures, we showed unwavering support for our employees by recognising their commitment and accomplishments. Commissions, bonuses, allowances, and promotions remain priorities and essential investments we make in our human capital.

At the Company's establishment in 1987, it resembled a sole proprietorship. Today, the Company name, CBC Finance Ltd., and our image indicate to the public and our employees that we are closely linked to our parent - Commercial Bank of Ceylon PLC. We have tried to inculcate within the culture a mixed environment that captures key elements of the finance industry and foundational strengths of the banking culture. This has been a successful strategy, allowing bank-seconded staff to learn from the flexibility and agility of the NBFI sector. At the same time, those from finance backgrounds gleaned essential insight into the workings and rigour of a stalwart in Sri Lanka's banking sector. Our staff bring to the table decades of experience and expertise and we have formulated successful processes, systems, governance protocols, and customer-handling and service-provision practices. The resulting culture set in motion motivates us to work towards a common goal while looking out for each other's interests. With this unique blend at the forefront, I am confident CBC Finance Ltd. will continue to grow into an industry leader.

A FORWARD-LOOKING STRATEGY

We have made advancements to internal systems and procedures within the Company with the goals of cost minimisation and greater efficiency. The Company's entire IT infrastructure was overhauled to introduce new features and improve existing systems. This was necessary to bring CBC Finance Ltd. to the standard expected by the parent company. Commercial Bank's IT team assisted with extensive training for our staff, while LEAN programmes were introduced to enable cluster managers and branch managers to fast-track leasing approvals. In addition, we took a fresh look at marketing requirements and creative ways to enhance the image of CBC Finance Ltd. To further our digital penetration and social media presence, we set up a marketing team and recruited a new Head of Sales and Marketing.

PLANNING FOR GROWTH

I take great pride in the performance of CBC Finance Ltd. in the period under review. We have been successful in boosting profitability and gradually moving closer to the financial sector master plan target asset value of LKR 20 Bn., despite unprecedented setbacks faced by the country. While organic growth has been hampered by the challenges faced by the overall NBFI sector, the Company is currently evaluating avenues for inorganic growth under the expert guidance of our parent company and the Board.

Our product portfolio is also set to grow in the coming months with the identification and launch of new products. Our invoice discounting facility was introduced in 2021, and despite delays, the launch of the pawning facility is scheduled for the year 2022. In addition, we evaluated our existing portfolio and modified or upgraded several products. Marketing traditional leasing (motor/speed draft) was improved, and we have seen a considerable increase in the leasing base. The criteria for business loans were also revamped to offer greater flexibility.

Given the ongoing economic crisis, it would be most prudent for us as a financial intermediary to focus on building resilience, sustainability and cost containment. Constant and careful evaluation of our funding positions while retaining a growth mindset will give us a firm footing for future growth. We are cognisant that despite this challenging climate, it is vital that CBC Finance Ltd. upholds its exceptional service standards and continues to support our diverse customer base and staff.

EXTENDING MY APPRECIATION

I want to express my sincere appreciation to the Chairman and Board members, who have continued to provide guidance and advice during a highly challenging period. I thank our parent company, Commercial Bank and the Senior Management, and am grateful to the Corporate Management team for contributing to this year's success. I am also grateful to the continued support extended by our regulatory authority, CBSL, the Director NBFIs and other officials, their co-operation is much valued and lends greater strength to the entire financial system.

My thanks go out to our staff fraternity: branch staff, department staff, cluster managers and everyone else who have come together as one team to navigate a difficult period and enable the Company to come out on top. Support from our parent – Commercial Bank's departments have also proved invaluable: IT, Central Support Service, Compliance etc., as well as CBC Tech Solutions Ltd.

D M U N Dissanayake
Managing Director/Chief Executive Officer

Colombo
June 1, 2022

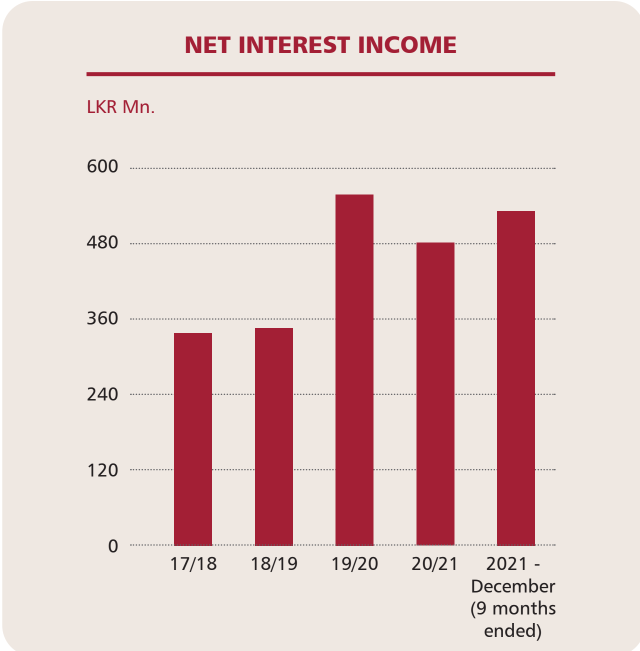
The financial review provides insights into Company's financial performance during the nine month period ended December 31, 2021 and should be read in the context of the operating environment given on pages 24 to 25 and in conjunction with the detailed Financial Statements given on pages 104 to 175.

In this review, the period means the nine month period from April 01, 2021 to December 31, 2021 and previous year means the year ended March 31, 2021. As the performance of the period consists of only a nine months period, the results cannot be directly compared with that of the previous year.

Due to the contracted reporting period, as a result of changing the financial year end to December 31, from March 31, the Company profit before and after tax for the current period reduced by 31.93% and 48.46% respectively compared to the previous financial year. Consequently, both return on assets (ROA) and return on equity (ROE) too declined to 0.88% and 1.03% respectively in the current period, from 1.50% and 2.40% respectively for the previous year.

Despite the very challenging economic environment in the country, the Company was able to achieve stable progress in both the net loans and advances portfolio and the deposits base which grew by LKR 642.50 Mn. and LKR 229.87 Mn. respectively during current period, which aided the Company to grow its total assets by LKR 612.15 Mn. and cross the milestone of LKR 10 Bn. to reach LKR 10.31 Bn.

NET INTEREST INCOME (NII)



A SUMMARY OF FINANCIALS

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

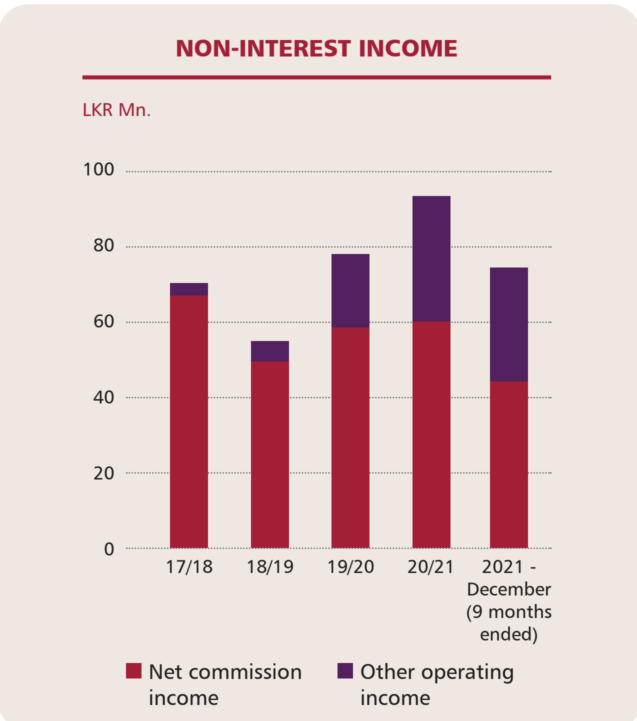
Indicator	9 months ended December 31, 2021	Year ended March 31, 2021	Variance (%)
Total income (LKR Mn.)	**944.67**	1,058.00	(10.71)
Profit after tax (LKR Mn.)	**33.24**	64.49	(48.46)
Shareholders' funds (LKR Mn.)	**3,255.01**	3,222.96	0.99
Loans and advances (Gross) (LKR Mn.)	**9,886.76**	9,026.74	9.53
Deposit liability (LKR Mn.)	**5,068.85**	4,838.98	4.75
Bank borrowings (LKR Mn.)	**1,769.50**	1,411.12	25.40
Net cash flows (LKR Mn.)	**(115.04)**	252.43	(145.57)
Capital adequacy ratio; core capital as a percentage of risk-weighted assets – Tier I (%)	**25.49**	26.57	(4.06)
– Total capital (%)	**25.49**	26.57	(4.06)
Debt/equity (Times)	**2.10**	1.94	8.25
Earnings per share (LKR)	**0.15**	0.35	(57.14)
Return on assets (before tax) (%)	**0.88**	1.50	(41.33)
Return on equity (after tax) (%)	**1.03**	2.40	(57.08)

Interest income for the nine month period ended December 31, 2021 was LKR 867.33 Mn., which translates to a 20.09% growth on an annualised basis, compared to LKR 963.00 Mn. in the previous year, mainly due to constant growth in loans and advances under a new normalised business environment since the outbreak of COVID-19.

On the other hand, interest expense decreased to LKR 334.44 Mn. for the period, which translates to a 7.29% drop on an annualised basis, compared to LKR 480.98 Mn. in the previous year, consequent to steady growth in customer deposits which facilitated settlement of certain high cost borrowings. Further, the lower borrowing rates that prevailed during the period also contributed to this reduced interest expense.

This contributed to record a considerable growth on an annualised basis in net interest income (NII) by 47.40% during the period to LKR 532.89 Mn. from LKR 482.02 Mn. This represented 56.41% of gross income for the period and recorded 10.85% increase when compared to the previous year.

NON-INTEREST INCOME



Net fee and commission income recorded a marginal decline of 1.72% on an annualised basis to LKR 44.41 Mn. for the period compared to LKR 60.25 Mn. reported in 2020/21. This caused its contribution towards the total operating income to fall to 4.70% during the period from 5.70% of the previous year.

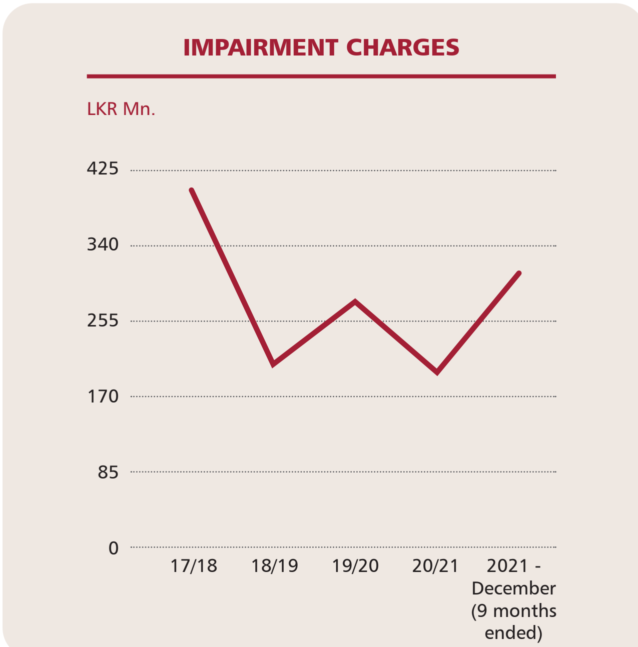
Nevertheless, revived recovery operations over the Company's written-down loans under a new normalised situation was helpful in increasing other income by 20.85% on an annualised basis for the period. The other operating income of the Company amounted to LKR 30.20 Mn. for the period compared to LKR 33.32 Mn. recorded in the previous year. Hence, non-interest income as a whole grew during the period by 6.33% on an annualised basis, to LKR 74.61 Mn., when compared to LKR 93.56 Mn. for the previous year.

IMPAIRMENT CHARGES

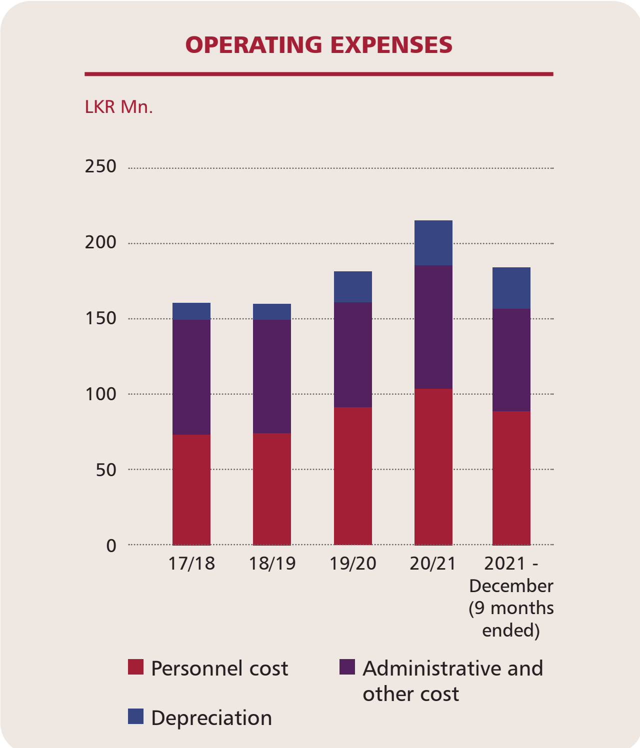
Impairment charges for the period increased to LKR 308.80 Mn. which translates to a 109.55% growth on an annualised basis, compared to LKR 196.48 Mn. in the previous year.

During the period, the Company announced an individual assessment of impairment for loans and advances above a predetermined threshold to reflect the actual risks associated with customers and as required by the Sri Lanka Accounting Standards (SLFRS/LKAS) which impacted significantly in increasing the provision for the period.

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 and adjusted the provision to sufficiently cover the additional credit risk due to COVID-19 impact on the customers of the Company.

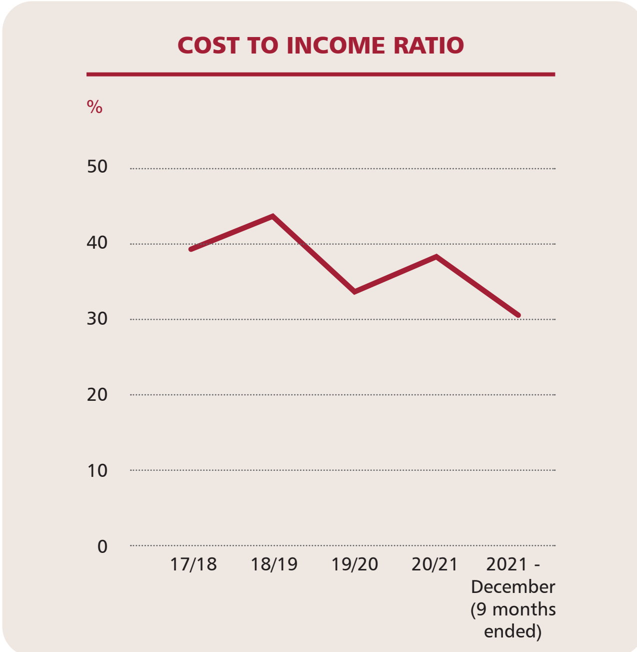


OPERATING EXPENSES



Total operating expenses for the period was LKR 185.25 Mn. which translates to a 14.05% growth on an annualised basis, compared to LKR 216.57 Mn. in the previous year. This was mainly as a result of the increase in occupancy expenses, sales and marketing expenses and other administrative expenses as a result of daily operations gradually returning to normal under a new normalised situation after COVID-19. New developments that took place in the Company's IT related environment including network system restructuring and module developments/improvements as supporting modules to the core system also contributed to an increase in both IT related expenses and correspondent depreciation and amortisation charges as well. Further, growth in customer deposits that led to an increase in deposit insurance levy also recorded a considerable hike during the period.

However, as the increase in the operating income is more pronounced than the increase in net operating expenses, the cost to income ratio decreased to 30.49% for the period from 38.34% in 2020/21 which is well within the industry average.

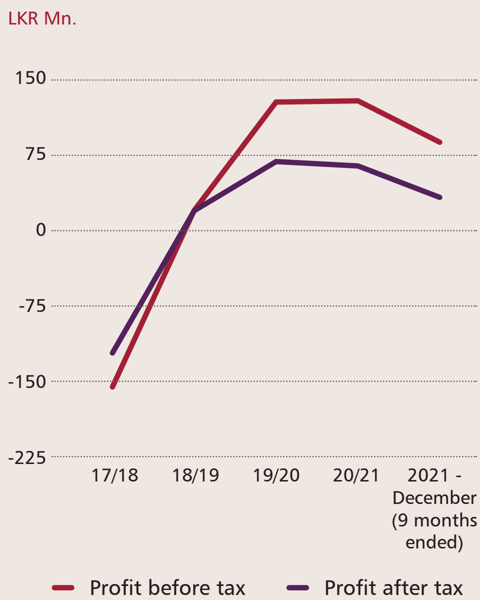


PROFIT BEFORE AND AFTER TAX

On an annualised basis, significant increase in impairment charges coupled with the considerable hike in total operating expenses more than offset the growth in total operating income which curtailed the profit before tax for the period of the Company to LKR 88.11 Mn. compared to LKR 129.44 Mn. in the previous year. Consequently, profit after tax for the period under review was LKR 33.24 Mn. compared to LKR 64.49 Mn. in the previous year. There were no noteworthy changes in corporate income tax rates or the computation methodology. However, the annual taxable income decreased by 34.19% compared to the previous year due to the movement in disallowed/allowable items related to impairment/ bad debt provision claims.

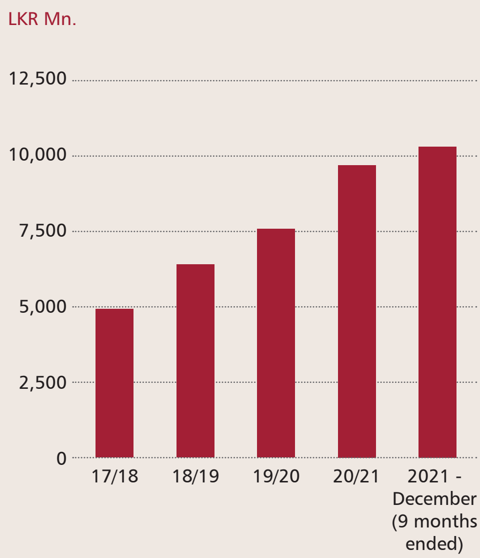
However, this is not readily comparable as the period under review is nine months only due to the financial year end change during the period and one-off cumulative adjustments incorporated in the deferred taxation due to income tax rate change in 2020/21.

PROFIT BEFORE AND AFTER TAX



TOTAL ASSETS

TOTAL ASSETS



The Company was able to maintain a continuous growth in assets during the last four years from 2018/19 to the period under review. Total assets of the Company grew by 6.31% (2020/21 - 28.06%) during the period and reached a historic landmark of LKR 10.31 Bn. as at December 31, 2021. This was due to the growth in loans and advances portfolio and investment in Government Securities.

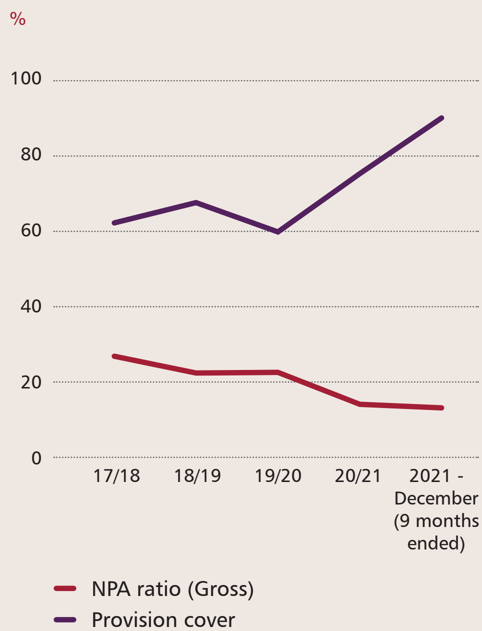
Despite the adverse macroeconomic environment that prevailed in the country, the Company was able to record 7.96% growth in its loans and advances (net) portfolio during the period. The leasing portfolio recorded a significant increase of 37.50% during the period and mortgage loans and other loans recorded a marginal growth of 2.75%.

The loans and advances under moratoria increased to LKR 3,885 Mn. during the period from LKR 2,563 Mn. in the previous year and based on a proper assessment, the Company continued to offer concessions to customers affected by the COVID-19 pandemic at their request.

ASSETS QUALITY

Despite the vulnerable macroeconomic scenario prevailing in the country, revitalised recovery efforts enabled the Company to improve both Gross NPA ratio and Net NPA ratio to 13.14% and 1.30% during the period from 14.08% and 3.48% respectively, recorded in the previous year.

QUALITY OF LOAN PORTFOLIO



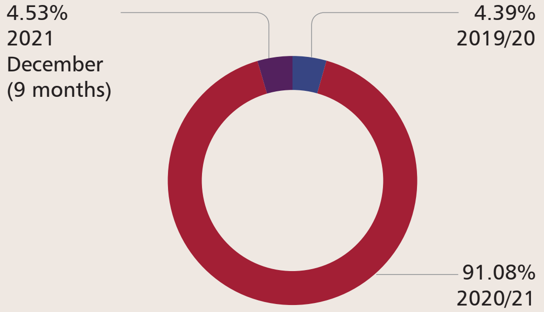
Impairment provision coverage also increased to 90.14% during the period compared to the 75.30% recorded in the previous year.

Further, the cumulative impairment provisions for loans and advances as a percentage of the total loans and advances at the end of the period amounted to 11.84% (2020/21 - 10.60%). Also, total regulatory provisions to the gross loans and advances portfolio stood at 6.75% (2020/21- 4.20%) as of the period end.

DEPOSITS

Deposit base of the Company expanded by 4.75% and crossed a milestone to reach LKR 5.07 Bn. as at the end of the period. Single digit interest rates prevailed during most part of the period, leading to sluggish growth in customer deposits when compared to the previous year.

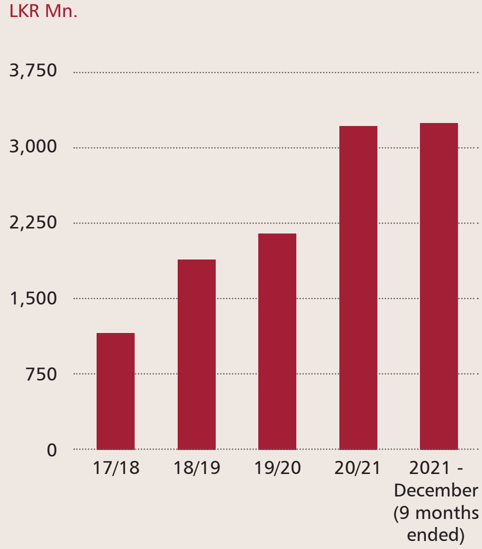
COMPOSITION OF DEPOSITS BY YEAR OF MOBILISATION



NET ASSETS

Net asset value per share marginally increased to LKR 14.68 as at December 31, 2021 compared to LKR 14.53 as at end March 2021 due to lower profitability for the nine month period. However, Earnings Per Share decreased to LKR 0.15 for the period compared to LKR 0.35 in previous year due to higher weighted average number of shares as of end of December 31, 2021.

NET ASSETS



CAPITAL ADEQUACY/CAPITAL MANAGEMENT

Both Tier I ratio and the total capital ratio stood at 25.49% (minimum requirement - 7% and 11%) as at December 31, 2021, comfortably exceeding the minimum capital adequacy requirements set by the Central Bank of Sri Lanka. Risk weighted assets of the Company grew by LKR 603.72 Mn. during the period, yet both Tier I and total capital increased just by LKR 35.15 Mn. resulting in a decrease in both ratios by 1.08% from the previous year's ratio of 26.57% as at end of March 2021. The required minimum ratio of Tier I and total capital will be increased up to 8.5% and 12.5% with effect from July 01, 2022 and however, the current ratio is well above those levels.

Further, capital funds to total deposits liability ratio also declined by 2.31% during the period from 64.80% as at end of March 2021 to 62.49% as at end of December 2021, yet well exceeding minimum requirement of 10% set by the Central Bank of Sri Lanka.

FUNDING AND LIQUIDITY MANAGEMENT

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. ALCO was more vigilant regarding developing macroeconomic vulnerabilities in the country under the new normalised situation together with civil unrest and political instability. As such the conditions were monitored closely under different stress levels continuously over the period ended December 31, 2021.

The Company's liquid assets were 1.81 times (2020/21- 2.63 times) compared to the minimum requirement.

21

OUR MODEL

Stakeholder Relationships

As a financial intermediary on a growth trajectory, CBC Finance Ltd. delivers value to several stakeholders through mutually beneficial relationships. At the same time, the Company derives value from these connections in a multiplicity of means, contributing to overall performance.

In formulating strategy documents and corporate plans, the Company carries out a comprehensive mapping of critical stakeholders based on needs and matters material to them, the Company's impact on the value-chain they inhabit, and their potential impact on the Company's business.

As a responsible corporate entity, CBC Finance Ltd. continuously engages with key stakeholders and is attentive and responsive to their needs. The following describes the Company's key stakeholders, their material interests, and the Company's response:

Stakeholder Group	Stakeholder Interest	Our Response
Customers At the forefront of CBC Finance's business model, our customers remain a primary focus of the Company. As a responsible financial institution, CBC Finance Ltd. upholds its duty to seek mutually beneficial business outcomes while remaining attentive, understanding, and adaptable to meet our customers' needs. Actions taken for our customers and value delivered are described in the section on Social and Relationship Capital, on page 39.	• Utilise the products and services provided by the Company. • Borrowers were keen to learn more about the concessions available due to the challenging operating environment caused by the pandemic. • Keenly observe the Company's financial robustness and take an interest in its long-term growth plans.	• Provide "Doorstep Service" for customers interested in learning more about our products and services. • Provided moratoria for our borrowers, sometimes going well beyond the amount stipulated for the industry. • Conducted research on how to diversify our product portfolio to best suit the needs of our customers.
Employees The staff of CBC finance are the heart and soul of our service-oriented establishment. They are a treasured asset of the Company and make up a vital resource-base that multiplies the Company's value generated for stakeholders. The strength of our cadre, and details of our continued investment in Employee Capital are described on page 33.	• An environment that prioritises their well-being and professional growth.	• We ensured that all health and safety measures were adhered to during the pandemic at all locations of our operations. We also ensured most of our staff had the opportunity to work from home. • We put in place strategies for succession planning and promotions.
Business partners The Company's supply chain and business partners play a crucial role towards business continuance and improvement of our offering. Details of our interaction with business partners are described in more detail in the Social and Relationship Capital section on page 39.	• A financially robust entity that meets 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.	• Emphasising that CBCF is under the wing of its parent, the Commercial Bank of Ceylon PLC. • Complementing the existing product portfolio with additions that will contribute towards exponential growth. • Centralised procurement process under the purview of a Procurement Committee.

Stakeholder Group	Stakeholder Interest	Our Response
Shareholder Since CBCF is a fully owned subsidiary of the Commercial Bank of Ceylon PLC (CBC), our parent company is a top priority from our growth aspirations to our continuous commitment to running a robust and well-respected financial institution. Details of how the Company leverages synergies and ensures optimal value delivered and derived are discussed at length in the section titled Our Impact from page 29 to page 43.	• Financial soundness of the entity and plans for long-term growth. • Full compliance with applicable rules and regulations, thereby minimising potential reputational risk to the parent arising from activities of the Company.	• Strengthened the Company's capital position, which will comfortably meet the regulatory capital requirements in the coming years. • Strengthening the compliance function on an ongoing basis. • Continued to strengthen the risk management and governance functions.
Society and environment Being a responsible NBFI, we have structured a sustainable business that considers our corporate responsibility and the impact we can have on the well-being of society and the health of our environment. Details of our sustainability actions are disclosed in the Social and Relationship Capital section on page 42.	• An NBFI that can be relied upon to pay heed to the needs of all its stakeholders.	• 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 stakeholders at heart.
Government institutions and regulators The Company's operations are guided by rules, processes, and frameworks established by legislators and regulators. As a responsible corporate citizen, CBCF strives for full compliance with all stipulated requirements while gearing the Company to contribute to state priorities and National development. Details on the Company's compliance and contribution to national development are discussed in the Social and Relationship Capital section on page 42.	• An NBFI that meets all stipulated regulatory requirements.	• Commitment to adhere to all applicable rules and regulations in both letter and spirit.

GLOBAL ECONOMIC GROWTH

As of publishing this Report, economies across the globe are facing renewed pressures that have contributed to a significant slowdown in growth after a period of fragile yet steady recovery.

2021, the year under review, was marked by a phase of global economic recovery as many economies rebounded. However, a general decline in COVID-19 caseloads was disrupted by sporadic flare-ups and emergence of new and more virulent variants towards the end of the year. Lasting damage to economic output and employment caused by the pandemic was coupled with drastic changes to the world of work and ways of doing business. While Government spending and stimulus programmes may have eased the impact of the pandemic; budget deficits, increased borrowing, domestic financial crises, and deterioration of credit quality[1] presented new challenges for the financial sector.

2022 began with a steep rise in COVID-19 caseloads on the back of emergence of the Omicron variant. Thereafter, escalation of tensions in Eastern Europe and Russia's invasion of Ukraine resulted in emergence of a large-scale humanitarian crisis on the world stage. Economic and trade sanctions that followed have further exacerbated lingering supply-chain weaknesses from three years of the COVID-19 crisis, and created significant shocks for the global economy. The International Monetary Fund (IMF) and the World Bank (WB) have projected deceleration of global economic growth to approximately 3.6%[2] in 2022 and 2023 from a previously estimated 5.5%[3]. Global inflation is on the rise owing to pressures from the pandemic, in addition to rising food and energy prices caused by war-related supply-chain disruptions.

STATE OF THE SRI LANKAN ECONOMY

During the period under review in 2021, Sri Lanka's economy saw a resurgence; returning to growth from a contraction of -3.6% in 2020[4]. The Central Bank reported a provisional GDP growth rate of 3.7% for 2021[5] as strong vaccination coverage helped restoration of economic activity and the tourism sector beset by multiple COVID-19 waves, made a cautious recovery.

Despite improvements in 2021, several systemic structural problems, vulnerabilities, and weaknesses resulted in a reversal of fortunes in 2022 as Sri Lanka continued to face economic headwinds. As of publishing this Report, the rupee has weakened drastically, declining almost 80% against the dollar and noted as the worst performing currency[5]. Increased public expenditure over the last few years has been coupled with declining revenue, resulting in continual widening of the budget deficit to LKR 2.4 Tn. or 13% of GDP by mid-2022[6] as reported by the country's newly appointed Prime Minister. Existing debt overhang was compounded by increased borrowing to meet external financing requirements.

Central Bank corrections and involvement in 2021 in the form of monetary policy easing and liquidity provisions may have cushioned vulnerable sectors and stalled economic fallout, but Sri Lanka was not exempt from inflationary pressures that have grown across the region and the globe.

In 2022, inflation fuelled by money-printing, rupee depreciation, higher global import prices, and existing supply-chain disruptions has led to rising food, fuel, and commodity prices; as well as severe shortages of essential goods. Inflation that stood at 12.1% in December 2021, had risen steeply to reach 29.8% by April 2022 even as food inflation reached 46.6%[7].

Multiple hardships have triggered widespread protests across the Island, calling for resignations from the highest levels of the Executive including the President and the Prime Minister. Amidst these crises, Sri Lanka defaulted on foreign debt citing severely depleted foreign exchange reserves. While talks have been initiated to obtain help and emergency loans from the International Monetary Fund (IMF) and bilateral creditor nations, confirmation of a bailout requires a clear pathway for sustainable debt repayment and restructuring.

TRENDS IN THE NON-BANK FINANCIAL INSTITUTION (NBFI) SECTOR

Sri Lanka's NBFI sector has seen significant change in the last decade alongside the Central Bank's Financial Sector Consolidation Master Plan initiated in 2012. In its current state, the sector consists of 39 Licensed Finance Companies (LFCs) and three Specialised Leasing Companies (SLCs). 85% of the industry is dominated by the 20 largest companies[8], with the balance 15% shared amongst the remaining 22 institutions. According to Central Bank reports, LFCs' total assets under management grew to LKR 1,452 Bn. in 2021, while SLCs' total assets under management grew to LKR 35.7 Bn.[4]. The sector's assets represent 5.6% of the assets of Sri Lanka's financial system.

LFCs and SLCs displayed an overall improvement in credit growth and profitability in 2021[4]. However, despite this return to growth, a sluggish economy and prevailing structural weaknesses compounded effects of the pandemic on the financial sector.

Based on Central Bank directives, debt moratoria were extended to specific sectors for six months commencing April 2019, and thereafter several more extensions to COVID-19 affected

1. S&P Global. (2021). *COVID-19 Impact & Recovery: Financial Industry Outlook for H2 2021, May 2021.*
2. International Monetary Fund. (2022). *World Economic Outlook: War Sets Back the Global Recovery, April 2022.*
3. World Bank. (2022). *Global Economic Prospects, January 2022.*
4. Central Bank of Sri Lanka. (2022). *Annual Report 2021: Key Economic Indicators, April 2022*
5. Financial Times. (2022). *Sri Lanka's currency plunges to world's worst-performing in economic meltdown*
6. *Prime Minister's address to the Nation, May 2022*
7. Central Bank of Sri Lanka. (2022). *Press Release: Inflation in April 2022*
8. Gunawardhena, M. (2018). *Role of Non-Banking Financial Intermediaries in Access to Finance in South Asia.*

businesses and individuals. While the debt moratorium masked credit quality and prevented a large volume of NPLs from being classified as such, the sector saw deterioration of asset quality in light of the continued economic crisis.

The vehicle import ban imposed in March 2020 remained in place throughout 2021, and is expected to be extended beyond the initially planned two year period that ends in 2022. Traditional leasing products tied to the automobile market continued to be depressed in the face of reduced affordability as second-hand vehicle prices skyrocketed. The sector's direct exposure to vehicle financing through leases stood at around 53% in mid-June 2021[9] but could be significantly higher considering that several other loans also utilise automobiles as collateral. Higher prices in the second-hand automobile market have allowed for some loan recoveries in the short-term, but could contribute to sluggish earnings prospects for the sector in the long run.

In addition to navigating this challenging macro-environment, the Central Bank's stipulated core capital requirement and continued directives as per the Financial Sector Consolidation Master Plan (FSCMP) could mean that meeting the minimum capital requirement and asset size is a significant challenge for smaller NBFIs.

In 2022, rating downgrades and revision of rating outlooks to negative in the prevailing economic crisis, is a primary point of concern for many Non-Bank Financial Institutions (NBFI) as their credit profiles will be closely tied to the state of the economy and strength of recovery efforts. Debt moratoriums instituted as a treatise for the pandemic's economic impact, high rate of Non-Performing Loans (NPLs), and higher lending and borrowing rates continue to present challenges. These and other economic and sectoral headwinds may reduce the overall profitability of many Finance and Leasing Companies (FLCs) in the sector going forward. These unprecedented changes reflect continued negative pressures from a severely challenging operating environment. Further, many LFCs saw their loan book contract on the back of continued economic stress as indicative figures for the first quarter of 2022 show a year-on-year decline of 2.2%[9]. NPL ratios have grown in the sector, reaching an estimated 13% in the first quarter of 2022[9].

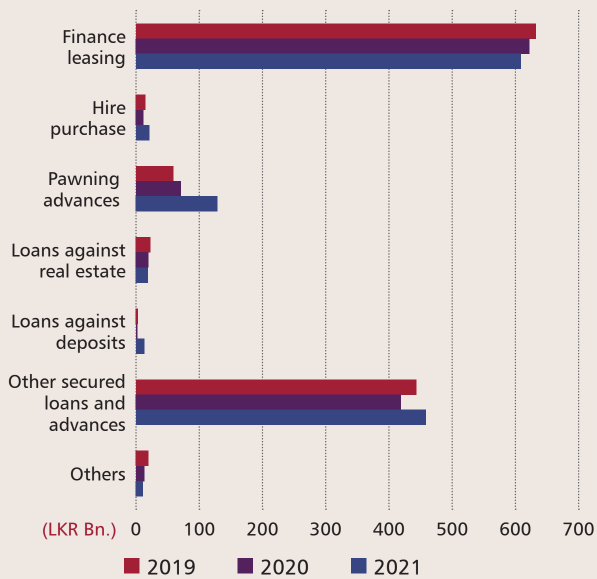
PERFORMANCE OF THE NBFI SECTOR, 2021

Total Assets Growth	**3.8%**
Capital Adequacy Ratio	**17%**
Gross NPL Ratio	**11%**
Return on Assets (RoA)	**4.6%**

NBFI sector - Total loans and advances (gross) product-wise, 2019 to 2021

	2021 LKR Bn.	2020 LKR Bn.	2019 LKR Bn.
Finance leasing	**608**	622	632
Hire purchase	**21**	12	15
Pawning advances	**129**	71	59
Loans against deposits	**19**	20	23
Loans against real estate	**13**	2	3
Other secured loans and advances	**458**	419	443
Others	**11**	13	20

TOTAL LOANS AND ADVANCES (GROSS) PRODUCT-WISE, 2019 TO 2021



Source: Annual Reports of the Central Bank of Sri Lanka

[9] Fitch Ratings. (2021). *Sri Lanka Finance and Leasing Companies Dashboard: FY21 – Special Report*

How We Create Value

Parent company:
Commercial Bank of Ceylon PLC

EXTERNAL

CBC Finance Ltd. draws from the strength of its parent company, Commercial Bank of Ceylon PLC, a giant in the Financial Industry. CBCF's Operations are strengthened by expertise, capital infusion, secondment of cadre, adoption of policies and protocol, and sharing of platforms and infrastructure. In turn, the Company functions as a financial intermediary, with novel products, serving new customers and segments of society.

Shared Values, Vision and Purpose **Robust Corporate**

INPUT

FINANCIAL CAPITAL
- Shareholder's 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

Primary Activities:
- Lending
- Mobilising deposits
- Providing other fee-based services

Ancillary Activities:
- Relationship management
- Risk management
- Product development
- Financial management and reporting
- Human resources management
- Marketing and sales
- Support services
- Information technology

ENVIRONMENT

Governance and Accountability | **Strategy of Growth**

OUTPUT	OUTCOME
FINANCIAL CAPITAL › Prudent growth › Profitability › Funding and liquidity	› LKR 33.243 Mn. Profit After Taxation › LKR 533 Mn. Net Interest Income › LKR 612.15 Mn. growth in total assets
INTELLECTUAL CAPITAL › Compliance › Innovation › Ethical conduct › Brand value	› Scaling-up digitalisation › Investing in institutional knowledge › Innovative marketing
HUMAN CAPITAL › Training and development › Operational excellence › Motivation › Strong employee engagement › Career progression	› 3,559 person-hours of training › 41 training programmes › LKR 56.77 Mn. in salaries and benefits
SOCIAL AND RELATIONSHIP CAPITAL › Increase in customer base › Customer satisfaction › Customer convenience › Strong supplier relationships › CSR activities	› 269 customers received moratoria extension › LKR 79 Mn. in taxes › 2 new products in the pipeline

28 OUR IMPACT

HIGHLIGHTS

Fin-FD launched via Commercial Bank's "Flash" Digital Banking application

LKR 593 Mn. leasing facilities granted through 3 month Leasing Branch BTL and mixed-media campaign

Loan Origination System (LOS) and Digital-KYC in the pipeline

At CBC Finance, we place great value on building and nurturing our Intellectual Capital. CBC Finance is privileged to boast a 35-year history and the agility and dynamism of a young company resurgent on the back of a fresh rebrand. With the strength of backing from one of Sri Lanka's largest financial giants, Commercial Bank of Ceylon PLC, our parent company; CBC Finance is rich in the knowledge-based system and process-driven intangibles that make up our Intellectual Capital. This capital stock plays a pivotal role in the Company's growth strategy and sets us on a solid footing as we look to take bold new strides in the industry.

BUILDING BRAND EQUITY ON THE STRENGTH OF COMMERCIAL BANK

In December 2020, Serendib Finance Ltd. became CBC Finance Ltd.; the Company's rebranding cemented its identity as a fully owned subsidiary of banking giant Commercial Bank of Ceylon PLC. Close alignment with our parent company gives added confidence to our customers, staff, and business partners. In addition to a robust financial backing, CBC Finance also benefits from the processes, systems and culture that contribute to the success of Commercial Bank.

IMPLEMENTING ROBUST SYSTEMS AND PROCESSES

For over two decades, there has been a revolution in how information is generated, disseminated and consumed by financial institutions. In line with these changes, the Company remains committed to continuously upgrading Information Technology infrastructure and investing in future technologies.

The Company's Information Security Policy (ISP) outlines each department's structure in detail. Additionally, the different roles within the operation have been defined according to the various functions each position requires.

The following are the main stakeholders of CBC Finance's IT Department:

IT Department of Commercial Bank and the Central System Support Department

Since the International Comprehensive Banking System (ICBS) was implemented at CBC Finance, the IT Department of Commercial Bank and the Central System Support Department have served as vital external stakeholders of CBC Finance's IT Department. In addition, CBC Finance is privileged to use the Bank's system, with the above two departments playing a vital role in providing system support.

The ICBS can provide a variety of asset and liability products, which CBC Finance was able to utilise for the canvassing of deposits. The system also enhances integration with the Bank's internally developed systems, procedures and audit trails.

Bank Digital Banking Unit and the Branch Credit Monitoring Department

Commercial Bank's Digital Banking Unit and the Branch Credit Monitoring Department have helped us implement the Common Electronic Funds Transfer (CEFT) system from LankaClear (Pvt) Ltd. and a recovery module within the ICBS.

The newest vendor to support us in implementing the CEFT system is EPIC Lanka (Pvt) Ltd.

CBC Tech Solutions Ltd.

The Company's second biggest external stakeholder with regard to IT Infrastructure, is CBC Tech Solutions Ltd., another of Commercial Bank's owned subsidiaries. CBC Tech has successfully handled the CBC Finance website, recovery module, insurance module and the MCAS system. They have been the main contributor, second to the Bank, in helping grow our IT capabilities.

All systems and procedures that are being adopted have a primary aim of achieving customer service excellence. A secondary yet no less important drive is adhering to the CBSL reporting structure: providing timely information to regulatory bodies and doing so with minimal manual intervention.

SYSTEM AND PROCESS UPGRADES

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

KPI management system implementation

The KPI management system describes the process of setting, performing, monitoring, and analysing Key Performance Indicators (KPIs) of employees. This helps employees in measuring the level of success in reaching their business objectives. Automating this entire process through the system will reduce paper usage and time.

Digitalising security documents

Security documents are now stored digitally. Upon obtaining printed documents, they are scanned and stored on an internal system. Multiple departments can easily access the information as needed: for loan/lease granting, auditing etc. The new system reduces processing time, ensures accuracy and simplifies the auditing and risk assessment processes.

Credit Monitoring System

Our Credit Monitoring System helps improve marketing and recovery officers' response time when dealing with customers. Additionally, the system enables the officer to record and track the progress of recovery/marketing initiatives on time.

Apply loan system implementation

The online application system allows customers to upload all the required documents directly to the web portal to apply for a loan/lease or fixed deposit. Customers can submit requests at any time of the day. After reviewing the documents, the officers immediately contact the customer to disburse the facility. Applying for a loan online is the most convenient option for many borrowers.

Electronically Transmitted Memos

Focusing on more significant cost savings and greener practices, CBC Finance adopted an e-Memo system (MCAS), which replaced the need for physical paper documents. As a result, in addition to efficiency and ease of access, we will also be able to reduce paper usage and physical storage space.

Migrating to virtual servers

A new, modernised server room was constructed to industry standards, which included a server room monitoring system. In addition, the Company's physical servers were replaced with a Virtual Machines (VM) environment. This upgrade allows us to: run multiple applications per server, easily configure security management, save space by hosting multiple VMs on a single server and utilise on-demand scalability.

Implemented a new standard network with a firewall

The new network architecture uses SD-WAN (Software Defined WAN) digital transformation, with the following benefits:

- Increase bandwidth and lower WAN cost
- Application-aware network and priority for business-critical applications
- Traffic engineering to pick the real-time best link for application performance
- Reduced complexity and single pane of glass across all branches.

Further, the new firewall allows the Company to mitigate risks associated with digital transformation, including:

- Intrusion prevention system
- Antivirus
- Application control
- Web filtering
- Antispam
- SSL content inspection

Write-off registry

The registry contains all updated data of the written-down and written-off facilities. In addition, it offers easy report generation and a range of analytical tools that can be used to assess a portfolio.

Connecting to CEFTS

CBC Finance has been connected to all financial institutions through the Common Electronic Funds Transfer Switch (CEFTS) facility. It offers our customers the ability to send and receive money in real-time, and deposit funds directly into their savings accounts to pay monthly instalments. Additionally, loan proceeds can be transferred to an account of the customer's choice.

To add further value to the CEFTS facility, an SMS alert service was offered to inform the customer of transactions routed through their accounts on a real-time basis. We aim to offer added features that will enhance the customer experience and create a positive association with the Company.

An Intranet to improve efficiency

Company circulars, guidelines, policies, workflows and other essential information have been collated and can easily be accessed by staff using a search feature via a single portal.

LOOKING TO THE FUTURE

CBC Finance is in the process of rolling out a digital strategy that aligns closely with that of Commercial Bank and matches the technological advancement of the parent company. Our next steps include implementing a Loan Originated System (LOS), with assistance from the Bank. CBC Finance will take on the latest system version, which has been routinely upgraded over the years by Commercial Bank. The LOS is designed to cut the time required for processing, approval and finalising credit facility papers.

We are collaborating with other stakeholders to generate mutually valued outcomes. For example, we are currently developing a mobile application for customer onboarding, online leasing, and fixed deposit application that is due to be finalised before end 2022.

A digital KYC from KPMG, which has been implemented at Commercial bank, is expected to be rolled out at CBC Finance take this to the next line the assistance of the Group Compliance Officer.

Cyber security is a significant challenge for any financial institution with a growing digital footprint. CBC Finance is able to work with Commercial Bank to ensure regular improvements are made to the network's architecture and the latest firewalls and antivirus scanners are in place. We are confident our collaboration with the Bank provides the necessary protection against any unforeseen attacks.

As a short term measure, steps have been taken to address the risk of indirect infection when remote access is in play. Walk-in laptops, USB sticks and the exchange of files via email have been tightly controlled. To contain cyber risk, protocols such as IT security audits, two-factor verification, checking of unauthorised access periodically etc., have been put in place.

CBC Finance operates in a highly competitive environment, where FinTech Firms are constantly entering the market and supplying a variety of financial instruments. However, we remain confident our core competencies, long-term credibility and service excellence will assure the continued patronage of our valued clientele, seeking our advice and assistance to fulfil their financial needs and aspirations.

INSTITUTIONALISED KNOWLEDGE

In the area of institutionalised knowledge, CBC Finance possesses a distinct advantage. Our team of 145 comprises veteran senior managers who have been seconded from Commercial Bank, staff who have been with us since the inception of the Company and recruits bringing in new blood. We have a mix of the finance industry and bank culture. It is a unique environment which has contributed to our success. We are also privileged to have access to the tried and tested processes, systems and expertise of Commercial Bank.

CONTINUOUS IMPROVEMENTS TO PRODUCTS AND SERVICES

CBC Finance has placed importance on technological advancement in recent years. Continuous developments to improve speed, accuracy, and convenience are being made with the assistance of Commercial Bank. For example, the introduction of CEFTS enabled officers of CBC Finance to handle outward fund transfers without involvement from the Bank, thereby transferring deposit interest payments to customers faster. We also made it possible for any deposit transaction to be facilitated through the parent company's network.

With the support of the Digital Banking Division of Commercial Bank, CBC Finance was able to launch a "Fin-FD" product within the "Flash" application of the Bank. As a result, clients could open fixed deposits with CBC Finance at a higher rate of interest.

A core system upgrade will be rolled out at CBC Finance following its implementation at Commercial Bank. Plans are underway to acquire a mobile application thereafter, through which leasing and deposits can be easily handled digitally. Furthermore, the Company is in the process of obtaining the necessary approval from CBSL to launch a separate domain on which to advertise take to the next line Finance.

The Recoveries Department, including the Legal Recovery Section, has been playing a pivotal role in the recovery of non-performing advances. In some cases, seeking legal counsel and taking legal action were required to manage wilful defaulters. Given the country's difficulties at the macro-economic level, the role of recoveries becomes a priority. Disruptions to electricity supply and fuel shortages have led to cash flow constraints and operational issues for many borrowers. Therefore, it is imperative that we work with our clients to identify their difficulties and attempt recovery measures that are mutually beneficial and do not cost the loyalty of the customer.

The Credit Administration Department is pursuing improvements and digitalisation in systems and processes. For example, the scanning and digital storage of security documents was launched at the branch level and is being monitored by this department.

CBC Finance has several new product ideas in the pipeline: including gold loans, a product that has gained much momentum in the NBFI Sector during the past two years. We intend to develop this product in the North, through new branches that have been opened in the region.

STEPPING UP OUR MARKETING INITIATIVES

The primary Unique Selling Points that draw valuable clients to CBC Finance are the "Doorstep service", personalised approach and understanding and flexibility we offer to our customers during challenging times. In addition, through the CBCF branch network, we have successfully used Direct Marketing and Word of Mouth channels to achieve rapid growth of mortgage-backed loans during the last few years.

In the latter part of 2021, CBCF held a "Leasing Branch Competition" to attract more customers to use our leasing facilities. The competition was promoted through a digital advertising campaign.

The competition concluded with LKR 593 Mn. worth of leasing facilities granted during the period from October 01, 2021 to December 31, 2021. We were also able to successfully establish CBC Finance as a preferred partner for leasing. The Company conducted numerous marketing campaigns in Colombo, and the Central and Southern clusters with the patronage of several vehicle traders and importers to promote leasing facilities, while brand building and widening our customer network.

The recently established Sales and Marketing Department, with the newly recruited Head of Sales and Marketing, has been tasked with creating a strong sales culture within the organisation. The Company is in the process of recruiting competent sales staff to strengthen this department, while existing marketing staff will be redesignating as Sales Managers/Officers. They will be provided training to enhance their competencies and aid their career progression. The new department has also embarked on an aggressive digital advertising campaign through WhatsApp, Facebook and LinkedIn to grow the presence of CBC Finance online.

Strength of a Collaborative Culture

The synergistic relationship between Commercial Bank and CBC Finance has undoubtedly been one of our greatest strengths. We have received and continue to receive advice and guidance at the Board level. The expertise and experience provided by the secondment of senior management give us a solid example on which to shape our own thriving corporate culture. Furthermore, several systems and processes have been seconded to CBC Finance from the Bank, along with immense support from their IT Department. CBC Tech, another Commercial bank subsidiary, handles maintenance of the CBC Finance website and other systems. The sharing of skills across business entities fosters better working relationships while motivating and unifying staff to achieve common goals and objectives.

HIGHLIGHTS

145 staff members

16 new recruitments

43% female workforce

42% of employees under 30 years

9% staff turnover ratio

221 hours dedicated to training

41 training programmes conducted

Our staff are the heart of the Company, without whom we would not have grown to what we are today. In addition, CBC Finance is now even more closely aligned with Commercial Bank, a factor that has created a deep confidence in the hearts and minds of our customers and our staff.

2021 saw a turnaround of fortunes for the Company as we posted a profitable bottom line for the first time since the acquisition. From Senior Management down to branch level, our teams can take credit for this incredible performance as they overcome tremendous odds to work as a cohesive and effective unit.

The Company believes the full potential of an efficient and engaged human resource pool can only be realised in an environment where employees are comfortable and inspired. The Human Resource Department (HRD) plays a vital role in developing this key capital while fostering a culture in which all staff members can thrive.

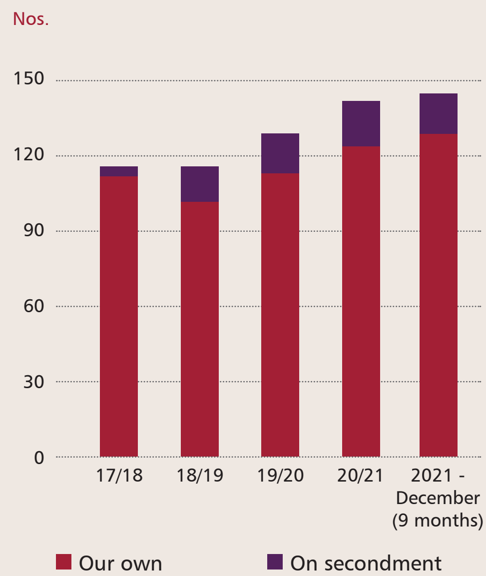
The period under review involved many hardships as new outbreaks of COVID-19 resulted in illness, lockdowns, and travel restrictions. At the head office and the ten branches, health protocols on-site were essential yet challenging. The HRD made every effort to support our teams during this difficult and distressing time. We are grateful for the cooperation and commitment of our staff, who continued to thrive and contributed to a successful year despite the circumstances.

OUR TEAM

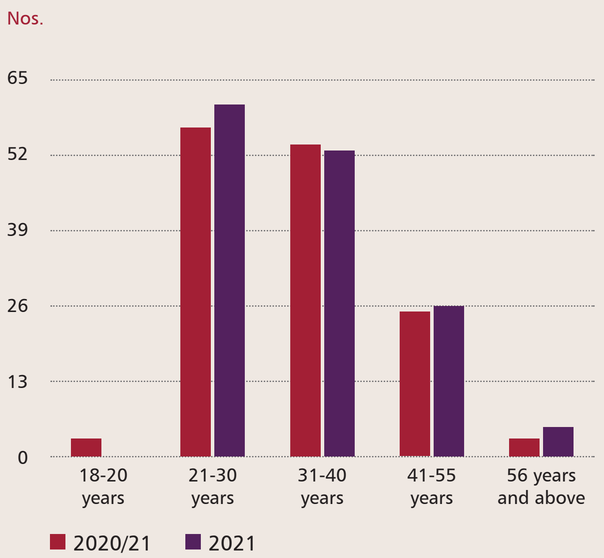
As of the end of 2021, CBC Finance employed 145 staff working across our footprint of the head office and branches scattered across the Island. While the Company is energised by a predominantly new team of young and dynamic staff, with 42% of employees aged below 30 years, our team also boasts several years of experience in the finance sector, bringing essential skills that enrich the Company and our offering.

At the same time, we also draw from a deep repository of institutional knowledge through team members who have been with the Company before acquisition. We are also fortunate to have a solid Senior Management team, including sixteen highly experienced individuals seconded from our parent company, Commercial Bank of Ceylon PLC.

STAFF STRENGTH



AGE ANALYSIS OF EMPLOYEES



SERVICE ANALYSIS OF EMPLOYEES

SUPPORTING OUR STAFF DURING CRISES

The continuation of the pandemic in 2021 brought on additional challenges for the HR Department. Despite the entire workforce being fully vaccinated and adhering to government recommendations, we found it prudent to maintain all health precautions on-site as a matter of priority. Further, unforeseen practical concerns arose due to the lockdown imposed in August and September. The HR Department responded by being responsive to staff concerns and adopting measures to accommodate these concerns. Whenever possible, the Department was able to go above and beyond duties to assist and alleviate issues faced by other departments. We are happy that we could stand together as one company to overcome these challenging circumstances. Some of the key points are as follows:

Adapting in challenging times

We have effectively identified large-scale changes to the business environment in the face of the pandemic, which continued from the previous year. As a result, we were able to embrace the "new normal" and take measures such as essential closure of branches, isolation of staff members who contracted the virus, managing and minimising the risk of staff utilising public transport, and developing processes to reduce disruption to the Organisation and its employees. The biggest challenge was inconsistency in employee attendance due to the restrictions and carrying out tasks in a "work from home" environment. Considering this, we employed more effective communication within the Department and between departments and empowered the limited teams of on-site staff who took on additional responsibilities. These steps enabled us to ensure a smooth flow in day-to-day operations.

The Company approved remote working and working from home, where possible, providing for the safety of our employees while ensuring the business operations were on track. In addition, the HR Department took several steps to maintain working premises which were safe for on-site employees and in keeping with specifications recommended by health authorities.

Providing support for all

The HR Department functioned as a nucleus for the Company; liaising with other departments within the head office and maintaining frequent communications with all branches. In addition, open lines of communication were maintained with all units, which proved especially important during the pandemic, both to understand the needs of each business unit and to provide assistance with welfare or safety issues.

The Company went a step further, offering relief packs to employees who contracted COVID-19. Caring for our own during the pandemic was a priority for the Department. We made every effort to assure our team that we were prepared to care of their interests. These actions instilled a greater level of engagement and belonging within the Organisation.

Motivating staff through networking

Due to lockdowns and travel restrictions, many of our staff worked from home during 2021. It was critical for the HR Department to create a unified network for effective communication and coordination in this climate. With social media, we were able to successfully facilitate communication between staff in matters relating to the Company's operations. Furthermore, the HR Department took a leadership role in motivating the team and boosting morale. Our efforts encouraged staff members and enabled them to contribute to the Organisation at a higher level.

ATTRACTING AND NURTURING TALENT

To ensure the sustainability of our business and build our competitive advantage, it is essential to attract and retain talented individuals whose goals and values are aligned with those of CBC Finance. We aim to maintain a work environment that is safe and secure, with a corporate culture that allows employees to thrive and progress along their chosen path.

We have made a special effort to attract talented individuals from various backgrounds within the Finance Sector. A strategic decision was taken to improve the digital presence of CBC Finance, for which a new Head for the Sales and Marketing team was appointed. In 2021, 16 recruits were welcomed into the Company.

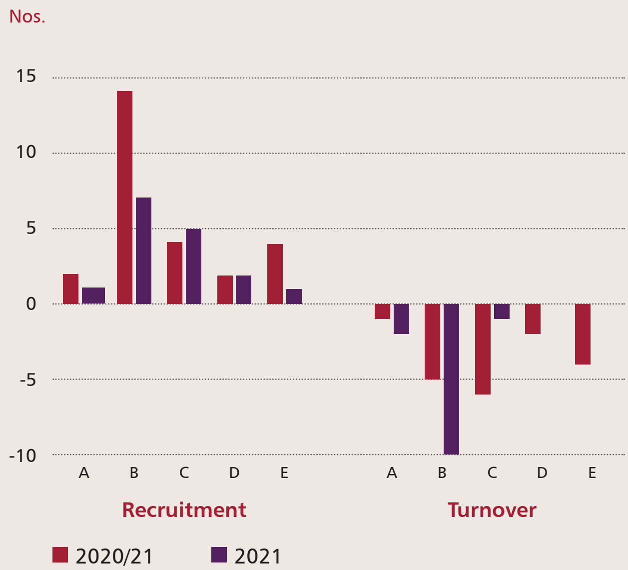
In the initial period, after coming under the ownership of Commercial Bank, the Company experienced a high turnover rate (23.83% in 2014/15). Due to the dedicated work of our Human Resource function and dynamic leadership of senior management, turnover stabilised in the years that followed and stood at 13.02% in 2020/21. In the period under review, ending December 31, 2021, turnover reduced further to 9%.

43% of recruits aged below 30 years

9% staff turnover ratio

RECRUITMENT VS TURNOVER BY REGION

RECRUITMENT VS TURNOVER BY GRADE



A Senior Management and above
B Executive staff
C Junior Executive staff
D Minor staff
E Other

TRAINING AND DEVELOPMENT

Part of CBC Finance's unique value comes from the cadre of employees who make up our ranks, their culture, work ethic, and engagement with business goals. As part of the Company's concerted efforts to empower and invest in our human capital, we engage in continuous training of employees across the Company.

Empowering leaders

In addition to stepping into a leadership role, the HR Department worked with Senior Management to assess the Company's requirements and assign key leadership roles to deal with crises and respond to the rapidly changing business environment. The process for selection was based on an evaluation that assessed candidates on how their expertise and performance aligned with overall business objectives. In taking the role of a convener and catalyst, the HR Department was able to carry out its duties whilst empowering teams to function at their best potential with limited staff and enabling individuals to take up more responsibilities.

Training and career progression

We believe ongoing training is essential for personal growth just as it contributes to the development of the Company. Providing on-the-job training and external training opportunities remained a priority of the HR Department. We employ a monitoring system to identify performance gaps, which can be addressed through training. During both lockdown and post-lockdown periods, training for staff members was consistently conducted through online channels. While facing regular external disruptions, it was essential for us to motivate employees and find ways to enhance their performance. Cluster managers and branch managers received training in LEAN programmes and were awarded "Yellow belts" for their participation. A succession plan that was made in consultation with the parent company is in place for key management positions and the Senior Management. It is reviewed every three years to yield the best results.

During the year, the Company conducted 41 training programmes amounting to over 3,559 person-hours, and covering areas ranging from legal matters, personal development, HR, finance, logistics, and IT, to business-specific pieces of training that covered topics such as credit evaluation, risk management, debt moratoria and recoveries, and AML/CFT compliance.

CBC Finance has recognised digitalisation as a critical element for growth. Hence Company policy encourages staff to offer suggestions for improving the IT systems. The IT Department of Commercial Bank works closely with CBC Finance to keep our IT staff and procedures up to date. Additionally, we prioritise the need for training in IT for our staff. The IT department maintained continuous engagement with the parent company to upgrade IT systems and leverage future-technology to assist with training programmes.

41 training programmes conducted

3,500 hours

3,500+ person - hours of training provided

EMPLOYEE WELFARE

The Company believes a strong workforce is fairly remunerated, well supported, and treated with respect in a culture of transparency and accountability.

In response to the country's hardships, we revised staff salaries to stay in line with market rates. Total salaries and other allowances were continuously paid through the review period. Our decision to do so communicated to the team the value we placed on them and our appreciation of their dedication to the Company; which was evident in their overall performance. The effectiveness of the recently implemented performance-based remuneration scheme and Key Performance Indicators (KPIs) will be closely monitored to encourage a performance-driven culture.

In addition, we also offered non-pecuniary benefits. Increments, bonuses and additional benefits were granted, considering performance during the year. These steps offered a much-needed morale boost during a challenging period; keeping staff motivated to push for growth in their careers and the Company overall.

Statutory contributions, including EPF, ETF, and provisions for gratuity, were made in accordance with legal guidelines. In addition, statutory obligations were also met regarding provision of leave.

Salaries and Statutory Benefits

	2021
Salaries paid	**54,032,590**
Benefits paid	**1,106,299**
Gratuity paid	**865,575**
Employer EPF/ETF contributions (15%)	**774,559**

Benefits and Rewards

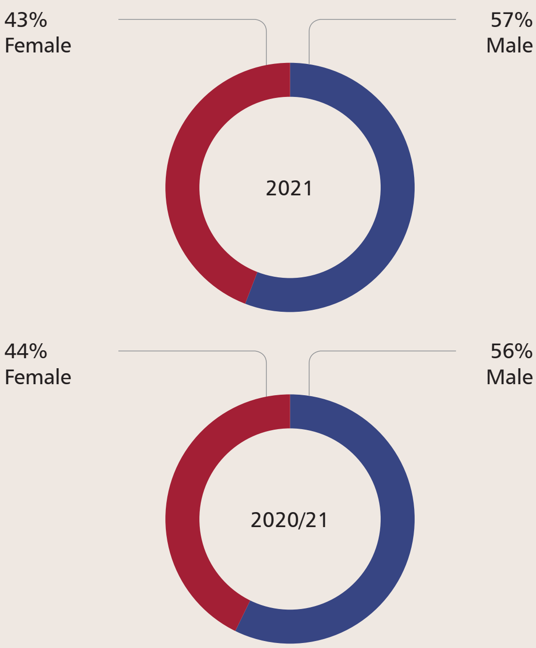
Benefits	**Permanent employees**	**Contract employees**
Guaranteed cash and allowances		
Fuel/Travelling allowance (to eligible employees)	√	√
Leave pay/Holiday allowance	√	√
Variable pay		
Performance bonus	√	√
Sales incentives	√	√
Overtime	√	√
Reimbursable expenses		
Subscriptions (professional and club)	√	√
Other perquisites		
Medical insurance scheme (in-house, life, personal accident cover)	√	√
Leave	√	√
Subsidised loan benefits	√	√
EPF/ETF/Gratuity	√	√

CELEBRATING DIVERSITY, PROMOTING INCLUSIVITY

As an equal opportunity employer, CBC Finance is proud of its diverse staff family and culture of inclusivity. We boast a 43% female team in an economy and industry that have historically shown low labour-force participation rates. The Company is committed to resolving issues and overcoming inherent structural challenges and hurdles to ensure our staff feel accepted and valued. As a result, our workplace can attract top talent that shares the Company's vision.

We believe that cultivating diversity in our workforce will enrich the culture of CBC Finance. A range of backgrounds, perspectives and experience coming together will help build resilience and promote the sustainability and growth of the business. The HR Department works to create inclusivity and equal opportunity to ensure that merit-based career progression is possible for all employees.

GENDER ANALYSIS



43% female workforce

100% return to work rate after taking maternity leave

EMPLOYEE ENGAGEMENT

Due to social distancing requirements, welfare activities and CSR projects had to be limited during the period under review. However, we were able to carry out two projects alongside the opening of the Embilipitiya and Anuradhapura branches. The Company supported repairs and paintwork for a local school and helped equip them with a water supply system, and was also able to support local authorities' requests for public signage and name boards. The Company also offered COVID-19 relief to the local community in the form of financial aid and dry rations. Staff were careful to take necessary safety measures during all engagements.

We held several small company get-togethers for staff in limited numbers when public gathering restrictions were eased in December 2021. These events allowed the team to rebuild rapport with colleagues and enjoy a relaxing time together at the end of a challenging year.

HIGHLIGHTS

781 New customers

269 customers received an extension of debt-moratoria

4.75% expansion of deposit-base

LKR 79 Mn. contributed as taxes

03 CSR programmes carried out

At CBC Finance, we believe a keen understanding of the entities and individuals who have an impact on our business is of vital importance to our success. Therefore, we focus on developing mutually beneficial relationships with partners, building customers' confidence and creating value addition to our parent company while meeting regulatory requirements.

VALUING OUR BUSINESS PARTNERS

CBC Finance places immense value on its supply chain. We rely on our suppliers to provide goods and services promptly to ensure the continuity of our day-to-day and overall business operations. We are committed to maintaining strong relationships with our valued business partners as we strive for mutual growth.
As CBC Finance continues its upward trajectory, we aim to widen our supplier base with partners who share our growth and long-term sustainability values.

Our suppliers 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	Fund management support
Material suppliers	Banks
Suppliers of premises	Wealth management companies
Transport suppliers	
Suppliers of assets	**Other support**
Communication providers	Professional service providers
Utility service providers	
Insurance providers	
Waste management	
Security providers	

During the period under review, the total value of the Company's supplier payments amounted to LKR 155.82 Mn. on capital and operational expenditure-related expenses.

CUSTOMER CAPITAL

We are delighted to welcome customers from all walks of life into the CBCF family. At the end of the period under review, we had an active customer base of 2,967, with 781 new customers. In addition, our Company proudly supports 181 Businesses other Sri Lankan businesses. Our deposit base expanded by 4.75% and crossed a milestone to reach LKR 5.07 Bn. at the end of the period. Today, as always, we remain firmly focused on the needs of our customers. It is our responsibility as a financial institution to provide support, flexibility and mutually beneficial solutions through challenging economic circumstances.

FLEXIBILITY FOR CUSTOMERS AFFECTED BY THE PANDEMIC

As a responsible financial institution, we must carry out transactions that are mutually beneficial to both the customer and the Company. Unfortunately, many of our customers were negatively affected by the pandemic. However, we were able to work closely with our clients to identify issues, then take bold steps in offering solutions and providing assistance to resolve the identified issues.

During the nine months under review, after carefully evaluating their financial positions: the Company extended debt moratoria to 269 customers who were adversely affected by the pandemic. In addition to debt moratoria, CBC Finance extended several other concessions, such as flexible payment options and waiving or reducing fees and charges. Furthermore, the Company reduced lending rates in line with market-rate reductions.

FOCUS ON CUSTOMER-CENTRICITY

Taking into consideration the safety of our customers and adhering to social distancing recommendations, the Company provided improved access via the newly introduced CEFTS facility. As a result, customers could transfer funds directly for new deposits and loan repayments. In addition, this initiative eliminated the need for customers to visit our physical branches.

We also identified several existing customers facing shortages in working capital due to the volatile situation. CBC Finance provided them with additional funding, in the form of loans at lower interest rates, to overcome temporary financial difficulties.

Furthermore, the Company accommodated relief measures advocated by CBSL. In this regard, Cluster Managers, Branch Managers and the respective Marketing Officers made extraordinary efforts to assess the specific requirements of individual customers. As a result, fee waivers, revised repayment schedules and extensions on grace periods were offered on a case-by-case basis, based on each customer's cash flows.

DEVELOPING A DIVERSE PORTFOLIO

During the past few years, we have developed a diverse portfolio of products and services that has contributed to the steady growth of CBC Finance. With the introduction of a focused, strategic approach in 2018, we could report continuous growth in our loan book. Furthermore, we doubled our advances portfolio and the Company's total asset base during the last four years. We were also able to reach the significant milestone of LKR 10 Bn. in total assets at the end of the period under review.

The target for Advances was set at LKR 1.79 Bn. The actual was reported as LKR 3.28 Bn. during the period under review, the target exceeded 183%. The target set for leasing was exceeded by 137%, and the total Finance Lease Gross Portfolio increased by 31%.

PRODUCT-WISE GROWTH

	December 31, 2020 (LKR Mn.)	December 31, 2021 (LKR Mn.)	Change (%)
SAVINGS DEPOSITS	67.33	145.13	115.55%
TIME DEPOSITS	3,290.04	4,923.72	49.66%
LEASES	1,266.76	1,664.95	31.43%
OTHER LOANS	6,231.97	7,047.69	13.09%

In June 2022, CBC Finance has 13 branches located across the country. Three new branches in Vavuniya, Trincomalee and Batticaloa were opened in the first quarter of 2022. Central Bank approval has been granted for the opening of a total of 10 branches during 2022. Should the economic conditions turn favourable, CBC Finance aims to seek approval for expansion by a further 10 branches in 2023.

BRANCH NETWORK

VAVUNIYA BRANCH*
No. 105, Kandy Road, Vavuniya

ANURADHAPURA BRANCH
No. 488/8F, Maithreepala Senanayake Road, Anuradhapura.

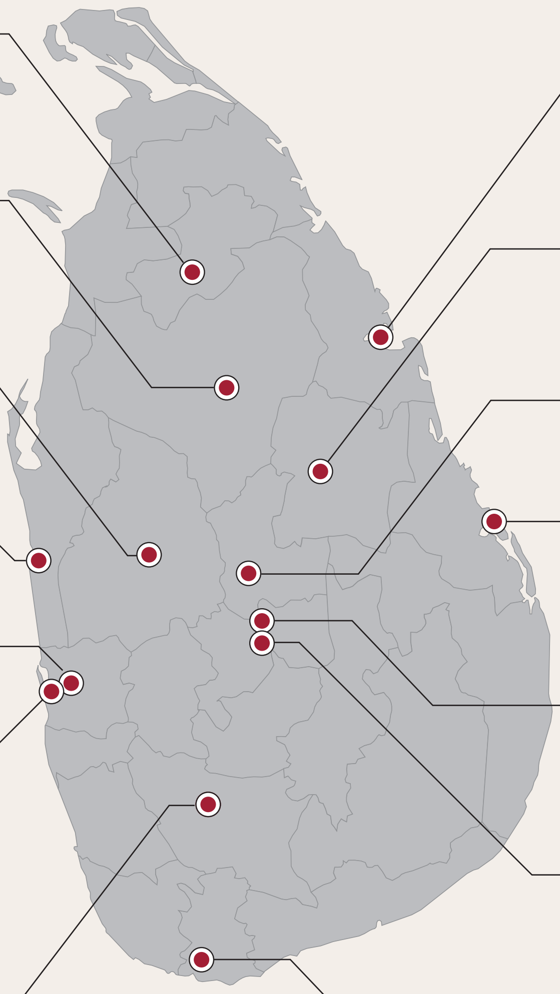
KURUNEGALA BRANCH
No. 233 A, Negombo Road, Kurunegala

NEGOMBO BRANCH
No. 318/2/1, Colombo Road, Negombo

KIRIBATHGODA BRANCH
No. 412/2/1, Kandy Road, Gala Junction, Kiribathgoda

COLOMBO BRANCH
No. 200/1, Dr N M Perera Mawatha, Colombo 08.

EMBILIPITIYA BRANCH
Anurudda Aluminium, New Town Road, Embilipitiya



TRINCOMALEE BRANCH*
No. 70, Main Street, Trincomalee

KADURUWELA BRANCH
DS-197, Kaduruwela

DAMBULLA BRANCH
No. 679, Anuradhapura Road, Dambulla

BATTICALOA BRANCH*
No. 18, Bailey Road, Batticaloa

HEAD OFFICE
No. 187, Katugastota Road, Kandy

KANDY BRANCH
No. 182, Katugastota Road, Kandy

MATARA BRANCH
No. 199, Anagarika Dharmapala Mawatha, Matara

**Opened in 2022*

At the end of 2021, we had 10 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.

CONTRIBUTING TO THE EXCELLENCE OF OUR PARENT COMPANY

Providing value addition to our sole shareholder, Commercial Bank of Ceylon PLC, is of utmost importance. During the past four consecutive years, CBC Finance has been able to generate positive results and thereby add value to the bottom line of its parent company. In 2020, CBC Group recorded the highest profits in the country for a banking group. The contribution of its subsidiaries was the critical factor in this achievement.

In addition, CBC Finance adheres strictly to the stipulated regulatory framework, using the best governance practices as a subsidiary of one of the country's pioneering banking titans. Furthermore, where applicable, the tried and tested practices of Commercial Bank have been seconded to CBC Finance for use in its operations.

In October 2020, the parent company made a capital infusion of LKR 1 Bn. Along with this substantial investment, the Company was rebranded as CBC Finance Ltd., with the logo closely resembling that of Commercial Bank giving further prominence to the Company being a fully owned subsidiary of the Bank. While fortifying our relationship with the Bank, these two significant steps have strengthened our position in the NBFI sector.

WORKING HAND IN HAND WITH REGULATORS

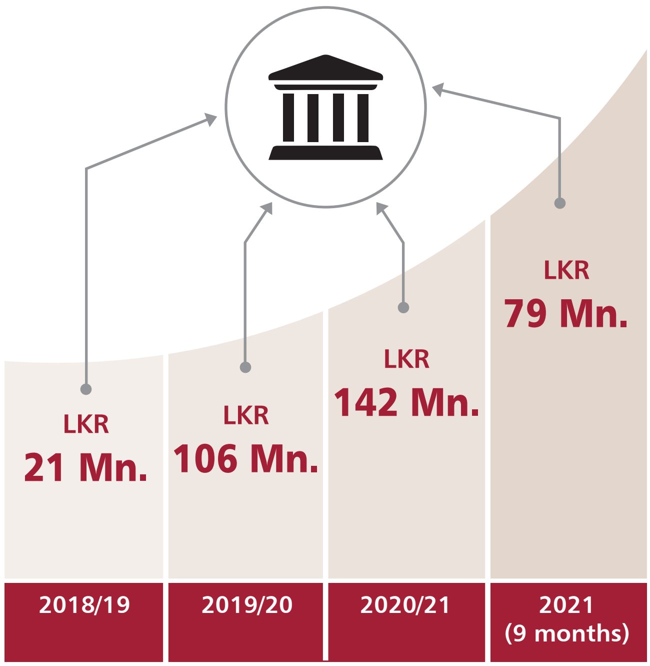
CBC Finance places great importance on maintaining close, cordial relationships with all government institutions, including legislators and regulators. Compliance with directives and codes from regulatory bodies is our duty, helping contribute to the stability of the nation's financial system and thereby supporting the development of the economy. Therefore, we have been fully compliant with all statutory and regulatory requirements of the government institutions working to fulfil the macro-economic objectives of the country.

During the period under review, debt moratoria were the main challenge for the Company. Initially, Debt Moratoria was introduced in May 2019, for stakeholders in the tourism sector, in the wake of the Easter Sunday attack. Due to the COVID-19 pandemic and the resulting economic setbacks, in March 2020, the CBSL issued circulars for Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) to grant a six-month debt moratorium to adversely affected individuals and firms. Subsequently, the CBSL issued second, third and fourth moratorium circulars to extend the moratorium period to March 2022.

We provided benefits to eligible customers in accordance with the debt moratorium scheme extended by the government. By adhering to the CBSL guidelines, the first moratorium accounted for approximately 67% of the total portfolio of the Company.

This posed a substantial challenge for our marketing and recovery teams during the last financial year. Due to the continuous monitoring process and negotiations, we managed to reduce the initial moratorium affected portfolio to 32% of the total portfolio by the end of the year. However, this raises the possibility that the impact of debt moratoria on the NPLs is underestimated. Hence a further increase in NPLs is likely to occur as LFCs feel the full effect in the coming years.

In the nine months under review, CBC Finance contributed LKR 79 Mn. to the Government in taxes.



CARING FOR OUR COMMUNITIES AND THE ENVIRONMENT

Being a responsible NBFI, we strive to always maintain sustainable business practices. In addition, we are conscious of our impact and concerned about the well-being of our local communities and the environment.

As a practice, CBC Finance refrains from entertaining credit proposals which could have potentially harmful effects on the environment. Accordingly, a Social and Environmental Management System (SEMS) is currently being implemented. Once in place, this initiative will offer a formal framework to assess the social and environmental risk in future lending carried out by CBC Finance.

During the period under review, CBC Finance Ltd. carried out two CSR projects that accompanied the relocation of our branch in Anuradhapura:

- Providing signboards to be installed around the Anuradhapura Kumbichchan Kulama Lake and adjoining jogging track at the request of the Anuradhapura Municipality. Signboards were part of a programme to raise community awareness to maintain a clean and healthy environment and encourage consumption of nutritious food for better health.
- Supporting the refurbishment of Nelum Kanniya Primary School in Anuradhapura and donating a computer, water tank, and sink to help improve access to potable water.

In addition, the Company and staff came together to donate and distribute dry rations and essential goods to the most vulnerable communities.

SUSTAINABLE GROWTH IN THE NBFI SECTOR

CBC Finance believes in the importance of solid relationships across all stakeholder groups. Working in partnership to achieve mutually beneficial goals is essential for sustainability and growth. The investment of LKR 1 Bn. from Commercial Bank in 2020 has further strengthened our capital base, allowing us to meet future regulatory capital requirements comfortably. Furthermore, this capital infusion indicates the confidence placed in CBC Finance by our parent company, which is also our sole shareholder. As a result, the core capital requirement, as directed by the Central Bank of Sri Lanka, stood at LKR 3.1 Bn. at the end of the 2021 financial year, which is well above the required limit of LKR 2 Bn. This advancement is in keeping with a critical strategic planning goal of CBC Finance: capital strengthening.

CBC Finance remains resilient and optimistic about its growth potential despite the present economic crisis, which has resulted in shortages of essential goods, medicines, fuel and electricity. The Company has revamped its marketing strategy to better position itself in the NBFI sector.

The Board of Directors is working on evolving initiatives to deepen group synergies between Commercial Bank and CBC Finance. The Board and Management of CBC Finance believe building synergies between the two companies will enable CBC Finance to improve its capital strength, attract low-cost funding, gain cost advantages over customer and supplier selections and invite knowledge sharing from industry experts. The partnership would also lead to better governance, thereby improving opportunities to explore new avenues of diversification: such as pursuing business ventures in new territories. In addition, positioning CBC Finance as a fully owned subsidiary of Commercial Bank of Ceylon PLC, a leading bank and household name in Sri Lanka, gives the Company a strategic advantage in terms of building customer confidence.

In an initiative to promote socially responsible lending, CBC Finance's Social and Environmental Management System (SEMS) will add to the Company's strategic and systematic framework to exercise control and minimise negative externalities in line with the sustainable, social and economic values of the Company.

OUR STEWARDSHIP

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 BCom and a BPhil (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 and Development Fund.

Mr Dheerasinghe joined the Board of Directors of Commercial Bank of Ceylon PLC in 2011 and retired as the Chairman on December 19, 2020. Mr Dheerasinghe continues as Chairman of CBC Myanmar Micro Finance Company Ltd., a fully owned subsidiary of Commercial Bank of Ceylon PLC.

Mr Dheerasinghe has been re-designated as an Independent, Non-Executive Director of the Board of Directors of C B C Finance Ltd. with effect from March 08, 2022, after a one-year cooling off period since he retired from the parent company on December 19, 2020.

DR (MS) JANAKI KURUPPU

Independent, Non-Executive Senior Director

Appointed to the Board of Directors in September, 2014, Dr (Ms) 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 and a Director of Sarvodaya Development Finance PLC for 7 years until March 31, 2022.

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 (Ms) 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 (Ms) Kuruppu holds a PhD from the University of Colombo, an M.A. in Statistics and a BSc in Mathematics from the University of Missouri, USA.

MR DIMUTHU SENERATH 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 25 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 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 which include Ernst & Young as an Assistant Audit Manager, Singer Industries (Ceylon) PLC as the Financial Accountant, Commercial Bank of Ceylon PLC as the Assistant General Manager (Finance and Planning), Nations Trust Bank PLC as the Chief Financial Officer and Smart Media (Pvt.) Ltd. as the Head of Process Development. Mr Senanayake also serves as an Independent, Non-Executive Director of Commercial Bank of Ceylon PLC and Senkadagala Finance PLC.

Mr Senanayake became a Non-Independent, Non-Executive Director of the Board of Directors of CBC Finance Ltd. with effect from April 09, 2021 after his appointment to the Board of Directors of Commercial Bank of Ceylon PLC.

MR SARATH JAYASOORIYA

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 (AIB), 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 experience in Banking, specialised in Treasury, Investment Banking and International Banking. Prior to his retirement from the Bank of Ceylon, he held positions such as the Deputy General Manager (International, Treasury & Investment Banking) and Deputy General Manager (Finance & Planning). He has served as a Director & Audit Committee Chairman of the BOC Property Development Ltd. (PDL) and Director of Transnational Lanka Records Solutions (Private) Ltd., Ceybank Asset Management Ltd. and MBSL Insurance Co Ltd. In addition he was a Alternative Director for BOC Property Development & Management (Pvt) Ltd. and Credit Information Bureau of Sri Lanka (CRIB).

He was the Chairman of the Investment Committee of the Bank of Ceylon, Bank Pension Fund, Provident Fund and W&OP Fund.

In addition he has served as a member of the Standing Cabinet Appointed Procurement Committee (SCAPC) which is the body approve all tenders for procurement of petroleum and petroleum related products for Ministry of Petroleum Industry.

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 Products and Sustainability, CSR and Women Banking at the Bank.

Mr Munasinghe possesses 28 years of experience including 11 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 and listed in the "New Establishment 100", the top new generation business leaders in Sri Lanka by the Echelon Magazine in 2019.

Mr Munasinghe possesses over fifteen 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), a Fellow of the Institute of Bankers (FIB) Sri Lanka, a Fellow of Chartered Management Institute (CMI) UK and an Associate Chartered Management Accountant (ACMA) and Chartered Global Management Accountant (CGMA) from Chartered Institute of Management Accountants (CIMA) UK.

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 28 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 Jayawardanapura and is a member of the Institute of Directors of 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 and Chief Executive Officer

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

28 years in Banking and Finance

MR KRISHANTHA PERERA

Chief Operating Officer
(Appointed in May 2022)

MBA (University of Suffolk, UK)/MAAT/ACPM/LICA

19 years in NBFI Sector of which 13 years in Maldives NBFI Sector.

MR SHIRAN YATAGAMA

Chief Operating Officer
(Resigned in September 2021)

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

31 years in Banking and Finance

MR PRABATH PERERA

Chief Financial Officer
(Resigned in April 2022)

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

17 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)

24 years in Banking and Finance

MR HARSHA SAMARASEKARRA

Head of Credit and Branch Administration

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

16 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 (SLIT)

17 years of experience including 10 years in NBFI Sector

Senior Management

Mrs Yashikala Nawagamuwa
Head of Legal

Mr Namal Cooray
Head of Sales and Marketing

Mr Nuwan Sardarathne
Senior Manager Finance

Mr Danushka Ariyarathne
Senior Manager Recoveries

Mr Rukmal Kaldera
Senior Manager Credit Risk Assurance (Chief Risk Officer - Designate)

Mr Iroshana Anushyan
Cluster Manager Central Cluster

Mr Ravindu Peiris
Cluster Manager Colombo Cluster

Mr Chathura Weerasinghe
Cluster Manager Southern Cluster

Mr Pradeep Rangana
Cluster Manager North-central Cluster

Mr Chathuranga Suraweera
Senior Manager Information Technology

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 nine months period under review from April 01, 2021 to December 31, 2021. 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 appointed 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 follow good corporate governance practices to ensure a sustainable business, create value for its shareholder, and maintain a healthy relationship between the shareholder 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.

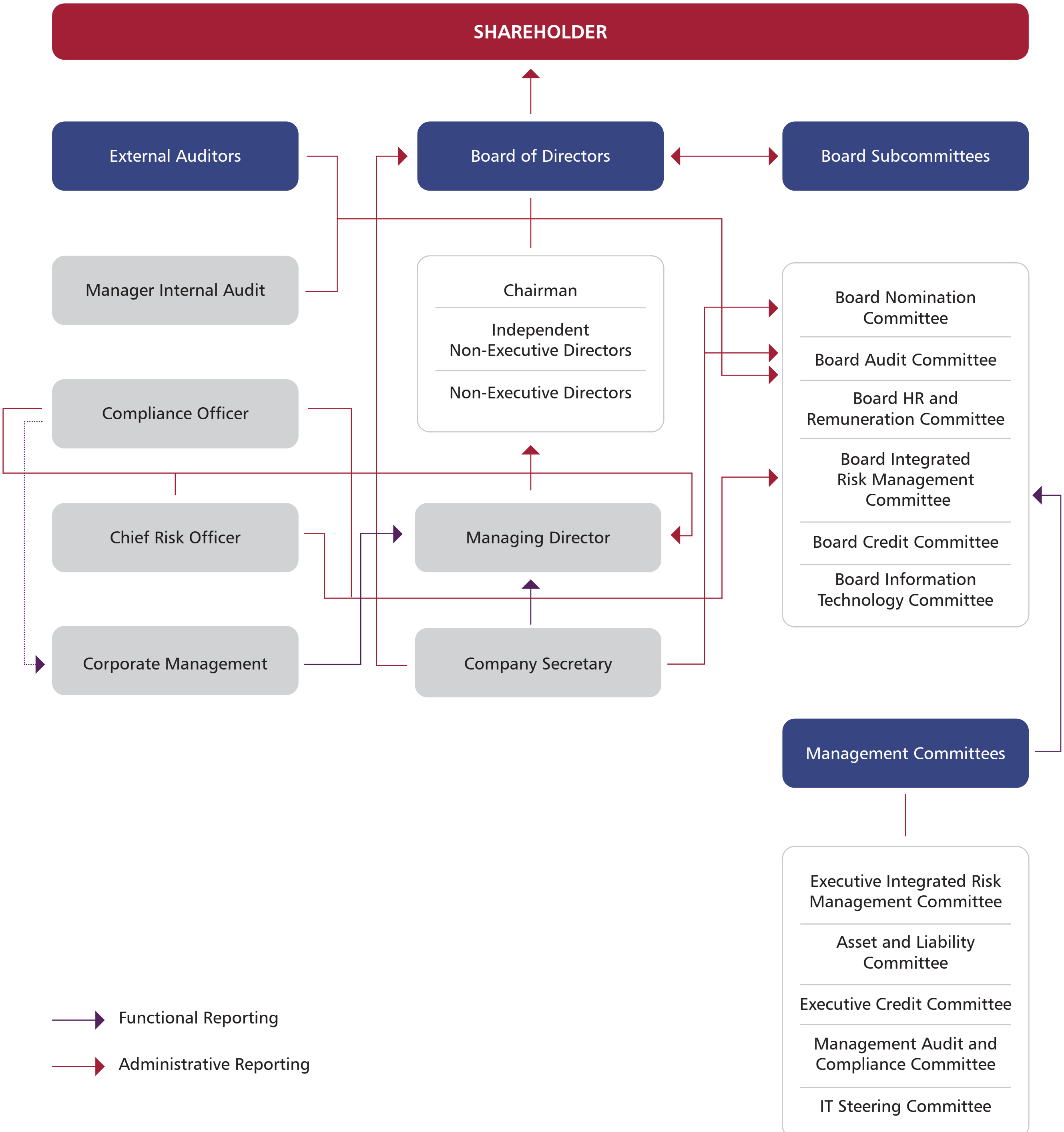
Accordingly, the Company emphasised mainly the following aspects in assuring good governance during the nine months period from April 01, 2021 to December 31, 2021 under review.

- 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.
  - 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 (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011.
  - Finance Companies (Corporate Governance - Amendment) Direction No. 6 of 2013.
  - Finance Companies (Corporate Governance - Amendment) Direction No. 5 of 2021.
  - Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions - Amendment) Direction No. 6 of 2021.
- 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 (CA Sri Lanka). 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 Information Technology Steering Committee (ITSC) and Board Information Technology Committee (BITC).
- 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 85 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 to is 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 with well-defined roles and responsibilities, accountability and clear reporting lines.

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.



INSTRUMENTS OF GOVERNANCE

The corporate governance framework of CBCF, encompassing external and internal governance instruments, enables the Board to assure investors that they have discharged their duties responsibly. The Board of Directors of CBCF and staff at all levels consider it their duty and responsibility 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 • 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 (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011. • Finance Companies (Corporate Governance - Amendment) Direction No. 6 of 2013. • Finance Companies (Corporate Governance - Amendment) Direction No. 5 of 2021. • Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions - Amendment) Direction No. 6 of 2021	• Articles of Association of the Company • Internal Procedure Manuals • Integrated Risk Management Procedure • Processes for Internal Controls • Company's Code of Ethics

BOARD OF DIRECTORS

The Board is responsible for the stewardship of the Company and comprised seven (7) members as at the financial year under review. 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 consist 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 and subsequent approval taken from the shareholders to approve or reject such appointments. Resolutions on new appointments/reappointments 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 maintains related records.

ENGAGEMENT WITH 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 it, such as the performance and the 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 is stressed extensively and intensively through various communique issued periodically.

In terms of engaging with the employees, the key channels used by the Board include the Executive Director/CEO, who is an employee Director 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

Messrs KPMG, Chartered Accountants were reappointed as the Company's External Auditors by the shareholder at the Annual General Meeting held in September 2020.

Their services were also engaged 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 reviewed 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. 03 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' certification on the effectiveness of such internal control mechanism on 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 policymaking and issuing out 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 nine months period from April 01, 2021 to December 31, 2021, 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)	09	09
Dr (Ms) J P Kuruppu	Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 02, 2014)	09	08
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2014)	09	09
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	09	09
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 05, 2017)	09	08
Mr D M U N Dissanayake	Managing Director/ Executive Director (Appointed w.e.f. August 16, 2018)	09	09
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 16,2020)	09	09

** Due to the COVID-19 pandemic, meetings of the Board of Directors, scheduled for April 2021, May 2021 and June 2021 were held on May 3, 2021, June 18, 2021and July 5, 2021.*

THE RELATIONSHIPS AMONGST THE BOARD OF DIRECTORS

The Board consists of seven Directors. 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 is the Chairman of the Company.
3. Dr (Ms) J P Kuruppu is the Senior Directress of the Company.
4. 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.
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.
7. 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.

SUBCOMMITTEES OF THE BOARD

For effective governance, the Board has delegated authority to several subcommittees that have a structure of having a minimum of three Directors in a committee, 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.

The 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. 03 of 2008 as amended by Direction No. 04 of 2008 and Direction No. 05 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 during the nine months period from April 01, 2021 to December 31, 2021, together with attendance of its members is shown below:

Name of Director	**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 21, 2014)	07	07
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 5, 2017)	07	06
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	07	07

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 rate, credit, operational and liquidity feature predominantly in its deliberations.

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

Committee meetings held during the nine months period from April 1, 2021 to December 31, 2021, 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 1, 2014)	09	09
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 21, 2014)	09	09
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 5, 2017)	09	08
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 5, 2017)	09	09
Mr D M U N Dissanayake	Non-Independent Executive Director (Appointed w.e.f. August 16, 2018)	09	09

** Due to the COVID-19 pandemic, meetings of the Board of Directors, scheduled for April 2021, May 2021 and June 2021 were held on May 3, 2021, June 18, 2021and July 5, 2021.*

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 during the nine months period from April 1, 2021 to December 31, 2021, 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 1, 2014)	09	09
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. September 30, 2019)	09	07
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	09	08

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 during the nine months period from April 1, 2021 to December 31, 2021, 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	Chairperson of the Committee Independent Non-Executive Director/Designated as Senior Director (Appointed w.e.f. September 2, 2014)	02	02
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. December 5, 2017)	02	02
Mr L H Munasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. January 12, 2021)	02	02

Board Information Technology Committee

The Board Information Technology Committee was established during the period under review. The Committee is chaired by a Non-Independent, Non-Executive Director and comprises three other Board members including the Executive Director. The Committee broadly focuses on integrating technology risk into the risk management function, facilitating adoption of new technology whilst establishing a governance structure, responsibilities and control measures for information technology.

Name of Director	Designation and Status	Number of meetings	
		Eligible to attend	Attended
Mr L H Munasinghe	Chairman of the Committee Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2021)	01	01
Mr Raja Senanayake	Non-Independent Non-Executive Director (Appointed w.e.f. October 29, 2021)	01	01
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f. October 29, 2021)	01	01
Mr D M U N Dissanayake	Non-Independent Executive Director (Appointed w.e.f. October 29, 2021)	01	01

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 crucial management personnel carries out the compliance function and reports to the Committee periodically.

The Chief Financial Officer/Chief Risk Officer and the Compliance Officer handle 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. 03 of 2008 (as amended by subsequent Direction No. 04 of 2008 and Direction No. 05 of 2020)

Relevant para in the direction	Corporate governance principle	Compliance level
2. Responsibilities of the Board of Directors		
2 (1)	The Board has strengthened the safety and soundness of the Company in the following manner;	It is complied with.
(a)	Approving and overseeing the Company's strategic objectives and corporate values and ensuring that such goals and values are communicated throughout the Company.	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 goal. The Board approved the Risk Management Policy of the Company on May 3, 2021.

Relevant para in the direction	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 February 28, 2022.
(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 for the nine months period from April 1, 2021 to December 31, 2021.
(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 too have been designated as Key Management Personnel for corporate governance purposes.

Relevant para in the direction	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 1, 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. 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 is called regularly when the need arises by Board to explain matters relating to their areas of function. Such meetings are held on a monthly basis.

Relevant para in the direction	Corporate governance principle	Compliance level
(l)	Understanding the regulatory environment.	It is complied with. A dedicated Compliance Officer has been appointed from February 28, 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, reappointment 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 for the nine months period from April 1, 2021 to December 31, 2021.
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 for the nine months period from April 1, 2021 to December 31, 2021.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 for the nine months period from April 1, 2021 to December 31, 2021.
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 on August 30, 2021.
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 and conducted nine meetings during the nine months period from April 01, 2021 to December 31, 2021 . The meeting of the Board of Directors, which was scheduled for April 2021, May 2021 and June 2021 were held on May 3, 2021, June 18, 2021and July 5, 2021due 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. In that case, the Company Secretary is informed via formal communication by the Directors, and those are included under "Any Other Businesses" 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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.
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 five and not more than 13.	It is complied with. There were seven Directors on the Board as of December 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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.
4 (4)	Commencing January 1, 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 nine months period from April 01, 2021 to December 31, 2021 under review:- Dr (Ms) J P Kuruppu (From September 02, 2014) Mr S M S C Jayasuriya (From December 05, 2017) Mr D 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 nine months period from April 01, 2021 to December 31, 2021.
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 1, 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 nine months period from April 01, 2021 to December 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 nine months period from April 01, 2021 to December 31, 2021.
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. As per the finance business direction approval has been obtained for the extension of the Chairman, with effect from January 01, 2022.

Relevant para in the direction	Corporate governance principle	Compliance level
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.
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 nine months period from April 01, 2021 to December 31, 2021 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 November 30, 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 separate 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 the Board discusses all critical and 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.
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. Secretary is preparing the agenda, and 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, 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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.
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 six subcommittees, namely Audit Committee, Integrated Risk Management Committee, Nomination Committee, Credit Committee, Human Resources and Remuneration Committee and Board Information Technology Committee. Company Secretary is the Secretary to the Board Audit Committee, Board Nomination Committee and Board Information Technology 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 those 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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. As per the Board resolution passed on September 30, 2014, the following members were appointed for the Committee. 1. Mr Raja Senanayake – Chairman 2. Mr S M S C Jayasuriya 3. Mr D M D S S Bandara
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 nine months period from April 1, 2021 to December 31, 2021, and recommendations were given at the meeting held on January 7, 2022. The Committee has discussed the engagement letter and fee proposal submitted by external auditors for the corporate governance report and internal control report reviews after the statutory audit for nine months period from April 1, 2021 to December 31, 2021. Recommendations were given at the meeting held on January 7, 2022.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 January 7, 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.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
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. The meeting was held on September 30, 2021
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 nine months period from April 1, 2021 to December 31, 2021, 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.
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 nine months period from April 01, 2021 to December 31, 2021 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, the Chief Internal Auditor (on secondment from the Commercial Bank), usually attend BAC meetings. The Secretary to BAC holds attendance sheets. Upon invitation, the CEO is also attending the BAC meetings.

Relevant para in the direction	Corporate governance principle	Compliance level
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 June 30, 2020, along with the subsequent review by the Committee on November 29, 2021.
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 seven times during the nine months period from April 1, 2021 to December 31, 2021, 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.
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.

Relevant para in the direction	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 and an Executive Director. 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 5. Mr D M U N Dissanayake 6 Chief Risk Officer The Company has obtained a confirmation from the CBSL dated December 29, 2015 under reference No. 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. In addition, the TOR of the BIRMC was reviewed on June 18, 2021.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 on a monthly basis during the nine months period from April 1, 2021 to December 31, 2021. The BIRMC gets a package of minutes of management-level committees held monthly meetings based on a standard agenda. The assessments of all aspects of risk management, including Business Continuity Plans are part of this shared agenda, thereby generating material for discussion at the BIRMC meeting, which facilitates such overall assessment
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.
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 BIRMC has discussed the formation of the compliance function on February 20, 2015 and is now being formed with the Internal Audit Manager being mandated to assess compliance status while the Chief Financial Officer and Compliance Officer is assigned with executive functions to ensure compliance status. The Company has established the Compliance Function by adopting the Group Compliance Policy, which was reviewed on February 28, 2021 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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 settings 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. 03 of 2011 to ensure adherence to this section. The Board has also reserved the exclusive approving authority for credit facilities over LKR 10 Mn. whilst setting up the delegated authority limits to ensure compliance with this Section. However, no such transactions were reported during the nine months period from April 1, 2021 to December 31, 2021.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
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 allowing 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.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
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 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 Annual Report of the Board of Directors on the Affairs of the Company, 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.
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 nine months period from April 01, 2021 to December 31, 2021.
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.

Relevant para in the direction	Corporate governance principle	Compliance level
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.
11	Transitional and other provisions.	It is complied with.

COMPOSITION OF THE COMMITTEE

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

Mr Raja Senanayake (Chairman)
Mr S M S C Jayasuriya* (Director)
Mr D M D S S Bandara* (Director)

**Independent Non-Executive Director*

Brief profiles of the members are given on page 45 of the Annual Report.

The Chairman of the Committee, Mr Raja Senanayake, a Non-Independent, Non-Executive Director is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) 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 seven meetings during the period of 9 months from April 1, 2021 to December 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, Messrs 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 November 2021.

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 thwe 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 November 2021.

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 on set 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.
- On-site 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 gave its attention to 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.
- The documented Code of Conduct is in place.

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 Letters of the External Auditors for the year ended March 31, 2021,
- Reviewed the Management Letters of the External Auditors for the year ended December 31, 2021.
- 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 reappointed as the External Auditor for the financial year ending March 31, 2022 which was subsequently changed to December 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 December 31, 2021.

Further, the Committee engaged KPMG to attend to the Company's Corporate Governance reporting and Internal Control reporting as required by Section 03 of the Finance Companies (Corporate Governance – Amendment) Direction No. 06 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, 2021 and to audit plan for the period ended December 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

June 1, 2022

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 the following members.

Mr K G D D Dheerasinghe (Chairman)
Mr Raja Senanayake (Director)
Mr S M S C Jayasuriya* (Director)
Mr D M D S S Bandara* (Director)

**Independent Non-Executive Director*

Brief profiles of the members are given on page 45 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 nine meetings during the financial year under review. The attendance of each member at meetings is given on page 56 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 CRO 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

June 1, 2022

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 monthly basis with the quorum of two members at a minimum, at a time and a place as determined by the Committee. The Committee met nine times during the period under review. The attendance of the members at these meetings is given on page 56.

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 nine months ended December 31, 2021:

Mr K G D D Dheerasinghe	Non-Independent Non-Executive Director (Appointed w.e.f. September 2, 2014)
Mr S M S C Jayasuriya	Independent Non-Executive Director (Appointed w.e.f. December 5, 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

- 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 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 NINE MONTHS ENDED DECEMBER 31, 2021

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 said period.

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

June 1, 2022

Report of the Human Resources and Remuneration Committee

COMPOSITION OF THE COMMITTEE

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 57.

The Committee comprised the following members during the nine months ended December 31, 2021:

Dr (Ms) J P Kuruppu Chairperson of the Committee	Independent Non-Executive Director/ Designated as Senior Director (Appointed w.e.f. September 2, 2014)
Mr D M D S S Bandara	Independent Non-Executive Director (Appointed w.e.f December 5, 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 a 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 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.
- The Committee made arrangements to renovate an existing building in Nelumkanniya Primary School, situated in the Anuradhapura District, and fixed display boards related to environmental protection along with the jogging paths around the Kubichchankulama lake in Anuradhapura, under the CSR projects conducted on November 1, 2, 2021.
-

Dr (Ms) J P Kuruppu
Chairperson
Board Human Resources and Remuneration Committee

June 1, 2022

OVERVIEW OF THE ECONOMY AND CONSEQUENCES OF THE PANDEMIC

The continued impact of the COVID-19 pandemic has resulted in raised risk levels across the borders and business sectors and increased the vulnerability of entities and people. The Sri Lankan economy continued to suffer from the long-lasting consequences of the Easter Sunday attack in April 2019 and the outbreak of COVID-19 pandemic in March 2020, which continued to blow out in several waves. The downgrading of the sovereign rating by several global rating agencies during the year based on their concerns about sovereign debt sustainability and financial vulnerability in the long run, shortage of foreign currency liquidity, drop in worker remittances and pandemic-related policies and regulations impacted the operations and business performance of financial institutions. The Central Bank of Sri Lanka (CBSL) implemented a series of new rules and regulations to help\ manage the foreign currency liquidity shortage in the market with limited success. Further, CBSL extended several moratorium relief schemes to support pandemic affected borrowers in this challenging market dynamics. The regulator also sought to tighten monetary policy towards the second half of the year, leading to a gradual increase in interest rates.

Amidst all the negative outcomes in the past year, quantitative easing measures adopted by countries across the world played a key role in containing corporate bankruptcies and maintaining financial stability across markets. Most countries have experienced divergent economic recovery paths, with advanced economies reflecting more resilience than the emerging market economies as access to vaccines, inflationary pressures, and balance of payment deficits aggravated vulnerabilities. A significant number of emerging market economies, including Sri Lanka, increased policy rates during the second half of 2021 as headroom for maintaining accommodative policies diminished.

The year under review was a challenging period for the risk management practices of the organisation as CBC Finance was compelled to face an innumerable risks due to the global pandemic. Key among them was the Organisation's ability to operate under restrictive conditions. The potential impacts were identified with the onset of the first wave of COVID-19 and the organisation seamlessly shifted to a roster-based working environment with part of the staff, mainly back office operations, working from home. This was possible mainly due to the fact that the required technological infrastructure was already in place in the Organisation a few years prior to the onset of the pandemic. The impact on the customers too was unprecedented, and the Organisation managed to provide all the relief measures formulated by the Government to affected sectors. The restrictive nature of the operations brought in a new challenge due to the relaxation of the internal controls on some operations. Yet by the time of the pandemic, the comprehensive risk management strategies had transitioned to a review mechanism of key controls of the business operations. All of the aforementioned factors enabled CBC Finance Ltd. to face the challenges posed by the pandemic, and we are confident that the solid foundation of our risk management practices will enable us to face future challenges as well.

Despite all these challenges, we believe that the year also presented considerable opportunities to drive further digital enablement, deepen customer relationships, and direct lending to sectors earmarked to drive the country's economic recovery.

RISK MANAGEMENT FRAMEWORK OF CBC FINANCE

CBC Finance has adopted an enterprise-wide approach to risk management and has implemented an Integrated Risk Management (IRM) Framework, clearly setting out the policies, processes, governance structures, and procedures for managing risks in a manner that balances profitability and financial stability. The significance of a robust risk management framework cannot be over-emphasised during unprecedented times such as the year under review. We have been upgrading the Framework on an ongoing basis with the support of our prestigious parent, the Commercial Bank of Ceylon PLC, and will continue to do so in grounding for more unpredictable, undefined, complex, and ambiguous times ahead. The risk management framework is reinforced by a robust risk governance structure – the organisational arrangement required to ensure a high standard of governance. Risk management is a collective responsibility of the Board of Directors and each and every employee of the Company. The Framework has clearly defined their roles and responsibilities, segregated their duties, and assigned the required authority. The Board is supported by the Board Integrated Risk Management Committee (BIRMC), the Executive Integrated Risk Management Committee (EIRMC) and the Risk Management Department. Together, they ensure that the Company's risk management framework is effectively managed, covering broad risk categories such as Credit Risk, Operational Risk, Market Risk and Financial Risk, IT and CyberSecurity Risk, Legal Risk, and Compliance Risk in order to avoid possible surprises and sudden shockwaves.

The Company's Risk Management Department works with the BIRMC, EIRMC, and Corporate Management to drive the risk management function. In the process, it monitors and reviews risk exposures and risk-related policies and procedures affecting credit, operations, market, financial, liquidity, and any other category of risk that may arise when transacting business operations of the Company, keeping in line with the directives issued by BIRMC and regulators as appropriate. The Risk Management Department submits periodic risk assessments and analytics to the EIRMC and the BIRMC for their perusal and decision-making. Corporate Management, with the guidance of the EIRMC, supports such initiatives by conducting the business of the Company in line with the Board-approved Risk Management Policy.

MAJOR RISK MANAGEMENT ACHIEVEMENTS DURING PERIOD UNDER REVIEW IN 2021

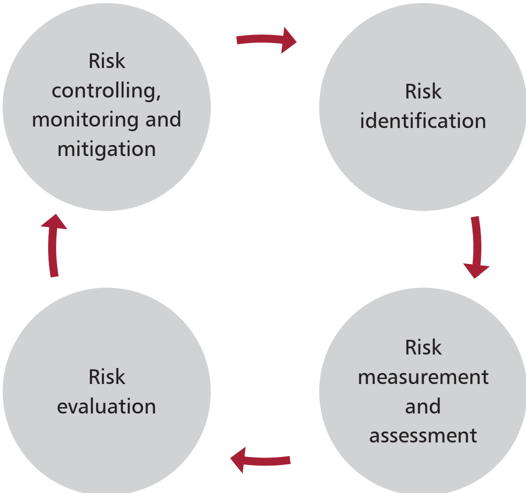
- Actively involved in the reduction of NPAs by providing improved Risk Management Techniques to improve asset quality.
- Formulation and implementation of the Risk Management Policy, Systems, and Procedures towards developing and institutionalising a risk culture within the Organisation.
- Staff were supported on all health and safety matters, thereby ensuring over 99% of the staff are fully vaccinated.
- Operational losses were at an all-time low due to strengthened Operational Risk practices.
- The Company was not exposed to any cybersecurity breaches during the year.
- Conducting training programmes to increase credit risk management awareness, knowledge, skills, and expertise.
- The introduction of Credit Risk Rating Models.

PROPOSED KEY INITIATIVES FOR THE YEAR 2022

- Development of a key policy framework and procedures to manage enterprise risk.
- Developing a robust Key Risk Indicators to facilitate a comprehensive view of risk associated with the Company's day-to-day operations.
- Reviewing risk related policies and procedures and informing management about the corrective actions that must be taken to mitigate identified risks and avoid repetition.
- Regular review of the liquidity and capital position of the Company and enlightenment of the Management to take necessary actions as appropriate towards meeting the regulatory requirements.

RISK GOVERNANCE STRUCTURE

THE RISK MANAGEMENT PROCESS OF THE CBC FINANCE



Risk Identification

Risk identification is the process of identifying potential risks that may arise when transacting the business of a company. The main tools used in risk identification and assessment at the Company are the risk control assessment framework and the risk register. Apart from that, constant discussions between risk owners and monitoring units make certain that the probable risks of each new activity, product or process are identified prior to commencement.

Risk measurement and assessment

Analyse the Company's exposure to identified risks, assess the impact of such risks on the Company, and estimate the extent of possible losses and damages in the event such identified risks do materialise and occur.

Risk assessment includes;

- Gathering and analysing of external and internal frauds 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.
- Review of ever-changing market conditions that might have an impact on the Company.
- Ensure the reliability of the IT system by evaluating physical controls, access controls, and network vulnerabilities.

Risk Evaluation

Compares the estimated 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 evaluated and adjusted from time to time to reflect the vulnerabilities in the market and the macroeconomic sentiments the Company is confronted with.

The Company uses a range of techniques to analyse risk, including analytical review, stress testing, and scenario analysis.

Risk controlling, monitoring and mitigation

This process is defined as the implementation of policies and procedures that helps the avoidance or minimisation of risks, which could be further extended towards risk transfer and risk financing. Risk acceptance processes enable consideration of the risk-rewards trade-offs and the cost of other risk management options such as avoidance or limitation prior to 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 are another example of a risk acceptance process.

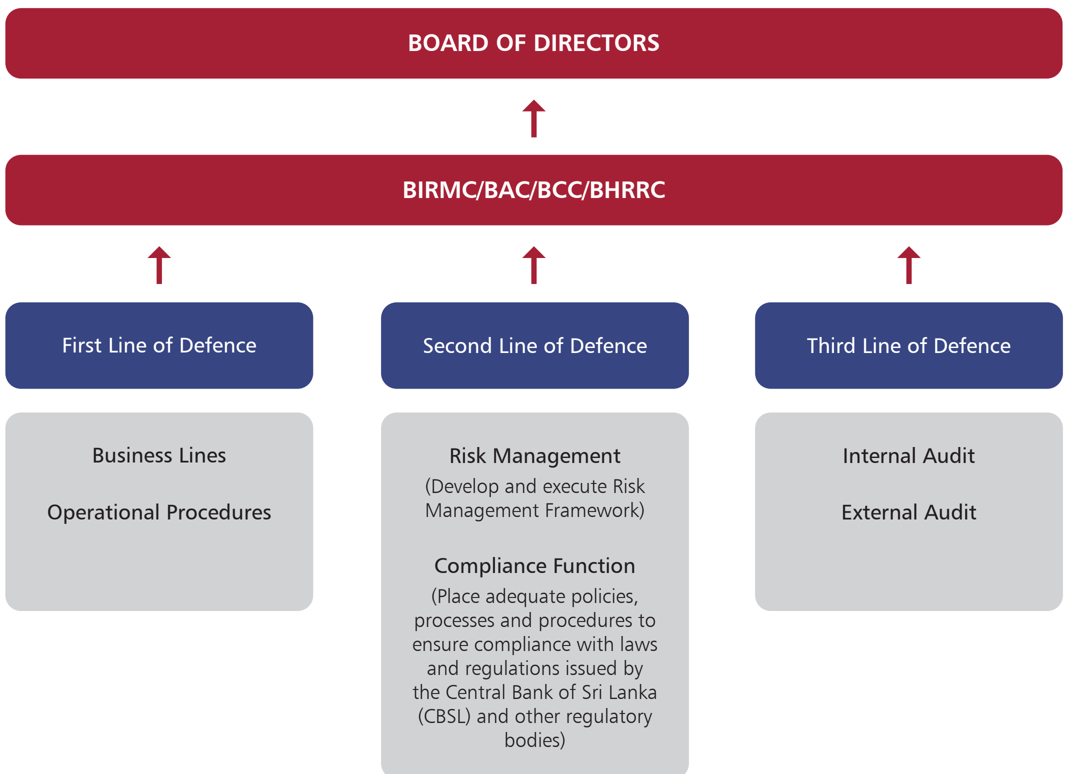
Key Risk Indicators (KRIs) are critical reflectors of undesirable events or thresholds that can have an impact on the Company. Monitoring the impact of changes in the key factors that affect the Company's performance is done through the KRIs, which thus forms the early warning signs for the Company. The key risk indicators for all the key risks are formulated based on identified key areas that are reviewed and analysed frequently and monitored.

IDENTIFICATION OF KEY RISKS AND MITIGATING STRATEGIES

Risk category/type	Risk description	Risk mitigating strategies
Credit risk	Credit risk is the possibility of losses due to non-payment by borrowers or counterparties to meet their financial obligations to the Company. The CBCF's credit portfolio remains diversified in terms of customers, product types, geographical location, business segments, etc.	• Portfolio diversification in terms of customers and industry segments. • Proactive action on facilities currently under moratorium schemes. • The credit risk management organisation structure is headed by a Chief Risk Officer (CRO), who in turn reports to the Board Integrated Risk Management Committee. • Written policies on credit granting procedure, credit risk management, loan review mechanisms, and yearly policy review. • Established an independent Credit Administration Unit to ensure accuracy and maintenance of security documentation of credit facilities and limit setting.
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 risk-related incident reports are investigated and required remedial actions are recommended and reported to relevant Key Management Personnel. • Significant risk exposures are reported to business/ operations units as and when identified. • Minimise the financial impact of operational risk related losses through adequate monitoring, follow-up and utilisation of insurance cover. • Employees of the branch network and all other departments receive ongoing training on the operational risk management framework.
Market risk	Market risk is the risk that changes in market prices, such as interest rates, equity prices, and credit spreads, will have an impact on CBC Finance's income or the value of its financial instruments holdings. Since the Company's operations involve the granting of accommodation, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk for the Company.	• Constant monitoring of cash flow, investment opportunities, and regulatory developments. • Structural balance sheet management with close monitoring of maturity mismatch. • Cautious management of debt instruments positions • The main focus is on the liquid assets ratio, maturity gap analysis, and the capital adequacy ratios on maturity and funding concentration.
IT and Cybersecurity risk	Cyber risk is the risk of financial loss, disruption, or damage to an organisation caused by issues with the information technology systems they use. While cyber risks can have very significant consequences for an organisation, they most commonly arise as a result of operational mistakes.	• Security solution for the prevention of data leakage. • Strengthened technical controls such as firewalls, network separation, intrusion prevention, and anti-malware solutions. • Continued and thorough assessment of the IT system is carried out with the expertise and knowledge of the Parent Company's IT department.

Legal risk	Legal risk is the potential for losses due to regulatory or legal action.	• Necessary precautions are taken at the designing stage of transactions to minimise legal risk exposure. • The Company's Legal Division ensures that all business activities are carried out in a manner that complies with the laws and regulations applicable in the country. • Legal Division is responsible for advising Senior Management on any legal issues, reviewing all contracts and agreements, examining documentation related to collateral, and representing the Company in courts of law when necessary.
Compliance risk	Compliance risks are the potential threats to the Company that result from non-conformance with laws, regulations, rules, directions, prescribed practices, and ethical standards.	• A dedicated Compliance Officer has been appointed to carry out the compliance functions independently. • Regular reviews are carried out to assess the Company's compliance with the regulatory and statutory requirements.

THREE LINES OF DEFENCE



Front and back office personnel involved in business operations carry out their duties in accordance with regulatory compliance, approved internal policies, procedures, and controls.

- Owns and manages associated risks.
- Evaluates risk using informed judgement.
- Ensures that risks accepted are within the Company's risk appetite and risk management policies.
- Comprises a robust system of internal controls and an organisation culture of risk awareness, which is nurtured with regular training.

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 undertaken are within the level of defined risk appetite. EIRMC ensures that principal and emergent risks, as well as events and outcomes which may significantly impact profitability and reputation, are identified, assessed and responded to through appropriate controls, whilst apprising the Board in this regard. The Compliance Division coordinates the risk management processes across the Company to ensure that risk management and internal control systems are ingrained in the Company culture.

- Independently monitors effective implementation of risk management framework.
- Facilitates high levels of risk awareness throughout the Organisation and ensures implementation of the risk management framework.
- Maintains a sound risk management policy framework.
- Carries out measurement, monitoring, and reporting to the Management and Board Integrated Risk Management Committee.
- Challenges the First Line of Defence objectively.

THIRD LINE OF DEFENCE

Internal and external audits are the last layers of control that provide assurance of the effective implementation of processes and controls. Internal Auditors convey assurance through their review reports to the Board Audit Committee on a monthly basis.

- Facilitates high standards of governance and control systems.
- Carries out timely reporting of findings to the Management and the Board Audit Committee.

KEY RISK INDICATORS OF THE COMPANY

Ratio	December 2021	March 2021
Core capital adequacy ratio; core capital as a percentage of risk weighted assets	**25.49**	26.57
Total capital adequacy ratio; total capital as a percentage of risk weighted assets	**25.49**	26.57
Capital funds to total deposit liabilities ratio (%)	**62.49**	64.80
Gross non-performing accommodation ratio (%)	**13.14**	14.08
Net non-performing accommodation ratio (%)	**1.30**	3.48
Return on assets (before tax) (%)	**0.88**	1.50
Return on equity (after tax) (%)	**1.03**	2.40
Earnings per share (LKR)	**0.15**	0.35
Net assets per share (LKR)	**14.68**	14.53
Fitch rating	**A(lka)/Stable**	A(lka)/Stable

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

For the nine months period ended December 31, 2021

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 member their report together with the audited Financial Statements and the Audit Report thereon of CBC Finance Limited (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. o7 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 March 30, 2022.

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 financial year end from March 31, to December 31, to align its financial reporting with the year end of the parent Bank.

Other than the above, there have been no significant changes in the nature of the principal activities of the Company during the nine months period 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 Sri 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 nine months period ended December 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 Period

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 period 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 period 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 nine months period ended December 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 December 31, 2021 was as follows:

- Mr Kankanam Gamage Don Dharmasena Dheerasinghe (Chairman)
- Dr (Ms) 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 nine months ended December 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 (Ms) 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:

There were no changes to the Board during the nine months period ended December 31, 2021.

2.8 Gross Income

The income of the Company for the nine months period ended December 31, 2021 was LKR 945 Mn. (year ended March 31, 2021 - LKR 1,058 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 period ended December 31,	9 months period ended December 31, 2021 LKR '000	12 Months period ended March 31, 2021 LKR '000	12 Months period ended March 31, 2020 LKR '000
Profit /(loss) before tax	**88,113**	129,443	128,045
Taxation	**(54,870)**	(64,952)	(59,069)
Net other comprehensive income	**(1,347)**	(699)	(915)
Total comprehensive income after tax	**31,896**	63,792	68,061
Unappropriated profit brought forward	**(169,213)**	(229,780)	(294,392)
Adjustment on initial application of SLFRS 9	**–**		–
Profit/(loss) available for appropriation	**(137,317)**	(165,988)	(226,331)
(Transfers)/reversals to/from reserves	**(1,662)**	(3,225)	(3,449)
Final dividend paid	**–**		–
Unappropriated profit/(loss) carried forward	**(138,979)**	(169,213)	(229,780)

4. DIVIDENDS ON ORDINARY SHARES

The Board has not declared any dividends for the nine months period ended December 31, 2021, and financial years 2020/21 and 2019/20.

4.1 Provision for Taxation

Income tax for the nine months period ended December 31, 2021 has been provided at 24% (Income tax rate for the financial year 2020/21 was 24%) 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 December 31, 2021 amounted to LKR 0.01 Mn. (March 31, 2021 – LKR (32) 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:

Period	Nine months period ended December 31, 2021 LKR Mn.	2020/21 LKR Mn.	2019/20 LKR Mn.
Property, plant and equipment	**276**	249	235

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 December 31, 2021 is included in the Financial Statements at LKR 191.4 Mn. (March 31, 2021 – LKR 193.3 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 December 31, 2021 was LKR 3,255 Mn. comprising of 221.8 million ordinary shares (March 31, 2021 – LKR 3,255 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

There were no new shares issued by the Company during the nine months period ended December 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 of the Company at any time during the nine months period ended December 31, 2021 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
Mr Dissanayake Mudiyanselage Upul Nishantha Dissanayake
Mr Gamaralalage Prabath Panduka Perera – Chief Risk Officer (Secretary to the Committee)

Board Credit Committee

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

Board Nominations Committee

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

Board Remuneration Committee:

Dr (Ms) Janaki Padma Kuruppu (Chairperson)
Mr Dimuthu 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 December 31, 2021 or as at March 31, 2021.

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 nine months period ended December 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 period 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 1.79 Mn. (2020/21 - LKR 1.90 Mn.) as audit and related fees by the Company during the period. 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 Section 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. 03 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/
Chief Executive Officer

H D U O Gunasekara
Company Secretary

March 30, 2022

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. 06 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 period.

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 79 of this Report. The Financial Statements for the period ended December 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, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, 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 102 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.

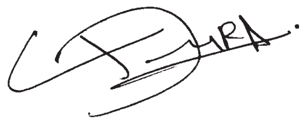
The Directors confirm that to the best of their knowledge, all taxes, dues to or on behalf of employees, statutory dues and levies payable by the Company as at the balance sheet date have been paid or, where relevant, provided for.

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 102 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
June 1, 2022

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. 06 of 2013 of the Central Bank of Sri Lanka.

The Board of Directors is responsible for the adequacy and effectiveness of the CBC Finance Limited'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:

- Various appointed committees are established by the Board, including those mandatary committees as required by the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013, to assist the Board in ensuring the effectiveness of the Company's daily operations and the Company's operations are conducted in line with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- Policies are developed covering all functional areas of the Company and these are recommended by Board appointed committees and are approved by the Board. Such policies are reviewed and approved at least annually.
- 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 on-site 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 2020/21 were attended, and corrective measures were initiated to rectify such concerns.
- The recommendations made by the External Auditor in the nine months period ended December 31, 2021 in connection with the internal control system will be addressed in future.

Since adopting the Sri Lanka Accounting Standard - SLFRS 9 on "Financial Instruments" from April 1, 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. During this period, the Company has set a threshold for individually significant customers and the impairment for loans and advances has been assessed with collective models including individual model. The Company has documented the relevant processes relating to SLFRS 9 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 macro-economic indicators. Further, the Board of Directors have decided to incorporate special staging adjustment for moratorium granted facilities with the opinions of external consultants.

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 period, 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 AUDITORS' REVIEW OF THE STATEMENT

The External Auditors have reviewed the above Directors' Statement on Internal control for the period ended December 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/
Chief Executive Officer

Raja Senanayake
Chairman
Audit Committee

June 1, 2022

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

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

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

THE BOARD OF DIRECTORS OF CBC FINANCE LIMITED

Report on the Directors' statement on internal control over financial reporting

We were engaged by the Board of Directors of CBC Finance Limited ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the period ended December 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. 03 of 2008/ Section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction No. 04 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.

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.

KPMG

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.

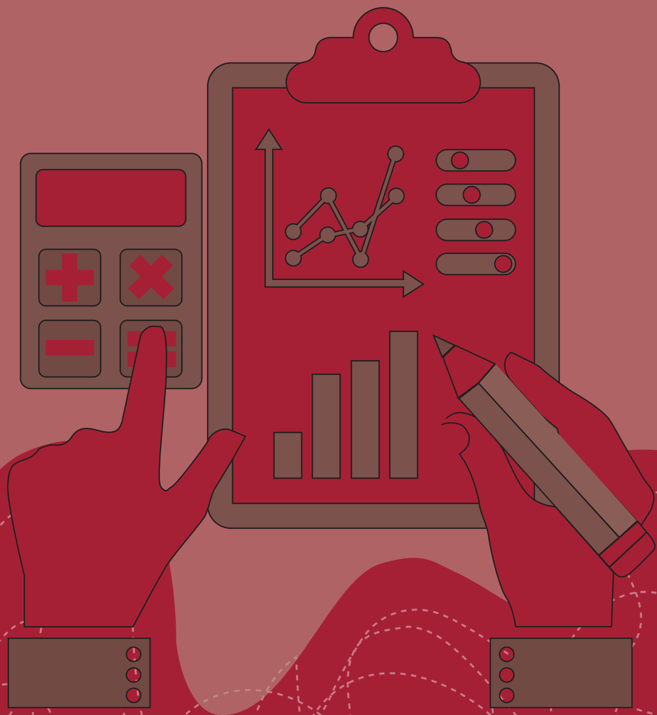
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Auditors' 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, Sri Lanka

June 1, 2022



FINANCIAL REPORTS

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

Tel : +94 - 11 542 6426
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TO THE SHAREHOLDERS OF CBC FINANCE LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the Financial Statements of CBC Finance Limited, ("the Company"), which comprise the statement of financial position as at December 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 period 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 December 31, 2021, and of its financial performance and its cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Other information

Management is responsible for the other information. These Financial Statements do not include the other information.

Our opinion on the Financial Statements do not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

KPMG

Auditor's responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka

March 30, 2022

Statement of Profit or Loss and Other Comprehensive Income

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
→ Gross income	10	**944,665,412**	1,057,909,452
Interest income		**867,325,363**	963,004,076
Interest expenses		**(334,440,001)**	(480,981,089)
→ Net interest income	11	**532,885,362**	482,022,987
Fee and commission income		**47,139,286**	61,590,055
Fee and commission expenses		**(2,733,253)**	(1,341,109)
→ Net fee and commission income	12	**44,406,033**	60,248,946
Other operating income	13	**30,200,763**	33,315,321
→ Total operating income		**607,492,158**	575,587,254
Impairment charges and other losses	14	**(308,796,124)**	(196,479,621)
→ Net operating income		**298,696,034**	379,107,633
→ Operating expenses			
Personnel expenses	15	**(89,536,207)**	(104,423,835)
Depreciation and amortisation		**(27,276,191)**	(29,804,077)
Other operating expenses	16	**(68,434,520)**	(74,626,468)
Fair value losses on investment properties	24	**–**	(7,711,634)
→ Operating profit before taxes on financial services		**113,449,116**	162,541,619
Value added tax on financial services		**(25,336,328)**	(33,098,736)
→ Profit before taxation		**88,112,788**	129,442,883
Income tax expense	17	**(54,869,724)**	(64,952,304)
→ Profit for the period		**33,243,064**	64,490,579
→ Other comprehensive income			
→ Items that will never be re-classified to profit or loss			
Revaluation surplus of property, plant and equipment, net of tax			
Effect of change in tax rate	17	**–**	4,571,158
		–	4,571,158
Actuarial losses on defined benefit plans, net of tax			
Actuarial losses on defined benefit plans	31	**(1,772,400)**	(838,044)
Deferred tax reversal on actuarial losses	17	**425,376**	201,131
Effect of change in tax rate	17	**–**	(62,116)
		(1,347,024)	(699,029)
Unquoted equity securities, net of tax			
Net change in fair value of FVOCI financial assets	39	**2,560**	116,884
Deferred tax charge on fair value reserve	17	**(614)**	(28,052)
Effect of change in tax rate	17	**–**	4,463
		1,946	93,295
→ 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		**114,499**	422,423
Deferred tax reversal/(charge) on fair value reserve	17	**42,361**	(101,382)
Effect of change in tax rate	17	**–**	(27,929)
		156,860	293,112
→ Other comprehensive income for the period, net of tax		**(1,188,218)**	4,258,536
→ Total comprehensive income for the period		**32,054,846**	68,749,115
Basic earnings per share	18	**0.15**	0.35

Figures in brackets indicate deductions.

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

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
→ Assets			
Cash and cash equivalents	20	**154,599,310**	324,309,571
Financial investments at fair value through other comprehensive income	21	**432,297,623**	511,999,386
Financial investments at amortised cost	22	**406,243,569**	227,314,205
Loans and advances	23	**8,712,636,883**	8,070,139,117
Investment properties	24	**25,150,000**	25,150,000
Property, plant and equipment	25	**276,258,743**	248,941,125
Intangible assets	26	**29,393,058**	31,199,041
Right-of-use assets	27	**53,319,549**	40,590,614
Deferred tax assets	33	**193,579,595**	195,023,364
Other assets	28	**29,569,726**	26,236,364
→ Total assets		**10,313,048,056**	9,700,902,787
→ Liabilities			
Deposit liabilities	29	**5,068,847,716**	4,838,979,172
Due to banks	30	**1,769,503,838**	1,411,123,680
Employee benefits	31	**14,972,957**	11,430,854
Lease liabilities	32	**58,005,421**	43,830,248
Current tax liabilities	34	**44,140,864**	101,505,099
Other liabilities	35	**102,564,487**	71,075,807
→ Total liabilities		**7,058,035,283**	6,477,944,860
→ Equity			
Stated capital	36	**3,254,999,963**	3,254,999,963
Accumulated losses	37	**(138,978,745)**	(169,212,632)
Other reserves	38	**138,991,555**	137,170,596
→ Total equity		**3,255,012,773**	3,222,957,927
→ Total liabilities and equity		**10,313,048,056**	9,700,902,787

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

March 30, 2022
Kandy

Statement of Changes in Equity

	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, 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**
→ Balance as at April 01, 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
→ Comprehensive income								
Profit for the period	–	–	–	–	–	–	33,243,064	33,243,064
Other comprehensive income for the period net of tax	–	–	–	–	158,806	–	(1,347,024)	(1,188,218)
→ Total comprehensive income	–	–	–	–	158,806	–	31,896,040	32,054,846
→ Transactions recognised directly in Equity								
Transfers during the period	–	–	–	1,662,153	–	–	(1,662,153)	–
	–	–	–	1,662,153	–	–	(1,662,153)	–
→ Balance as at December 31, 2021	**3,254,999,963**	**50,000**	**86,114,318**	**31,349,432**	**1,379,916**	**20,097,889**	**(138,978,745)**	**3,255,012,773**

Figures in brackets indicate deductions.

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

Statement of Cash Flows

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
→ Cash flows from operating activities			
Profit before taxation		88,112,788	129,442,883
Adjustments for:			
Interest expenses	11	334,440,001	480,981,089
Impairment charges and other losses	14	308,796,124	196,479,621
Interest income from bank deposits and Government Securities	11	(39,462,846)	(30,079,064)
Dividend income	13	(240,000)	(320,000)
Depreciation	25	13,602,057	14,642,697
Amortisation		13,674,134	15,161,380
Provision for defined benefit plans	31	2,635,278	2,928,599
(Profit)/Loss on sale of property, plant and equipment		(176,377)	24,611
Fair value losses on investment properties	24	–	7,711,634
→ Operating profit before working capital changes		721,381,159	816,973,450
Increase in loans and receivables		(951,293,890)	(1,488,856,250)
Increase in other assets		(30,218,310)	(38,119,995)
Increase/(decrease) in deposit liabilities		(55,780,904)	4,428,690,611
Increase in other liabilities		45,663,850	40,666,979
→ Cash generated from/(used in) operations		(270,248,095)	3,759,354,795
Taxes paid	34	(110,323,064)	(41,414,104)
Gratuity paid	31	(865,575)	(1,113,030)
→ Net cash flows generated from/(used in) operating activities		(381,436,734)	3,716,827,661
→ Cash flows from investing activities			
Purchase of property, plant and equipment	25	(41,059,236)	(29,001,630)
Proceeds from sale of property, plant and equipment		315,938	4,500
Proceeds from sale and maturity of financial investments – FVOCI		79,816,262	(266,604,488)
Purchase of financial investments – at amortised cost		(178,926,804)	(197,328,419)
Purchase of intangible assets	26	(1,518,308)	(22,657,904)
Interest received		39,462,846	30,079,064
Dividend received	13	240,000	320,000
→ Net cash flows (used in) from investing activities		(101,669,302)	(485,188,877)
→ Cash flows from financing activities			
Loans obtained during the period	30	2,170,000,000	2,240,000,000
Repayments of loans during the period	30	(1,761,183,119)	(5,886,427,841)
Interest paid on loans	30	(40,728,086)	(332,099,694)
Interest paid on overdraft		(18,432)	(678,025)
Net proceeds from the issue of ordinary shares	36	–	999,999,999
→ Net cash flows (used in)/generated from financing activities		368,070,363	(2,979,205,561)
→ Net increase in cash and cash equivalents		(115,035,673)	252,433,223
Cash and cash equivalents at the beginning of the period		247,174,183	(5,259,040)
Cash and cash equivalents at the end of the period *		132,138,510	247,174,183
*** Analysis of cash and cash equivalents at the end of the period**			
Cash and bank balances	20	154,599,310	324,309,571
Bank overdraft	30	(22,460,800)	(77,135,388)
		132,138,510	247,174,183

Figures in brackets indicate deductions.

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

A1. 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.

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 period 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 December 31, 2021 is 145 (March 31, 2020: 145).

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 nine month period ended December 31, 2021 were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on March 30, 2022.

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 that 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 financial year 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 period.

During the period under review, the financial year of the Company was changed to a calendar year commencing the year 2022, to make it in line with the parent Bank. As such the income statement is in respect of the nine month period ended December 31, 2021.

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 of 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 December 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 4.9 – 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. THE EFFECT TO THE PERIOD RESULTS OF THE COMPANY DUE TO CHANGE IN FINANCIAL YEAR END

CBC Finance Limited had an annual financial year end of March 31 up to the financial year ended March 31, 2021, however, its parent company, Commercial Bank of Ceylon PLC including other subsidiaries, follow December 31 as financial year end.

Therefore, Company has changed its financial year end from March 31 to December 31 in the year of 2021.

Accordingly, the current period Financial Statements of the Company contain the results of nine months from April 01, 2021 to December 31, 2021. However, the comparative figures presented in these Financial Statements are for the year ended March 31, 2021 and not entirely comparable with the current period.

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 period. 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 period, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period.

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

4.2 Financial instruments

Recognition and initial measurement

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

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

"Day 1" profit or loss

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

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as, measured at: amortised cost; FVOCI (Fair value through OCI) – debt investment; FVOCI – equity investment; or FVTPL (Fair value through profit or loss).

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

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

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

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

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

Financial assets classified as measured at FVOCI and amortised cost and financial liabilities classified as measured at amortised cost are presented in 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 (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 not credit-impaired are referred to as "Stage 2 financial instruments".

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

The Company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised 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 macro-economic indicators. In addition, Management overlay adjustment on the ECL computation, based on the qualitative indicators on forward looking macro-economic factors were considered with the objective of capturing the impact of COVID-19 related uncertainties and volatilities.

Measurement of ECLs

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

Individual assessment of impairment

For financial assets above a predetermined threshold (i.e. for individually significant financial assets), if there is objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred). The carrying amount of the asset was reduced through the use of a provision account and the amount of impairment loss was recognised in profit or loss. Interest income is accrued and recorded in "interest income" on the reduced carrying amount/ impaired balance for stage 03 loans and others to be continued on gross carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The present value of the estimated future cash flows was discounted at the financial asset's original EIR.

Collective assessment of impairment

Those financial assets for which, the Company determined that no provision was required under individual impairment, are then collectively assessed for any impairments that had been incurred but not identified. For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of similar risk characteristics such as collateral type and product type. Future cash flows on a group of financial assets that were collectively evaluated for impairment, are estimated based on the historical loss experiences of assets with similar credit risk characteristics to those in the Group.

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/hire purchase 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 Derecognition of investment property

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

4.6.5 Transfer in and out of investment property

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

4.7 Property, plant and equipment

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

4.7.1 Recognition

Property, plant 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 Derecognition

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

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

4.7.7 Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is 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 Derecognition 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 derecognition of an item of intangible asset is included in profit or loss when the item is derecognised.

4.8.5 Amortisation of intangible assets

Intangible assets, except for goodwill, are amortised on a straightline 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 period 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).

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 December 31, 2021 or March 31, 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 period.

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 period 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 period 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.

6.1.3 Tax exposures

In determining the amount of current and deferred tax, the Company considers the favourable/adverse impact to the tax liability due to assessments, revision to legislature etc. Such changes to tax liabilities could impact the tax expense in the period in which such revision is considered, as an over or under provision.

6.2 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.

6.3 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.

6.4 Changes proposed by the Government budget 2022

6.4.1 Imposition of a tax surcharge

As per provisions of the Government Bill issued on February 07, 2022 (to be passed in parliament for enactment), if the aggregate of the taxable income of the holding company and all subsidiaries in a group of companies, for the Year of Assessment 2020/21, exceed rupees two thousand million (LKR 2 Bn.), each company in the group of companies is liable to pay Surcharge Tax calculated at twenty five per centum on the taxable income (after deducting profit from dividends received from subsidiaries included in the taxable income). The surcharge tax is payable in two equal instalments on or before, March 31 and June 30 of 2022, to the Commissioner General of Inland Revenue.

6.4.2 Increase in the VAT FS rate from 15% to 18%

As per provisions of the Government Bill issued on January 07, 2022 it has been proposed to increase the VAT FS payable by 3% and will be effective from January 01, 2022.

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;

(a) quoted market prices in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

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

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

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

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

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

A number of new standards are effective for annual periods beginning after January 01, 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these Financial Statements. The following amended standards are not expected to have a significant impact on the Company's financial statements.

9.1 Property, plant and equipment: proceeds before intended use (amendments to LKAS 16)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

9.2 Interest benchmark reform phase 2 (amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16)

The amendments in interest rate benchmark reform clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

9.3 Onerous contracts – cost of fulfilling the contract (amendments to LKAS 37)

The amendments specify that the "cost of fulfilling" a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

9.4 Reference of conceptual framework (amendments to LKAS 3)

The amendments update an outdated reference to the Conceptual Framework in LKAS 3 without significantly changing the requirements in the standard.

9.5 Classification of liabilities as current or non-current (amendments to LKAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

- COVID-19 related rent concessions beyond June 30, 2021 (amendments to IFRS 10)
- Annual improvements to IFRS standard 2018-2020
- Property, Plant and Equipment; proceeds before Intended Use (amendments to IAS 16)

9.6 Disclosure of accounting policies (amendment to LKAS 1)

Amendments to LKAS 1 presentation of Financial Statements is to help companies provide useful accounting policy disclosures. The key amendments to LKAS 1 include requiring companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

9.7 Deferred tax related to assets and liabilities arising from a single transaction (amendment to LKAS 12)

Targeted amendments to LKAS 12 income taxes clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions. The amendments narrow the scope of the Initial Recognition Exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

9.8 Other standards

The following new and amended standards are not expected to have a significant impact on the Company's Financial Statements.

- SLFRS 17 insurance contracts and amendments of SLFRS 17 insurance contracts.
- Definition of accounting estimates (amendments to IAS 8).

10. GROSS INCOME

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Interest income	11.1	**867,325,363**	963,004,076
Fee and commission income	12.1	**47,139,286**	61,590,055
Other operating income	13	**30,200,763**	33,315,321
Total income		**944,665,412**	1,057,909,452

11. NET INTEREST INCOME

11.1 Interest income

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Cash and cash equivalents	**9,310,188**	9,694,352
Financial investments measured at FVOCI	**12,314,142**	18,848,657
Financial investments at amortised cost	**17,838,516**	1,536,055
Loans and advances	**827,862,517**	932,925,012
Total interest income	**867,325,363**	963,004,076

11.2 Interest expenses

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Interest on deposit liabilities	**285,649,448**	187,629,989
Due to banks	**44,984,383**	289,424,140
Interest expense on lease liabilities	**3,806,170**	3,926,960
Total interest expenses	**334,440,001**	480,981,089
Net interest income	**532,885,362**	482,022,987

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.

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Financial assets measured at amortised cost	**855,011,221**	944,155,419
Financial assets measured at FVOCI	**12,314,142**	18,848,657
Total	**867,325,363**	963,004,076
Financial liabilities measured at amortised cost	**334,440,001**	480,981,089

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.

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Fee and commission income		
Loans and advances related services	**38,477,662**	35,926,681
Other financial services	**8,661,624**	25,663,374
Total fee and commission income	**47,139,286**	61,590,055
Fee and commission expenses		
Loans and advances related services	**2,327,159**	1,341,109
Other financial services	**406,094**	–
Total fee and commission expenses	**2,733,253**	1,341,109
Net fee and commission income	**44,406,033**	60,248,946

The fees and commission presented in this note include income of LKR 47.1 Mn. (March 31, 2021: LKR 61.6 Mn.) and expense of LKR 2.7 Mn. (March 31, 2021: 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

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Dividend income	**240,000**	320,000
Recoveries of loans written-off	**28,853,874**	26,983,954
Profit on disposal of property, plant and equipment	**176,377**	9,430
Rental and other income	**930,512**	6,001,937
Total	**30,200,763**	33,315,321

14. IMPAIRMENT CHARGES AND OTHER LOSSES

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Loans and advances			
Individual impairment		**355,901,641**	–
Collective impairment		**(39,096,123)**	214,678,144
Direct Write off for the period		**–**	4,700
Total impairment charges - Loans and advances	23.1	**316,805,518**	214,682,844
Other financial assets	28.1	**–**	2,711,397
Interest unwinding on stage three contracts		**(8,009,394)**	(20,914,620)
Total impairment charges		**308,796,124**	196,479,621

15. PERSONNEL EXPENSES

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Salaries and other related expenses		**57,463,959**	68,609,970
Employer's contribution to Employees' Provident Fund		**5,640,174**	6,411,616
Employer's contribution to Employees' Trust Fund		**1,410,044**	1,602,910
Gratuity charge for the period	31.1.1	**2,635,278**	2,928,599
Other staff related expenses		**22,386,752**	24,870,740
Total		**89,536,207**	104,423,835

16. OTHER OPERATING EXPENSES

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Directors' emoluments	**3,000,000**	4,130,000
Auditors' remuneration – Audit and audit related services	**2,964,996**	2,001,467
Professional and legal expenses	**2,602,349**	4,434,526
General insurance expenses	**497,178**	567,863
Office administration and establishment expenses	**53,682,172**	57,825,557
Sales, marketing and business promotional expenses	**5,687,825**	5,667,055
Total	**68,434,520**	74,626,468

17. INCOME TAX CHARGE/(REVERSAL)

17.1 Amounts recognised in profit or loss

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Current tax expense			
Provision for the period		**52,958,829**	106,121,814
Under provision in relation to prior years		**–**	2,609,379
		52,958,829	108,731,193
Deferred tax expense			
Reversal/(origination) of deferred tax asset		**1,910,895**	(80,556,519)
Effect of change in tax rate		**–**	36,777,630
	33	**1,910,895**	(43,778,889)
Total		**54,869,724**	64,952,304

17.2 Amount recognised in OCI

	Notes	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Income that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		**425,376**	201,131
Net change in fair value of unquoted equity securities		**(614)**	(28,052)
Effect of change in tax rate		**–**	4,513,505
		424,762	4,686,584
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments)		**42,361**	(101,382)
Effect of change in tax rate		**–**	(27,929)
	33	**467,123**	4,557,273

17.3 Reconciliation of effective tax rate

	%	9 months ended December 31, 2021 LKR	%	Year ended March 31, 2021 LKR
Profit for the period		**33,243,064**		64,490,579
Income tax charge		**54,869,724**		64,952,304
Profit before taxation		**88,112,788**		129,442,883
Tax using the domestic corporation tax rate of 24%	**24**	**21,147,069**	24	31,066,292
Tax effect of aggregate disallowed items	**132**	**116,456,901**	73	95,134,247
Tax effect of aggregate allowable expenses	**-136**	**(119,516,483)**	-46	(58,970,284)
Tax effect of capital portion of rentals	**40**	**34,871,345**	30	38,891,559
Adjustment for prior years	**0**	**–**	2	2,609,379
Deferred tax reversal	**2**	**1,910,892**	-34	(43,778,889)
	62	**54,869,724**	50	64,952,304

17.4 Amounts recognised directly in equity

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

17.5 The income tax provision of the Company is calculated on its adjusted profits at the standard rate of 24% (tax rate has changed to 24% from 28% w.e.f. March 31, 2021), in accordance with the Inland Revenue Act No. 24 of 2017 and amendments thereto.

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.

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Profit attributable to ordinary shareholders for basic earnings per share (LKR)	**33,243,064**	64,490,579
Weighted average number of ordinary shares in issue for basic earnings per share (Note 18.1)	**221,793,474**	186,342,729
Basic earnings per ordinary share (LKR)	**0.15**	0.35

18.1 Weighted average number of ordinary shares in issue

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Issued ordinary shares as at April 01,	**221,793,474**	151,469,986
Effect of shares issued on October 02, 2020 (70,323,488 ordinary shares)	**–**	34,872,743
	221,793,474	186,342,729

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

19. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at December 31, 2021	At amortised cost LKR	Fair value through OCI LKR	Other financial liabilities at amortised cost LKR	Total LKR
Assets				
Cash and cash equivalents	154,599,310	–	–	154,599,310
Financial investments	406,243,569	432,297,623	–	838,541,192
Loans and advances	8,712,636,883	–	–	8,712,636,883
Other assets (Note 28)	15,803,009	–	–	15,803,009
Total financial assets	9,289,282,771	432,297,623	–	9,721,580,394
Liabilities				
Deposit liabilities	–	–	5,068,847,716	5,068,847,716
Due to banks	–	–	1,769,503,838	1,769,503,838
Lease liabilities	–	–	58,005,421	58,005,421
Total financial liabilities	–	–	6,896,356,975	6,896,356,975

As at March 31, 2021	At amortised cost LKR	Fair value through OCI LKR	Other financial liabilities at amortised cost LKR	Total LKR
Assets				
Cash and cash equivalents	324,309,571	–	–	324,309,571
Financial investments	227,314,205	511,999,386	–	739,313,591
Loans and advances	8,070,139,117	–	–	8,070,139,117
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

20. CASH AND CASH EQUIVALENTS

As at	December 31, 2021 LKR	March 31, 2021 LKR
Cash in hand held in local currency	5,546,041	4,335,060
Balances with licensed commercial banks	149,053,269	319,974,511
Total	154,599,310	324,309,571

21. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Investments in unquoted equities	21.1	2,100,826	2,098,266
Investments in Government Securities		430,196,797	509,901,120
Total		432,297,623	511,999,386

21.1 Unquoted equities

	December 31, 2021			March 31, 2021		
	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	2,100,826	100	123,700	2,098,266
Total		123,700	2,100,826		123,700	2,098,266

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	December 31, 2021 LKR	March 31, 2021 LKR
Securities purchased under resale agreements	406,243,569	26,134,631
Investments in money market funds	–	201,179,574
	406,243,569	227,314,205

23. LOANS AND ADVANCES

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Loans and advances		11,627,260,505	11,382,290,191
Less: Unearned income		1,740,496,439	2,355,545,327
Gross loans and advances		9,886,764,066	9,026,744,864
Less: Allowance for impairment losses	23.1	1,174,127,183	956,605,747
Net loans and advances		8,712,636,883	8,070,139,117

23.1 Allowance for impairment losses

As at		December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,		956,605,747	1,061,840,749
Charge for the period - individual impairment		355,901,641	–
Charge for the period - collective impairment		(39,096,123)	214,682,844
Write-off for the period		(99,284,082)	(319,917,846)
As at December/March 31,		**1,174,127,183**	956,605,747

23.1.1 Analysis of allowance for impairment losses by product

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Leases	23.2.1	105,940,157	128,421,164
Hire purchase	23.2.2	125	20,947
Mortgage loans	23.2.3	533,178,065	414,799,730
Other loans	23.2.4	535,008,836	413,363,906
		1,174,127,183	956,605,747

23.2 Analysis by product

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Leases	23.2.1	1,664,945,533	1,210,827,973
Hire purchase	23.2.2	–	25,449
Mortgage loans	23.2.3	4,645,527,475	4,527,357,158
Other loans	23.2.4	2,402,163,875	2,331,928,537
		8,712,636,883	8,070,139,117

23.2.1 Leases

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Gross lease receivable			
Within one year	23.2.1 (a)	1,104,987,150	737,600,522
One to five years	23.2.1 (b)	665,300,358	599,849,372
Over five years	23.2.1 (c)	598,182	1,799,243
		1,770,885,690	1,339,249,137
Less: Allowance for impairment losses		105,940,157	128,421,164
Net lease receivable		**1,664,945,533**	1,210,827,973

23.2.1 (a) Gross lease receivable within one year

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total lease receivable within one year	**1,291,231,345**	889,372,610
Less: Unearned income	**186,244,195**	151,772,088
	1,104,987,150	737,600,522

23.2.1 (b) Gross lease receivable within one to five years

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total lease receivable within one to five years	**812,388,815**	730,789,303
Less: Unearned income	**147,088,457**	130,939,931
	665,300,358	599,849,372

23.2.1 (c) Gross lease receivable over five years

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total lease receivable over five years	**637,760**	2,005,657
Less: Unearned income	**39,578**	206,414
	598,182	1,799,243

23.2.2 Hire purchase

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Gross hire purchase receivable			
Within one year	23.2.2 (a)	**125**	46,396
		125	46,396
Less: Allowance for impairment losses		**125**	20,947
Net hire purchase receivable		**–**	25,449

23.2.2 (a) Gross hire purchase receivable within one year

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total hire purchase rentals receivable	**125**	46,396
Less: Unearned income	**–**	–
	125	46,396

23.2.3 Mortgage loans

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Gross mortgage loans receivable			
Within one year	23.2.3 (a)	**2,175,988,262**	1,696,127,339
One to five years	23.2.3 (b)	**2,753,744,390**	2,761,366,446
Over five years	23.2.3 (c)	**248,972,888**	484,663,103
		5,178,705,540	4,942,156,888
Less: Allowance for impairment losses		**533,178,065**	414,799,730
Net mortgage loans receivable		**4,645,527,475**	4,527,357,158

23.2.3 (a) Gross mortgage loans receivable within one year

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total mortgage loans receivable	**2,732,082,856**	2,313,781,088
Less: Unearned income	**556,094,594**	617,653,749
	2,175,988,262	1,696,127,339

23.2.3 (b) Gross mortgage loans receivable within one to five years

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total mortgage loans receivable	**2,773,769,549**	3,951,382,115
Less: Unearned income	**20,025,159**	1,190,015,669
	2,753,744,390	2,761,366,446

23.2.3 (c) Gross mortgage loans receivable over five years

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total mortgage loans receivable	**268,865,354**	548,241,961
Less: Unearned income	**19,892,466**	63,578,858
	248,972,888	484,663,103

23.2.4 Other loans

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Gross other loans receivable			
Within one year	23.2.4 (a)	**2,644,345,819**	2,324,947,134
One to five years	23.2.4 (b)	**284,070,292**	411,510,851
Over five years	23.2.4 (c)	**8,756,600**	8,834,458
		2,937,172,711	2,745,292,443
Less: Allowance for impairment losses		**535,008,836**	413,363,906
Net other loans receivable		**2,402,163,875**	2,331,928,537

23.2.4 (a) Gross other loans receivable within one year

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total other loans receivable	**2,790,157,451**	2,498,162,474
Less: Unearned income	**145,811,632**	173,215,340
	2,644,345,819	2,324,947,134

23.2.4 (b) Gross other loans receivable within one to five years

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total other loans receivable	**949,370,650**	439,674,129
Less: Unearned income	**665,300,358**	28,163,278
	284,070,292	411,510,851

23.2.4 (c) Gross other loans receivable over five years

As at	December 31, 2021 LKR	March 31, 2021 LKR
Total other loans receivable	**8,756,600**	8,834,458
Less: Unearned income	**–**	–
	8,756,600	8,834,458

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

24. INVESTMENT PROPERTIES

As at	December 31, 2021 LKR	March 31, 2021 LKR
Cost/Valuation		
As at April 01	**25,150,000**	–
Additions during the period	–	32,861,634
Removal during the period	–	–
Fair value losses	–	(7,711,634)
As at December/March 31	**25,150,000**	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	31.12.2021	18.70	310,000	5,800,000	5,800,000	–
Lot 01, plan No: 1366, Boyagama, Pilimathalawa		312.00	62,000	19,350,000	19,350,000	–

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 nine months period ended December 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	10,014,585	13,708,963
Additions	–	–	389,370	2,422,713
Disposals	–	–	–	–
Balance as at December 31	83,730,000	112,220,000	10,403,955	16,131,676
Depreciation				
Balance as at April 01	–	2,609,767	6,674,906	8,497,970
Charge for the period	–	1,966,265	697,763	1,104,010
Disposals	–	–	–	–
Balance as at December 31	–	4,576,032	7,372,669	9,601,980
Building work-in-progress (Note 25.12)				
Carrying value as at December 31, 2021	83,730,000	107,643,968	3,031,286	6,529,696

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

The property, plant and equipment do not include any assets subject to operating lease where the Company is the Lessor.

25.1 Acquisition of property, plant and equipment during the period

During the 9 months period ended December 31, 2021, the Company acquired property, plant and equipment including building work-in-progress to the aggregate value of LKR 41,059,236/- (Year ended 31.03.2021 – LKR 29,001,630/-).

Also, there is a cash payments amounting to LKR 41,059,236/- (Year ended 31.03.2021 – LKR 29,001,630/-) was paid during the 9 months period ended December 31, 2021 for purchases of property, plant and equipment.

Computers and accessories LKR	Sign boards LKR	Telephone system LKR	Electrical equipment LKR	Motor vehicles LKR	Fixtures and fittings LKR	Total December 31, 2021 LKR
44,216,931	**3,748,581**	**1,234,670**	**7,081,613**	**21,767,873**	**7,017,774**	**304,740,990**
15,465,810	**267,900**	**27,800**	**3,300,407**	**390,000**	**1,610,427**	**23,874,427**
(212,910)	**–**	**(28,425)**	**–**	**(274,375)**	**–**	**(515,710)**
59,469,831	**4,016,481**	**1,234,045**	**10,382,020**	**21,883,498**	**8,628,201**	**328,099,707**
21,848,038	**1,008,319**	**746,008**	**2,680,592**	**14,837,760**	**1,766,394**	**60,669,754**
6,443,608	**377,990**	**142,300**	**681,787**	**1,448,236**	**740,098**	**13,602,057**
(92,487)	**–**	**(9,287)**	**–**	**(274,375)**	**–**	**(376,149)**
28,199,159	**1,386,309**	**879,021**	**3,362,379**	**16,011,621**	**2,506,492**	**73,895,662**
						22,054,698
31,270,672	**2,630,172**	**355,024**	**7,019,641**	**5,871,877**	**6,121,709**	**276,258,743**

Computers and accessories LKR	Sign boards LKR	Telephone system LKR	Electrical equipment LKR	Motor vehicles LKR	Fixtures and fittings LKR	Total March 31, 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

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 9 months period ended December 31, 2021 (Year ended 31.03.2021 – 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. (Year ended 31.03.2021 – Nil)

25.5 Property, plant and equipment included fully depreciated assets amounting to LKR 36,698,043/- as at December 31, 2021 (as at 31.03.2021 – LKR 23,761,872/-).

25.6 Measurement of fair values

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

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

25.7 Information on valuation of freehold land and buildings of the Company

Date of valuation: 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 Rambukpitiya, Sri Lanka	No. 187, Katugastota Road, Kandy.	11.93	• Valuation on Comparative Method. • Useful life period of the Building. • Price per perch for land. • Price per square foot for building. (Note – 25.11)	• Useful life period of the Building is 32 years • Price per perch 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
	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	December 31, 2021			March 31, 2021		
	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**	**10,498,987**	**38,986,036**	49,485,023	9,509,287	39,975,736
Total	**89,798,891**	**10,498,987**	**79,299,904**	89,798,891	9,509,287	80,289,604

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 December 31, 2021 specially considering the potential impact from the COVID-19 pandemic. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of property, plant and equipment. The management has taken necessary actions to safeguard the 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 30.4.

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	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,	**4,869,889**	454,815
Additions during the period	**17,184,809**	4,415,074
As at December/March 31,	**22,054,698**	4,869,889

26. INTANGIBLE ASSETS

As at	December 31, 2021 LKR	March 31, 2021 LKR
Computer software		
Cost		
As at April 01,	**43,195,370**	20,537,466
Additions during the period	**1,518,308**	22,657,904
As at December/March 31,	**44,713,678**	43,195,370
Amortisation		
As at April 01,	**11,996,329**	8,920,340
Amortisation for the period	**3,324,291**	3,075,989
As at December/March 31,	**15,320,620**	11,996,329
Carrying value as at December/March 31,	**29,393,058**	31,199,041

27. RIGHT-OF-USE ASSETS

As at	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,	40,590,614	16,460,800
Additions during the period	24,646,180	42,564,150
Removal during the period	(1,567,402)	(6,348,945)
Amortisation for the period	(10,349,843)	(12,085,391)
As at December/March 31,	**53,319,549**	40,590,614

28. OTHER ASSETS

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Financial			
Refundable deposits		6,970,600	6,694,100
Debtors		1,783,178	1,783,178
Insurance premium receivable		11,543,806	11,895,172
		20,297,584	20,372,450
Less: Allowance for impairment losses – debtors and insurance premium receivable	28.1	(4,494,575)	(4,494,575)
		15,803,009	15,877,875
Non-financial			
Prepayments		12,627,507	8,404,737
Other receivables		1,066,410	1,880,952
WHT receivable		72,800	72,800
		13,766,717	10,358,489
Total		29,569,726	26,236,364

28.1 Allowance for impairment losses – debtors and insurance premium receivable

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

29. DEPOSIT LIABILITIES

As at	December 31, 2021 LKR	March 31, 2021 LKR
Savings deposits	145,125,057	17,080,296
Fixed deposits	4,923,722,659	4,821,898,876
	5,068,847,716	4,838,979,172

30. DUE TO BANKS

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Bank overdrafts		22,460,800	77,135,388
Securitised borrowings	30.1	1,553,177,878	610,607,345
Unsecuritised borrowings	30.2	193,865,160	723,380,947
Total		1,769,503,838	1,411,123,680

30.1 Securitised borrowings

For the nine months ended December 31, 2021	As at April 01, 2021 LKR	Loans obtained during the period LKR	Interest expense for the period LKR	Repayments during the period LKR	As at December 31, 2021 LKR
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	610,607,345	2,170,000,000	20,838,079	(1,248,267,546)	1,553,177,878
Total	610,607,345	2,170,000,000	20,838,079	(1,248,267,546)	1,553,177,878

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

30.2 Unsecuritised borrowings

For the nine months ended December 31, 2021	As at April 01, 2021 LKR	Loans obtained during the period LKR	Interest expense for the period LKR	Repayments during the period LKR	As at December 31, 2021 LKR
Direct bank borrowings					
Bank of Ceylon	483,740,794	–	10,998,682	(494,739,476)	–
DFCC Bank PLC	239,640,153	–	13,129,190	(58,904,183)	193,865,160
Total	723,380,947	–	24,127,872	(553,643,659)	193,865,160

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

30.3 Institutional borrowings

Institution	As at 01.04.2021 LKR	Loans obtained during the period LKR	Interest expense for the period LKR	Repayments Capital LKR	Repayments Interest LKR	As at December 31, 2021 LKR	Tenure of loan	Security offered	Prevailing interest rate %
Commercial Bank of Ceylon PLC	610,607,345	2,170,000,000	20,838,079	1,232,087,100	16,180,446	**1,553,177,878**	5 Years/ revolving	Primary property mortgage and mortgage over lease and loan receivables	7.91
Bank of Ceylon	483,740,794	–	10,998,682	483,333,305	11,406,171	**–**	5 Years	Commercial Bank letter of comfort	
DFCC Bank PLC	239,640,153	–	13,129,190	45,762,714	13,141,469	**193,865,160**	5 Years	Commercial Bank letter of comfort	9.37
	1,333,988,292	2,170,000,000	44,965,951	1,761,183,119	40,728,086	**1,747,043,038**			

30.4 Assets pledged

The following assets have been pledged as security for liabilities.

Nature of assets	Facility	December 31, 2021 LKR	March 31, 2021 LKR
Lease and loan receivable	Commercial Bank of Ceylon PLC	**3,263,946,730**	3,964,766,458
Property at No. 182 & 187, Katugastota Road, Kandy	Commercial Bank of Ceylon PLC	**75,000,000**	75,000,000
		3,338,946,730	4,039,766,458

31. EMPLOYEE BENEFITS

31.1 Defined benefit plans

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Movement in the present value of the defined benefit obligations			
As at April 01,		**11,430,854**	8,777,241
Included in profit or loss			
Current service cost	31.1.1	**1,949,427**	2,050,874
Interest cost	31.1.1	**685,851**	877,724
		2,635,278	2,928,599
Included in other comprehensive income			
Actuarial losses during the period	31.1.2	**1,772,400**	838,044
Payments made during the period		**(865,575)**	(1,113,030)
As at December/March 31,		**14,972,957**	11,430,854

31.1.1 Expense recognised in profit or loss

As at	December 31, 2021 LKR	March 31, 2021 LKR
Current service cost for the period	1,949,427	2,050,874
Interest cost for the period	685,851	877,724
Total	2,635,278	2,928,598

31.1.2 Amount recognised for defined benefit obligation in other comprehensive income

As at	December 31, 2021 LKR	March 31, 2021 LKR
Cumulative losses as at April 01,	2,879,968	2,041,924
Actuarial losses recognised during the period	1,772,400	838,044
Cumulative losses as at December/March 31,	4,652,368	2,879,968

31.1.3 Actuarial assumptions

As at		December 31, 2021 %	March 31, 2021 %
Discount rate (p.a.)		10.8	8.0
Salary increment rate (p.a.)		15	10
Staff turnover		13	11
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 December 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	December 31, 2021		March 31, 2021	
	Increase LKR	Decrease LKR	Increase LKR	Decrease LKR
Discount rate (1% movement)	(1,073,492)	1,230,940	(791,846)	903,081
Salary increment rate (1% movement)	1,190,698	(1,061,198)	921,728	(823,749)

32. LEASE LIABILITIES

As at	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,	43,830,248	17,680,960
Additions during the period	24,646,180	42,564,150
Removal during the period	(1,817,914)	(6,799,242)
Accrual of interest for the period	3,806,170	3,926,960
Payments made during the period	(12,459,263)	(13,542,580)
As at December/March 31,	58,005,421	43,830,248

32.1 Amounts recognised in Financial Statements

32.1.1 Amounts recognised in profit or loss under SLFRS 16

As at	December 31, 2021 LKR	March 31, 2021 LKR
Interest on lease liabilities	3,806,170	3,926,960
Right-of-use asset amortisation	10,349,843	12,085,391
Expenses relating to short-term leases	2,169,375	1,721,378

32.1.2 Amounts recognised in statement of cash flows under SLFRS 16

As at	December 31, 2021 LKR	March 31, 2021 LKR
Lease interest paid	(3,806,170)	(3,926,960)
Payment of lease liabilities	(8,653,093)	(9,615,620)

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	December 31, 2021 LKR	March 31, 2021 LKR
Less than one year	16,551,892	13,956,781
One to two years	17,253,280	11,497,645
Two to three years	18,041,730	11,589,480
Three to four years	11,520,560	11,275,850
Four to five years	3,270,150	2,744,720
Over five years	–	–
	66,637,612	51,064,476

33. DEFERRED TAX ASSETS

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,		(195,023,364)	(146,687,202)
Origination/(reversal) of temporary differences			
Recognised in profit or loss	33.2	1,910,892	(43,778,889)
Recognised in other comprehensive income	33.2	(467,123)	(4,557,273)
As at December/March 31,		(193,579,595)	(195,023,364)

33.1 Summary of net deferred tax

As at	December 31, 2021		March 31, 2021	
	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)	139,964,051	33,591,372	221,519,708	53,164,730
Accelerated depreciation for tax purposes – Own assets	49,361,707	11,846,810	45,794,706	10,990,729
Accelerated depreciation for tax purposes – Right-of-use assets	53,319,549	12,796,692	40,590,614	9,741,747
Revaluation surplus on buildings	67,962,843	16,311,082	69,078,823	16,578,918
Tax on capital assets (lands) (Note 33.3)	43,416,132	10,419,872	43,416,132	10,419,872
Unrealised gain on FVOCI	69,571	16,697	–	–
	354,093,853	84,982,525	420,399,983	100,895,996
Deferred tax assets				
Defined benefit plans	14,972,956	3,731,697	11,430,854	2,743,405
Carried forward unclaimed impairment losses	1,083,908,161	260,137,959	1,174,475,563	281,874,135
Amortisation of right-of-use assets	58,005,421	13,921,301	43,830,248	10,519,260
Unrealised losses on FVOCI	–	–	47,486	11,397
Fair value losses on investment properties	7,711,634	771,163	7,711,634	771,163
	1,164,598,172	278,562,120	1,237,495,785	295,919,360
Net deferred tax assets as at December/March 31,	(810,504,319)	(193,579,595)	(817,095,802)	(195,023,364)

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	
	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR	As at December 31, 2021 LKR	As at March 31, 2021 LKR
Deferred tax liabilities						
Accelerated depreciation for tax purposes – Lease assets (Note 33.4)	**(19,573,358)**	(50,325,586)	**–**	–	**33,591,372**	53,164,730
Accelerated depreciation for tax purposes – Own assets	**856,081**	(5,054,714)	**–**	–	**11,846,810**	10,990,729
Amortisation of right-of-use assets	**3,054,945**	5,132,723	**–**	–	**12,796,692**	9,741,747
Revaluation surplus on buildings	**(267,836)**	(345,269)	**–**	(2,834,516)	**16,311,082**	16,578,918
Revaluation surplus on lands (Note 33.3)	**–**	–	**–**	(1,736,642)	**10,419,872**	10,419,872
Unrealised gain on FVOCI	**69,841**	–	**(53,144)**	–	**16,697**	–
	(15,860,327)	(50,592,846)	**(53,144)**	(4,571,158)	**84,982,525**	100,895,996
Deferred tax assets						
Defined benefit plans	**(562,916)**	(146,761)	**(425,376)**	(139,015)	**3,731,697**	2,743,405
Carried forward unclaimed impairment losses	**21,736,176**	13,300,472	**–**	–	**260,137,959**	281,874,135
Amortisation of right-of-use assets	**(3,402,041)**	(5,568,591)	**–**	–	**13,921,301**	10,519,260
Unrealised loss on FVOCI	**–**	–	**11,397**	152,900	**–**	11,397
Fair value losses on investment properties	**–**	(771,163)	**–**	–	**771,163**	771,163
	17,771,219	6,813,957	**(413,979)**	13,885	**278,562,120**	295,919,360
Deferred tax effect on statement of profit or loss and other comprehensive income	**1,910,892**	(43,778,889)	**(467,123)**	(4,557,273)		
Net deferred tax assets as at December/March 31,					**(193,579,595)**	(195,023,364)

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% 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 December 31, 2021 which were entered into prior to April 01, 2018.

34. CURRENT TAX LIABILITIES

As at	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,	**101,505,099**	34,154,410
Provision for the year	**52,958,829**	106,121,814
Under provision in relation to prior years	–	2,609,379
WHT reversal in relation to prior years	–	33,600
Payments made during year	**(110,323,064)**	(41,414,104)
As at December/March 31,	**44,140,864**	101,505,099

35. OTHER LIABILITIES

As at	December 31, 2021 LKR	March 31, 2021 LKR
Financial		
Trade payables	**25,951,290**	–
	25,951,290	–
Non-financial		
Accrued expenses	**70,885,442**	69,880,687
Stamp duty payable	**5,727,755**	1,195,120
Total	**102,564,487**	71,075,807

36. STATED CAPITAL

	December 31, 2021		March 31, 2021	
	Number of shares	Value of shares LKR	Number of shares	Value of shares LKR
Fully paid ordinary shares				
As at April 01,	**221,793,474**	**3,254,999,963**	151,469,986	2,254,999,964
Issue of ordinary shares	–	–	70,323,488	999,999,999
As at December/March 31,	**221,793,474**	**3,254,999,963**	221,793,474	3,254,999,963

36.1 Shareholders as at,

	2021 Holding %	December 31, 2021 Number of shares	March 31, 2021 Number of shares
Commercial Bank of Ceylon PLC	100	**221,793,474**	221,793,474
Total	100	**221,793,474**	221,793,474

37. ACCUMULATED LOSSES

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
As at April 1,		(169,212,632)	(229,779,653)
Profit for the period		33,243,064	64,490,579
Actuarial losses on defined benefit plans, after tax		(1,347,024)	(699,029)
Transferred to statutory reserve fund	38.1	(1,662,153)	(3,224,529)
As at December/March 31,		**(138,978,745)**	(169,212,632)

38. OTHER RESERVES

As at	Notes	December 31, 2021 LKR	March 31, 2021 LKR
Capital reserve		50,000	50,000
Statutory reserve fund	38.1	31,349,432	29,687,279
Revaluation reserve	38.2	86,114,318	86,114,318
Fair value reserve	38.3	1,379,916	1,221,110
General reserve	38.4	20,097,889	20,097,889
Total		**138,991,555**	137,170,596

38.1 Statutory reserve fund

As at	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,	29,687,279	26,462,750
Transferred from retained earnings	1,662,153	3,224,529
As at December/March 31,	31,349,432	29,687,279

"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	December 31, 2021 LKR	March 31, 2021 LKR
As at April 01,	86,114,318	81,543,160
Effect on change in tax rate	–	4,571,158
As at December/March 31,	86,114,318	86,114,318

38.3 Fair value reserve

The fair value reserve comprises;

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

38.4 General reserve

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

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.

December 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	2,100,826	–	–	2,100,826	2,100,826
Investments in Government Securities		430,196,797	–	430,196,797	–	430,196,797
		432,297,623				
Financial assets not measured at fair value						
Cash and cash equivalents	Amortised cost	154,599,310	–	–	–	–
Financial investment		406,243,569	–	–	–	–
Loans and advances		8,712,636,883	–	–	–	–
Other assets (Note 28)		20,297,584	–	–	–	–
		9,293,777,346				
Financial liabilities not measured at fair value						
Deposit liabilities	Amortised cost	5,068,847,716	–	–	–	–
Due to banks		1,769,503,838	–	–	–	–
Lease liabilities		58,005,421	–	–	–	–
		6,896,356,975				

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		8,070,139,117	–	–	–	–
Other assets (Note 28)		20,372,450	–	–	–	–
		8,642,135,343				
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				

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, 2020	1,981,382
– Net change in fair value (unrealised)	116,884
Balance as at March 31, 2021	2,098,266
Balance as at April 01, 2021	2,098,266
– Net change in fair value (unrealised)	2,560
Balance as at December 31, 2021	2,100,826

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 repricing 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 nine month period ended December 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:

	December 31, 2021			March 31, 2021		
	Within 12 Months LKR	After 12 Months LKR	Total as at 31.12.2021 LKR	Within 12 Months LKR	After 12 Months LKR	Total as at 31.03.2021 LKR
Assets						
Cash and cash equivalents	154,599,310	–	154,599,310	324,309,571	–	324,309,571
Financial investments – FVOCI	430,196,797	2,100,826	432,297,623	509,901,120	2,098,266	511,999,386
Financial investments – Amortised cost	406,243,569	–	406,243,569	227,314,205	–	227,314,205
Loans and advances	5,221,645,122	3,490,991,761	8,712,636,883	4,254,417,757	3,815,721,360	8,070,139,117
Investment properties	–	25,150,000	25,150,000	–	25,150,000	25,150,000
Property, plant and equipment	327,281	275,931,462	276,258,743	–	248,941,125	248,941,125
Intangible assets	–	29,393,058	29,393,058	–	31,199,041	31,199,041
Right of use assets	14,089,008	39,230,541	53,319,549	11,537,832	29,052,782	40,590,614
Deferred tax assets	–	193,579,595	193,579,595	–	195,023,364	195,023,364
Other assets	21,869,504	7,700,222	29,569,726	19,542,264	6,694,100	26,236,364
Total assets	6,248,970,591	4,064,077,465	10,313,048,056	5,347,022,749	4,353,880,038	9,700,902,787
Percentage	61%	39%	100%	55%	45%	100%
Liabilities						
Deposit liabilities	4,671,730,646	397,117,070	5,068,847,716	4,630,465,468	208,513,704	4,838,979,172
Due to banks	975,614,949	793,888,889	1,769,503,838	527,789,555	883,334,125	1,411,123,680
Employee benefits	–	14,972,957	14,972,957	–	11,430,854	11,430,854
Lease liabilities	11,556,107	46,449,314	58,005,421	10,564,958	33,265,290	43,830,248
Income tax liabilities	44,140,864	–	44,140,864	101,505,099	–	101,505,099
Other liabilities	89,003,624	13,560,863	102,564,487	67,588,263	3,487,544	71,075,807
Total liabilities	5,792,046,190	1,265,989,093	7,058,035,283	5,337,913,343	1,140,031,517	6,477,944,860
Equity						
Stated capital	–	3,254,999,963	3,254,999,963	–	3,254,999,963	3,254,999,963
Retained earnings	–	(138,978,745)	(138,978,745)	–	(169,212,632)	(169,212,632)
Other reserves	–	138,991,555	138,991,555	–	137,170,596	137,170,596
Total equity	–	3,255,012,773	3,255,012,773	–	3,222,957,927	3,222,957,927
Total equity and liabilities	5,792,046,190	4,521,001,866	10,313,048,056	5,337,913,343	4,362,989,444	9,700,902,787
Percentage	56%	44%	100%	55%	45%	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 Limited (formerly known as Indra Finance Limited and Serendib Finance Limited) and accordingly the ownership of the Company was transferred to the Commercial Bank of Ceylon PLC. Therefore in the opinion of Directors, Commercial Bank of Ceylon PLC became the parent and ultimate controlling party of the CBC Finance Limited from 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

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Short term employee benefits	**4,620,000**	6,189,000

41.2.2 Transactions with KMP

41.2.2.1 Statement of financial position

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Deposit Liabilities	**49,001,187**	41,789,692

41.2.2.2 Statement of profit or loss and other comprehensive income

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Interest on deposits	**2,608,093**	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

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Deposit Liabilities	21,875,684	6,127,115

41.2.3.2 Statement of profit or loss and other comprehensive income

	9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR
Interest on deposits	843,288	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	
		9 months ended December 31, 2021 LKR	Year ended March 31, 2021 LKR	December 31, 2021 LKR	March 31, 2021 LKR
Commercial Bank of Ceylon PLC (Parent from September 01, 2014)	Loans/Bank overdraft balance as at end of the period	–	–	1,575,638,678	687,742,733
	Loan interest charged	(20,855,911)	(148,426,093)	–	–
	Loan repayment made during the period	(1,227,429,467)	(3,877,089,838)	–	–
	Deposits/advances held at the end of the period	–	–	545,443,867	345,074,197
	Interest on deposits/advances	24,661,643	10,004,128	–	–
	Building rent received	675,000	900,000	–	–
	Building rent paid	–	270,000	–	–
	Ordinary shares issued	–	999,999,999	–	3,254,999,963
Commercial Development Company PLC	Deposits held at the end of the period	–	–	467,000,000	362,523,288
	Interest on deposits	22,560,014	12,476,712	–	–
CBC Tech Solutions Ltd.	Deposits held at the end of the period	–	–	125,250,000	72,946,986
	Interest on deposits	5,775,791	2,932,603	–	–
	Software development	613,278	1,954,982	–	–

Commercial Bank of Ceylon PLC has provided letter of comfort to Sampath Bank PLC, DFCC Bank PLC and Seylan Bank PLC as security against the term loans obtained amounting to LKR 3.3 Bn., LKR 1.5 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 2019/20 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 priority 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 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 & 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 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. A separate Management Audit Compliance Committee chaired by the Managing Director/Chief Executive Officer reports to the Board Audit Committee and is responsible for monitor compliance with the Company's risk management policies and procedures.

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 Committee 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.

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 Committee 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	December 31, 2021				March 31, 2021
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	Total LKR
(i) Loans and advances at amortised cost					
Current	4,572,051,739	–	–	4,572,051,739	3,623,635,910
Overdue less than 30 days	1,019,254,045	–	–	1,019,254,045	1,545,615,769
Overdue 30 to 180 days	–	2,370,526,174	–	2,370,526,174	2,089,529,003
Overdue more than 180 days	–	–	1,924,932,108	1,924,932,108	1,767,964,182
Gross Carrying amount	5,591,305,784	2,370,526,174	1,924,932,108	9,886,764,066	9,026,744,864
Loss allowance	(88,946,359)	(188,514,047)	(896,666,777)	(1,174,127,183)	(956,605,747)
Carrying amount	5,502,359,425	2,182,012,127	1,028,265,331	8,712,636,883	8,070,139,117
(ii) Debt investment securities at amortised cost					
Low-fair risk	406,243,569	–	–	406,243,569	227,314,205
Carrying amount	406,243,569	–	–	406,243,569	227,314,205
(iii) Debt investment securities at FVOCI					
Low-fair risk	430,196,797	–	–	430,196,797	509,901,120
Carrying amount – fair value	430,196,797	–	–	430,196,797	509,901,120
(iv) Cash and cash equivalents at amortised cost					
Low-fair risk	154,599,310	–	–	154,599,310	324,309,571
Carrying amount	154,599,310	–	–	154,599,310	324,309,571
(v) Other assets at amortised cost					
Current	6,902,796	–	–	6,902,796	11,810,779
Overdue more than 180 days	–	–	13,394,788	13,394,788	8,561,670
Gross carrying amount	6,902,796	–	13,394,788	20,297,584	20,372,450
Loss allowance	–	–	(4,494,575)	(4,494,575)	(4,494,575)
Carrying amount	6,902,796	–	8,900,213	15,803,009	15,877,875

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
As at	December 31, 2021 LKR	March 31, 2021 LKR	December 31, 2021 %	March 31, 2021 %	
Loans and advances at amortised cost					
Mortgage lending	**5,170,493,619**	4,942,156,888	**94.83**	95.11	Residential and commercial properties, moveable assets.
Other loans	**2,945,383,043**	2,745,292,443	**6.25**	6.20	Motor vehicles and equipment
Finance leases	**1,770,887,279**	1,339,249,138	**99.75**	99.80	Motor vehicles and equipment
Hire purchase	**125**	46,395	**100.00**	99.73	Motor vehicles and equipment
	9,886,764,066	9,026,744,864			
Debt investment securities at amortised cost					
Financial investments – amortised cost	**406,243,569**	227,314,205	**100.00**	100.00	Government securities
	406,243,569	227,314,205			
Other assets at amortised cost					
Refundable deposits	**6,970,600**	6,694,100	**–**	–	None
Debtors	**1,783,178**	1,783,178	**–**	–	None
Insurance premium receivable	**11,543,806**	11,895,172	**–**	–	None
	20,297,584	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 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 forced sale value determined by the professional valuer.

As at,	December 31, 2021 LKR	March 31, 2021 LKR
LTV Ratio		
Less than 50%	**2,148,726,930**	1,984,700,389
51% – 70%	**1,377,244,106**	1,252,656,232
71% – 90%	**1,867,905,235**	2,050,704,311
91% – 100%	**915,806,535**	511,143,032
More than 100%	**852,857,943**	644,755,723
Unsecured	**2,724,223,317**	2,582,785,176
	9,886,764,066	9,026,744,863

Credit-impaired loans

As at,	December 31, 2021 LKR	March 31, 2021 LKR
LTV Ratio		
Less than 50%	**668,047,540**	297,948,374
51% – 70%	**189,176,591**	234,836,491
71% – 90%	**325,053,041**	281,961,033
91% – 100%	**153,386,584**	268,350,389
More than 100%	**303,466,969**	315,543,298
Unsecured	**285,801,383**	369,324,597
	1,924,932,108	1,767,964,182

Assets obtained by taking possession of collateral

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

As at,	December 31, 2021 LKR	March 31, 2021 LKR
Motor vehicles	**2,420,604**	16,834,314
	2,420,604	16,834,314

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

42.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Refer accounting policy in Note 4.2.2.

Significant increase in credit risk

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

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

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

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

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

Generating the term structure of PD

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

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economics factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, inflation, interest rate and unemployment. Based on consideration of a variety of external actual and forecast 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 Unemployment.

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	December 31, 2021				March 31, 2021
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR	Total LKR
Balance as at April 01,	67,335,260	198,248,558	691,021,929	956,605,747	1,061,840,749
Transfer to Stage 1	71,942,867	(22,534,269)	(49,408,598)	–	–
Transfer to Stage 2	(13,252,951)	63,905,849	(50,652,898)	–	–
Transfer to Stage 3	(1,543,083)	(62,669,621)	64,212,704	–	–
Net remeasurement of loss allowance	(61,260,701)	9,499,673	389,263,265	337,502,237	227,587,599
New financial assets originated or purchased	42,289,199	16,481,956	1,704,344	60,475,499	80,452,414
Financial assets that have been derecognised	(16,564,232)	(14,418,099)	(50,189,887)	(81,172,218)	(93,357,169)
Write-offs	–	–	(99,284,082)	(99,284,082)	(319,917,846)
Balance as at December/ March 31,	88,946,359	188,514,047	896,666,777	1,174,127,183	956,605,747

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 86.48 Mn. (approx) on assessing lifetime ECL on the exposures outstanding from the borrowers operating in the risk elevated industries and impact on changing the probability weightages assigned for multiple economic scenarios and stressing the qualitative factors used to assess forward looking macro economic indicators on ECL amounting to LKR 6 Mn. (approx.). Further, management overlays include additional ECL provisions of LKR 26.33 Mn. (approx) when assessing the futuristic PDs and based on the rapid fluctuations on future macro-economic indicators, the Company has adjusted the management overlays of 20% on published inflation rates for next 05 years.

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.

As at December 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	–	–	–	312,148,104	–	312,148,104
Manufacturing	–	–	–	439,629,254	–	439,629,254
Tourism	–	–	–	335,665,571	–	335,665,571
Transport	–	–	–	119,765,454	–	119,765,454
Construction	–	–	–	1,397,198,165	–	1,397,198,165
Trading	–	–	–	3,681,208,470	–	3,681,208,470
Financial services	154,599,310	–	406,243,569	291,737,457	–	852,580,336
Government	–	432,297,623	–	–	–	432,297,623
Other	–	–	–	2,135,284,408	20,297,584	2,155,581,992
Total	154,599,310	432,297,623	406,243,569	8,712,636,883	20,297,584	9,726,074,969

As at 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

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

	December 31, 2021 LKR	March 31, 2021 LKR
Province		
Central	**2,437,110,556**	2,705,399,349
North Central	**962,642,275**	923,927,705
North Western	**596,644,585**	474,652,769
Sabaragamuwa	**1,612,390,511**	1,159,210,111
Southern	**402,837,004**	336,408,198
Western	**2,701,011,952**	2,470,540,985
Total	**8,712,636,883**	8,070,139,117

42.1.6 Cash and cash equivalents

The Company held cash and cash equivalents, net of bank overdraft of LKR 132 Mn. as at December 31, 2021 (March 31, 2021 - LKR 247 Mn.) which represents its maximum credit exposure on these assets.

Commercial Bank of Ceylon PLC – AA-(lka)
Bank of Ceylon – AA-(lka)
People's Bank – AA-(lka)
Sampath Bank PLC – AA-(lka)
DFCC Bank PLC – A+(lka)
Seylan Bank PLC – A(lka)

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 December 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	154,599,310	–	–	–	–	154,599,310
Financial investments – FVOCI	–	430,196,797	–	–	2,100,826	432,297,623
Financial investments – Amortised cost	–	406,243,569	–	–	–	406,243,569
Loans and advances	2,640,785,246	433,073,556	2,147,786,320	3,263,342,431	227,649,330	8,712,636,883
Other assets	–	4,662,059	3,440,728	7,700,222	–	15,803,009
Total financial assets	2,795,384,556	1,274,175,981	2,151,227,048	3,271,042,653	229,750,156	9,721,580,394
Financial Liabilities						
Deposit liabilities	959,168,292	355,537,272	3,357,025,082	397,117,070	–	5,068,847,716
Due to banks	34,061,504	93,333,333	848,220,112	793,888,889	–	1,769,503,838
Lease liabilities	781,131	2,122,843	8,652,133	45,952,765	496,549	58,005,421
Total financial liabilities	994,010,927	450,993,448	4,213,897,327	1,236,958,724	496,549	6,896,356,975
Total net financial assets/ (liabilities)	1,801,373,629	823,182,533	(2,062,670,279)	2,034,083,929	229,253,607	2,825,223,419

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

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.

	December 31, 2021 LKR	March 31, 2021 LKR
Financial assets		
Cash and cash equivalents	**154,599,310**	324,309,571
Financial investments - FVOCI	**430,196,797**	509,901,120
Financial investments - Amortised cost	**406,243,569**	227,314,205
Loans and advances	**5,221,645,122**	4,254,417,757
Other assets	**8,102,787**	7,577,565
	6,220,787,585	5,323,520,218
Financial liabilities		
Deposit liabilities	**4,671,730,646**	4,630,465,468
Due to banks	**975,614,949**	527,789,555
Lease liabilities	**11,556,107**	10,564,958
	5,658,901,702	5,168,819,981

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.

	December 31, 2021 LKR	March 31, 2021 LKR
Financial assets		
Financial investments – FVOCI	**2,100,826**	2,098,266
Loans and advances	**3,490,991,761**	3,815,721,360
Other assets	**7,700,222**	8,300,310
	3,500,792,809	3,826,119,936
Financial liabilities		
Deposit liabilities	**397,117,070**	208,513,704
Due to banks	**793,888,889**	883,334,125
Lease liabilities	**46,449,314**	33,265,290
	1,237,455,273	1,125,113,119

42.2.2 Liquidity reserves

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

	December 31, 2021		March 31, 2021	
	Carrying value LKR	Fair value LKR	Carrying value LKR	Fair value LKR
Cash and cash equivalents	**154,599,310**	**154,599,310**	324,309,571	324,309,571
Unencumbered debt securities issued by sovereigns				
Financial investments – amortised cost	**406,243,569**	**406,243,569**	227,314,205	227,314,205
Investment in Government Securities	**430,196,797**	**430,196,797**	509,901,120	509,901,120
Total liquidity reserves	**991,039,676**	**991,039,676**	1,061,524,896	1,061,524,896

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.

December 31, 2021	Encumbered		Unencumbered		
	Pledged as collateral LKR	Other* LKR	Available as collateral LKR	Other** LKR	Total LKR
Cash and cash equivalents	–	–	**154,599,310**	–	**154,599,310**
Financial investments – FVOCI	–	–	**430,196,797**	**2,100,826**	**432,297,623**
Financial investments – Amortised cost	–	–	–	**406,243,569**	**406,243,569**
Loans and advances	**3,263,946,730**	–	**5,448,690,153**	–	**8,712,636,883**
Other assets	–	–	**15,803,009**	–	**15,803,009**
	3,263,946,730	–	**6,049,289,269**	**408,344,395**	**9,721,580,394**

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

** Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.*

*** Represents assets that are not restricted for use as collateral, but that the Company would not consider readily available to secure funding in the normal course of business.*

42.3 Market risk

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

Management of market risks

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

Exposure to currency risk

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

42.3.1 Interest rate risk

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

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

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

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

42.3.1.1 Interest rate exposure – Sensitivity analysis

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

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

	December 31, 2021		March 31, 2021	
	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 December/March 31,	**6,562,762**	**(6,564,075)**	4,512,670	(4,513,573)
Average for the period	**6,854,693**	**(6,856,064)**	3,508,690	(3,509,392)
Maximum for the period	**7,186,503**	**(7,187,941)**	4,608,330	(4,609,252)
Minimum for the period	**6,562,762**	**(6,564,075)**	2,859,577	(2,860,149)

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 December 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 December 31, 2021 LKR
Financial assets							
Cash and cash equivalents	144,843,866	–	–	–	–	9,755,444	154,599,310
Financial investments – FVOCI	430,196,797	–	–	–	–	2,100,826	432,297,623
Financial investments – amortised cost	406,243,569	–	–	–	–	–	406,243,569
Loans and advances	3,073,858,802	2,147,786,320	2,175,848,266	1,087,494,165	227,649,330	–	8,712,636,883
Other assets	4,662,059	3,440,728	1,654,622	6,045,600	–	–	15,803,009
Total financial assets	4,059,805,093	2,151,227,048	2,177,502,888	1,093,539,765	227,649,330	11,856,270	9,721,580,394
Percentage	42%	22%	22%	11%	2%	0%	100%
Financial liabilities							
Deposit liabilities	1,314,705,564	3,357,025,082	330,490,952	66,626,118	–	–	5,068,847,716
Due to banks	127,394,837	848,220,112	758,888,889	35,000,000	–	–	1,769,503,838
Lease liabilities	2,903,974	8,652,133	29,208,290	16,744,475	496,549	–	58,005,421
Total financial liabilities	1,445,004,375	4,213,897,327	1,118,588,131	118,370,593	496,549	–	6,896,356,975
Percentage	21%	61%	16%	2%	0%	0%	100%
Interest sensitivity gap	2,614,800,718	(2,062,670,279)	1,058,914,757	975,169,172	227,152,781	11,856,270	2,825,223,419
Percentage	93%	-73%	37%	35%	8%	0%	100%

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	29,354,377	–	–	4,838,979,172
Due to banks	238,176,561	289,612,994	466,667,062	416,667,063	–	–	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	3,766,880,895	664,871,791	460,241,329	–	–	6,293,933,100
Percentage	22%	60%	11%	7%	0%	0%	100%
Interest sensitivity gap	2,271,952,260	(2,130,064,961)	1,544,719,181	703,081,138	442,807,921	23,211,515	2,855,707,054
Percentage	80%	-75%	54%	25%	16%	1%	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 Integrated 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 1, 2018. This guidelines requires the Company to maintain minimum capital ratio of 7% and minimum risk weighted core capital of 11%.

Capital and risk weighted assets	Minimum requirement		Ratio	
	December 31, 2021	March 31, 2021	December 31, 2021	March 31, 2021
Capital to risk weighted asset ratio				
Tier I Capital	**7.00%**	6.50%	**25.49%**	26.57%
Total Capital	**11.00%**	10.50%	**25.49%**	26.57%

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	
	December 31, 2021 LKR	March 31, 2021 LKR	December 31, 2021 LKR	March 31, 2021 LKR
External Revenue				
Interest	**137,990,004**	198,684,906	**484,971,946**	481,091,428
Fees and commissions	**24,548,154**	33,844,527	**7,533,150**	7,463,292
Dividends	–	–	–	–
Other income	–	–	–	–
Total external revenue	**162,538,158**	232,529,433	**492,505,096**	488,554,720
Inter-segment revenue	–	–	–	–
Total revenue before impairment	**162,538,158**	232,529,433	**492,505,096**	488,554,720
Impairment (charges)/reversal	**22,501,829**	17,531,886	**(183,322,031)**	(238,639,218)
Net revenue	**185,039,987**	250,061,319	**309,183,065**	249,915,502
Profit before tax				
Income tax expenses				
Profit after tax				
Segment assets	**1,774,452,428**	2,132,267,011	**5,376,748,909**	4,479,988,184
Segment liabilities	**1,214,398,283**	1,423,858,008	**3,679,734,963**	2,991,589,244

44. CONTINGENCIES

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

Other loans		Investments and others		Total	
December 31, 2021 LKR	March 31, 2021 LKR	December 31, 2021 LKR	March 31, 2021 LKR	December 31, 2021 LKR	March 31, 2021 LKR
204,900,567	253,148,678	**39,462,846**	30,079,064	**867,325,363**	963,004,076
13,238,360	19,871,231	**1,819,622**	411,005	**47,139,286**	61,590,055
–	–	**240,000**	320,000	**240,000**	320,000
–	–	**29,960,763**	32,995,321	**29,960,763**	32,995,321
218,138,927	273,019,909	**71,483,231**	63,805,390	**944,665,412**	1,057,909,452
–	–	**–**	–	**–**	–
218,138,927	273,019,909	**71,483,231**	63,805,390	**944,665,412**	1,057,909,452
(147,975,922)	27,339,108	**–**	(2,711,397)	**(308,796,124)**	(196,479,621)
70,163,005	300,359,017	**71,483,231**	61,093,993	**635,869,288**	861,429,831
				88,112,788	129,442,883
				(54,869,724)	(64,952,304)
				33,243,064	64,490,579
2,381,454,014	2,503,559,819	**780,392,705**	585,087,773	**10,313,048,056**	9,700,902,787
1,629,817,525	1,671,795,174	**534,084,512**	390,702,434	**7,058,035,283**	6,477,944,860

46. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below.

46.1 Changes proposed by the Government Budget 2022

The Government of Sri Lanka in its Budget for 2022 has proposed a one-time tax, referred to as a surcharge tax of 25% to be imposed on companies that have earned a taxable income in excess of LKR 2,000 Mn. for the year of assessment 2020/21. The proposed tax should be deemed an expenditure in the Financial Statements relating to the year of assessment 2020/21. The Bill introducing the proposed tax was published after the reporting period and it has not been placed on the Order Paper of the Parliament for its first reading before the date these Financial Statements were authorised for issue. The proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

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.

SUPPLEMENTARY INFORMATION

HEAD OFFICE

No.187, Katugastota Road, Kandy.
Phone : +94 81 220 0272 +94 81 221 3495
+94 81 221 3496 +94 81 221 3498
Fax : +94 81 222 4521
Email : info@cbcfinance.lk

Anuradhapura branch

No. 488/8F, Maithreepala Senanayake Road, Anuradhapura.
Phone : +94 25 222 6070
Fax : +94 25 222 6073
Email : anuradhapura@cbcfinance.lk

Colombo branch

No. 200/01, Dr N M Perera Mawatha, Colombo 08.
Phone : +94 11 282 4426
Fax : +94 11 282 4229
Email : colombo@cbcfinance.lk

Dambulla branch

No. 679, Anuradhapura Road, Dambulla.
Phone : +94 66 228 4241
Fax : +94 66 228 3493
Email : dambulla@cbcfinance.lk

Embilipitiya branch

Anurudda Aluminium, New Town Road, Embilipitiya.
Phone : +94 47 226 1846
Fax : +94 47 226 1140
Email : embilipitiya@cbcfinance.lk

Kandy branch

No. 182, Katugastota Road, Kandy.
Phone : +94 81 220 0273
Fax : +94 81 221 3966
Email : marketingdep@cbcfinance.lk

Kaduruwela branch

D S -197, Kaduruwela.
Phone : +94 27 224 5400
Fax : +94 27 224 6030
Email : hingurakgoda@cbcfinance.lk

Kiribathgoda branch

No. 412/2/1, Kandy Road, Gala Junction, Kiribathgoda.
Phone : +94 11 292 6477
Fax : +94 11 292 6443
Email : kelaniya@cbcfinance.lk

Kurunegala branch

No. 233 A, Negombo Road, Kurunegala.
Phone : +94 37 205 6674
Fax : +94 37 205 6673
Email : kurunegala@cbcfinance.lk

Matara branch

No. 199, Anagarika Dharmapala Mawatha, Matara.
Phone : +94 41 222 2616
Fax : +94 41 222 2617
Email : matara@cbcfinance.lk

Negombo branch

No. 318/2/1, Colombo Road, Negombo.
Phone : +94 31 223 3931
Fax : +94 31 223 3932
Email : negombo@cbcfinance.lk

Batticaloa branch

No. 18, Bailey Road, Batticaloa.
Phone : +94 65 205 0213
Fax : +94 65 205 0208
Email : batticaloa@cbcfinance.lk

Trincomalee branch

No. 70, Main Street, Trincomalee.
Phone : +94 26 205 0721
Fax : +94 26 205 6741
Email : trincomalee@cbcfinance.lk

Vavuniya branch

No. 105, Kandy Road, Vavuniya.
Phone : +94 24 20 050 033
Fax : +94 24 20 050 034
Email : vavuniya@cbcfinance.lk

Eight Year Summary

Results for the year/period	9 months ended December 31, 2021 LKR Mn.	2020/21 LKR Mn.	2019/20 LKR Mn.	2018/19 LKR Mn.	2017/18 LKR Mn.	2016/17 LKR Mn.	2015/16 LKR Mn.	2014/15 LKR Mn.
Income	**944.67**	1,058.00	1,211.00	871.80	981.65	811.29	428.06	400.04
Interest income	**867.33**	963.00	1,131.11	816.79	911.21	748.51	388.57	345.93
Interest expenses	**334.44**	480.98	572.37	470.46	572.63	438.87	172.79	124.57
Net interest income	**532.89**	482.02	558.74	346.33	338.58	309.64	215.79	221.36
Non-interest income	**74.61**	93.56	78.30	55.01	70.44	62.78	39.48	54.11
Total operating income	**607.50**	575.59	637.04	401.33	409.02	372.42	255.27	275.47
Personal cost	**89.54**	104.42	92.16	74.83	73.69	72.11	58.82	59.45
Administrative and other cost	**68.43**	82.34	69.99	75.74	76.68	60.44	71.18	55.17
Depreciation	**27.28**	29.80	20.72	10.34	11.34	10.29	9.94	8.78
Total operational expenses	**185.25**	216.57	182.86	160.91	161.71	142.84	139.94	123.41
Provision for bad debts/ impairment	**308.80**	196.48	276.36	205.71	403.07	17.45	190.41	131.07
VAT on financial services	**25.34**	33.10	49.77	14.63	–	28.06	–	2.47
Profit/(Loss) before tax	**88.11**	129.44	128.04	20.08	(155.76)	184.06	(75.08)	18.52
Taxation	**54.87**	64.95	59.07	0.38	(33.85)	56.62	8.68	16.46
Profit/(Loss) after tax	**33.24**	64.49	68.98	19.70	(121.91)	127.45	(83.76)	2.06

Position as at March 31,/December 31,	As at December 31, 2021 LKR Mn.	2020/21 LKR Mn.	2019/20 LKR Mn.	2018/19 LKR Mn.	2017/18 LKR Mn.	2016/17 LKR Mn.	2015/16 LKR Mn.	2014/15 LKR Mn.
Cash and cash equivalents	**154.60**	324.31	56.38	60.92	227.00	19.29	4.56	11.41
Financial investments	**838.54**	739.31	274.84	332.08	275.92	154.02	96.57	23.40
Loan and advances (Net)	**8,712.64**	8,070.14	6,810.62	5,626.46	4,204.78	5,431.04	2,989.21	1,761.22
PPE and intangible assets	**305.65**	280.14	246.23	207.03	206.16	212.20	207.03	210.29
Other assets	**301.62**	287.00	187.45	179.11	18.04	9.62	22.97	11.68
Total assets	**10,313.05**	9,700.90	7,575.52	6,405.61	4,931.89	5,826.17	3,320.34	2,018.00
Deposit liability	**5,068.85**	4,838.98	222.66	–	–	–	–	–
Due to banks	**1,769.50**	1,411.12	5,085.41	4,426.03	3,668.03	4,863.28	2,464.66	1,064.98
Other liabilities	**219.68**	227.84	113.24	85.21	100.11	151.03	184.07	401.40
Total liabilities	**7,058.04**	6,477.94	5,421.31	4,511.24	3,768.14	5,014.31	2,648.73	1,466.38
Total equity	**3,255.01**	3,222.96	2,154.21	1,894.37	1,163.76	811.87	671.61	551.63
Total liabilities and equity	**10,313.05**	9,700.90	7,575.52	6,405.61	4,931.89	5,826.17	3,320.34	2,018.00

Ratio	December 31, 2021	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15
Regulatory capital adequacy								
Core capital (Tier 1 capital) (LKR Mn.)	**3,167.52**	3,135.62	2,071.83	1,661.32	1,099.13	736.77	603.79	487.81
Total capital base (LKR Mn.)	**3,167.52**	3,135.62	2,071.83	1,661.32	1,099.13	736.77	603.79	487.81
Core capital adequacy ratio; core capital as percentage of risk weighted assets (%)	**25.49**	26.57	21.82	23.34	24.48	13.03	18.77	24.50
Total capital adequacy ratio; total capital as percentage of risk weighted assets (%)	**25.49**	26.57	21.82	23.34	24.48	13.03	18.77	24.50
Capital funds to total deposit liabilities ratio (%)	**62.49**	64.80	967.49					N/A
Assets quality (Quality of loan portfolio)								
Gross non-performing accommodation ratio (%)	**13.14**	14.08	22.56	22.33	26.86	7.72	13.13	23.59
Net non-performing accommodation ratio (%)	**1.30**	3.48	9.07	3.71	7.46	0.00	0.00	6.30
Profitability (%)								
Return on assets (Before tax) (%)	**0.88**	1.50	1.83	0.35	-2.94	4.01	-3.14	0.10
Return on equity (After tax) (%)	**1.03**	2.40	3.41	1.29	-13.41	17.96	-13.69	0.39
Earning per share (LKR)	**0.15**	0.35	0.48	0.24	(3.36)	4.15	(3.88)	0.10
Net assets per share (LKR)	**14.68**	14.53	14.22	13.63	21.81	26.42	21.86	25.54
Memorandum information								
Number of employees	**145**	145	131	120	111	114	102	98
Number of branches	**10**	10	10	4	5	5	5	5
Number of service centres	**–**	–	–	6	6	6	6	6
Fitch rating	**A(lka)/ Stable**	A(lka)/ Stable	A+(lka)/ Negative	A+(lka)/ Stable	N/A	N/A	N/A	N/A

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 Friday, June 24, 2022, immediately after the conclusion of the Meeting of the Board of Directors which is scheduled to be held at 2.30pm 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 December 31, 2021 together with the Report of the Auditors thereon.
2. To reappoint the retiring Auditors, Messrs KPMG, Chartered Accountants, to hold office as the Company's External Auditors for the financial year ending December 31, 2022.

By Order of the Board

H D U O Gunasekara
Company Secretary

Colombo,
June 1, 2022

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 proxyholder need not be a shareholder of the Company.

(3) A proxyholder (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 Proxyholder 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 Friday June 24, 2022 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 December 31, 2021 together with the Report of the Auditors thereon.	☐	☐
2. To reappoint the retiring Auditors, Messrs KPMG, Chartered Accountants, to hold office as the Company's External Auditors for the financial year ending December 31, 2022.	☐	☐

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

……………………..…………

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 Proxyholder doubt (by reason of how the instructions contained in the Proxy have been completed) as to how the Proxyholder should vote, the Proxyholder shall vote as he thinks fit.
2. A Proxyholder 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 Proxyholder and the Shareholder appointing the Proxyholder 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

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

FINANCIAL YEAR

December 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
(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
Mr D M U N Dissanayake – Chief Risk Officer

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

Board Information Technology Committee
Mr L H Munasinghe – Chairman
Mr Raja Senanayake
Mr D M D S S Bandara
Mr D M U N Dissanayake

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

★

This Annual Report is GHG-neutral

Produced by Smart Media (Pvt) Limited, a GHG-neutral company that reduces and offsets its direct and indirect greenhouse gas emissions through certified sources.

Net-zero GHG since 2011

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The ANNUAL REPORT Company
www.SmartAnnualReport.com

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www.carbonfund.org